Fiscal Note & Local Impact Statement

127 th General Assembly of Ohio

Ohio Legislative Service Commission
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BILL: **S.B. 191** DATE: **December 4, 2007**

STATUS: **As Introduced** SPONSOR: **Sen. Coughlin**

LOCAL IMPACT STATEMENT REQUIRED: **Yes**

CONTENTS: **Exempt from the personal income tax local, state, and federal government employee and military retirement benefits**

State Fiscal Highlights

STATE FUND	FY 2008	FY 2009	FY 2010
General Revenue Fund			
Revenues	$51.6 million loss	$92.4 million loss	$134.9 million loss
Expenditures	- 0 -	- 0 -	- 0 -

Note: The state fiscal year is July 1 through June 30. For example, FY 2007 is July 1, 2006 – June 30, 2007.

- Income tax exemption reduces the income tax base, thus reducing state income tax revenue. The exemption may reduce the amount claimed for the retirement income credit, which would reduce the revenue loss.
- The General Revenue Fund would bear 94.1% of the revenue loss.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2008	FY 2009	FY 2010
Counties, municipalities, townships, and libraries (LGF, LLGSF)			
Revenues	$3.2 million loss	$5.8 million loss	$8.5 million loss
Expenditures	- 0 -	- 0 -	- 0 -
School Districts			
Revenues	$2.7 million loss	$4.8 million loss	$7.0 million loss
Expenditures	- 0 -	- 0 -	- 0 -

Note: For most local governments, the fiscal year is the calendar year. The school district fiscal year is July 1 through June 30.

- Income tax exemption reduces the income tax base, thus reducing state income tax revenue. The exemption may reduce the amount claimed for the retirement income credit, which would reduce the revenue loss.
- The Local Government Fund (LGF) would bear 3.68% of the revenue loss and the Library and Local Government Support Fund (LLGSF) would bear 2.22% of the revenue loss.

- School district income tax revenue is reduced due to a reduction in the tax base.

Detailed Fiscal Analysis

The proposed Ohio income tax exemption is for specified amounts of local, state, and federal government and military retirement benefits. The amount of exemption is not more than $4,000 for taxable years beginning in 2007, $7,000 for taxable years beginning in 2008, and $10,000 for taxable years beginning in or after 2009. The exemption is available to all local, state, and federal retired employees and to military personnel with retirement benefits under the following:

(1) Five Ohio retirement systems—Public Employees Retirement System (PERS), State Teachers Retirement System (STRS), School Employee Retirement System (SERS), Police and Fire Retirement System (OP&F), and Highway Patrol Retirement System (HPRS);

(2) Federal Employees' Retirement System or Federal Civil Service Retirement System;

(3) Military retirement benefits for service in the United States Army, Navy, Air Force, Coast Guard, Marine Corps, National Guard, and the Reserves.

Retirement statistics were collected for 2006 from various official sources, and gaps in data were filled using previous years' growth rates. For projections of the number of retired employees living in Ohio, LSC used population growth rates for the 65-69 age group in Ohio (Global Insight, 2007). Using projected average benefits received by the retirees, effective income tax rates as per H.B. 66 of the 126th General Assembly, and the proposed exemption amounts, the revenue loss was estimated for tax years 2007 through 2009. The estimated income tax revenue loss is approximately $54.9 million for tax year 2007, $98.2 million for tax year 2008, and $143.4 million for tax year 2009. The table below provides a summary of the estimates.

Estimated Revenue Loss From Income Exemption For Government and Military Retirees ($ Million)

Tax Year	Number of Retirees	Amount of Deduction ($)	Loss of Revenue	Loss to GRF	Loss to Local Government Funds	Loss to School Districts
2007	446,171	$4,000	$54.9	$51.6	$3.2	$2.7
2008	456,164	$7,000	$98.2	$92.4	$5.8	$4.8
2009	466,415	$10,000	$143.4	$134.9	$8.5	$7.0

***Impact on current retirement income credit claimed*.** The maximum retirement income tax credit that can be claimed is $200 for retirement income of $8,000 and above. The average retirement income of this group of retirees (i.e., government and military) even after the proposed maximum deduction of $10,000 would be above the maximum income limit of $8,000 for claiming the maximum retirement tax credit. Thus, the amount of retirement tax credit that can be claimed is assumed to be unaffected by the proposal.

***Impact on GRF and local government funds*.** Based on the formula enacted in H.B. 119 of the 127th General Assembly, the General Revenue Fund (GRF) would bear 94.1% of the loss of Ohio income tax revenue, the Local Government Fund (LGF) would bear 3.68% of the revenue loss, and the Library and Local Government Support Fund (LLGSF) would bear 2.22% of the revenue loss. Assuming that the loss for a given tax year falls in the following fiscal year, the loss to the GRF from the reduction in personal income tax revenue will be approximately $51.6 million in FY 2008, $92.4 million in FY 2009, and $134.9 million in FY 2010. The local government funds (LGF and LLGSF) also will be adversely impacted as indicated in the table above. The estimated combined loss to the local government funds would be $3.2 million in FY 2008, $5.8 million in FY 2009, and $8.5 million in FY 2010.

***Impact on school district revenue*.** Because the proposal involves a deduction from retired taxpayers' taxable income, it reduces the tax base for some school district income taxes. Using the average school district tax rate of 1.44% and the percentage share of OAGI affected by school district income taxes, the estimated revenue loss from this proposal is approximately $2.7 million in FY 2008, $4.8 million in FY 2009, and $7.0 million in FY 2010.

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