Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: S.B. 193 of the 128th G.A.

Date: January 19, 2010

Status: As Introduced

Sponsor: Sens. Gibbs and Schuring

Local Impact Statement Procedure Required: Yes

Contents: To authorize a $2,400 income tax withholding subsidy for an employer that hires a previously unemployed individual

State Fiscal Highlights

STATE FUND	FY 2010	FY 2011	FUTURE YEARS
General Revenue Fund			
Revenues	- 0 -	- 0 -	Potential loss, occurring during FY 2012 and FY 2013
Expenditures	- 0 -	- 0 -	- 0 -

Note: The state fiscal year is July 1 through June 30. For example, FY 2010 is July 1, 2009 – June 30, 2010.

- The bill creates a personal and school district income tax withholding subsidy of $2,400 per qualifying employee to Ohio employers. Thus, the bill decreases revenues from the personal income tax. Revenues from the personal income tax are distributed to the General Revenue Fund (GRF, at 94.1% under permanent law).

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2010	FY 2011	FUTURE YEARS
Counties, municipalities, libraries, and school districts			
Revenues	- 0 -	- 0 -	Potential loss, occurring during FY 2012 and FY 2013
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.

- Personal income tax revenues are distributed under permanent law to the Local Government Fund (LGF, 3.68%), and the Public Library Fund (PLF, 2.22%). Thus, the reduction in revenues from the personal income tax reduces distributions to the two funds.
- The bill decreases receipts from school district income tax withholdings, and thus reduces revenues to schools.

Detailed Fiscal Analysis

The bill provides a state personal and school district income tax withholding discount of up to $2,400 per worker to employers who hire qualifying unemployed workers between January 1, 2010, and December 31, 2010. The discount would be deducted from withholding taxes required to be remitted by the employer. For an employer to be eligible for the credit, the worker must have been unemployed for the four consecutive weeks immediately preceding the date of hire, must remain with the employer for 24 months, and be paid compensation equal to or more than the average unemployment compensation paid to persons receiving unemployment compensation.

Under current law, an employer is generally required to deduct and withhold state and school district income taxes from an employee's compensation, and remit to the state amounts withheld from the employee's pay. The amount withheld depends on the employee filing status, income level, and the number of exemptions declared by the employee to the employer. When the employee files an individual or a school district income tax return, those amounts are counted towards the payment of the employee's individual or school district income tax liability. The withholdings may be more or less than the taxpayer's income tax liability, which results in a tax refund or additional tax due with the tax return. The bill does not specify whether employees are considered to have paid the income tax withholdings not remitted for purposes of their annual state or school district income tax return.

Fiscal Analysis

Unlike other tax credits that are applied against a specific tax liability incurred by a taxpayer, the bill creates a $2,400 employer subsidy per qualifying employee based on the employee's individual state and school district income tax withholdings that an employer would remit to the state. LSC is unable to determine the fiscal cost of the bill precisely, but the potential revenue loss to the state and the school districts may be up to $2.1 billion. The losses would be shared by the state, up to $2.0 billion, and school districts,[1] up to $71 million. The bill would reduce revenue starting in FY 2012, due to the 24 months employment requirement. Revenues from the state individual income tax are distributed to the General Revenue Fund (GRF, at 94.1%), the Local Government Fund (LGF, 3.68%), and the Public Library Fund (PLF, 2.22%). Therefore, the reduction in individual income tax receipts potentially reduces distributions to the GRF by up to $1.9 billion, the LGF by up to $75 million, and the PLF by up to $45 million.

[1] As of January 2010, 178 school districts levy an income tax.

Estimation

The bill might generate initial credits worth up to $3.8 billion based on the total number of workers that might be hired between January 1, 2010 and December 31, 2010. This estimate is dependent on changes in total employment and the number of new hires. New hires are from a pool that may include new entrants in the workforce, retirees re-entering the workforce, and unemployed workers. This fiscal note assumes the number of qualified new hires at 1.75 million in CY 2010 based on a private forecast of nongovernment private employment of about 4.3 million by the national forecasting firm Global Insight,[2] an annual hire rate of 0.407 derived from data from the U.S. Bureau of Labor Statistics,[3] and an adjustment for salaries above the average unemployment compensation.[4] Multiplying the estimated number of qualified new hires by $2,400 yields gross subsidies of about $3.8 billion. The number of new hires specifically induced by the bill would be difficult to ascertain because they probably cannot be distinguished from hires that would have been made regardless of the bill.

The bill requires the newly hired workers to remain with the employer for 24 months before the worker can qualify the employer for the subsidy. A share of newly hired workers will not qualify for the withholding income tax subsidy, because they may not remain two years with the same employer. LSC cannot predict how many hires would remain employed with the credit-eligible employers. In 2008, the total quit rate (voluntary and involuntary separations) was 25.5%, according to the U.S. Bureau of Labor Statistics. Assuming 25.5% of hires would leave credit-eligible employers each year decreases the potential revenue loss from the bill to $2.1 billion.

For the employer to be eligible for the credit, the worker must have been unemployed for the four consecutive weeks preceding the date of hire. This feature is unlikely to affect the fiscal cost of the bill. Also, the requirement to use the "E-verify" federal system (to verify the lawful employment eligibility of an employee) may limit the supply of workers available to employers, but is not expected to have a fiscal impact.

This fiscal note assumes that all available discounts will be realized and are likely to differ from one employer to another based on the number of qualifying employees and their compensations. The bill does not preclude an employer from bringing back

[2] January 2010 forecast.

[3] Data from the Job Opening and Labor Turnover Survey (JOLTS) of the U.S. Bureau of Labor Statistics which provides regional and national hire rates. For purposes of this survey, the hire rate is defined to be the number of hires as a percent of total employment.

[4] While 1.75 million may seem unrealistic in light of the number of Ohioans officially classified as unemployed being about 600,000, the bill does not base its definition of unemployed on the definition used by the U.S. Bureau of Labor Statistics. The number of Ohioans who could qualify their employer for the subsidy, if hired, may include the approximately 3.2 million Ohioans that the Bureau classifies as out of the labor force.

former employees. Thus, former employees that were laid off or furloughed and then rehired qualify the employer under the bill.

Indirect Effects

Assuming that the bill induces hiring that would have not taken place otherwise, it potentially reduces the number of unemployed, the duration of unemployment for certain workers, and the amount of unemployment compensation claims for those workers who file claims. Thus, the bill may potentially reduce expenditures for unemployment benefits and expenditures from the Unemployment Insurance Trust Fund. However, LSC is unable to estimate this potential decrease in expenditures. Regardless of the business cycle, workers are hired, fired, or otherwise quit, and the net effect of all hiring and all separations from employment produces employment expansion or employment contraction. The number of new hires specifically induced by the bill would be difficult to ascertain because they cannot be distinguished from hires that would have been made in the absence of the bill. Generally, economic theory suggests that employers hire new workers based on their need to increase output as a result of increased demand for their goods or services. Also, some firms may respond to the bill by laying off and then rehiring the same workers. These behavioral responses to the subsidy cannot be estimated, and estimating the magnitudes of such indirect effects is, in general, outside the scope of LSC fiscal notes.

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