Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: Sub. H.B. 3 of the 129th G.A. **Date**: February 18, 2011

Status: As Reported by House Ways & Means **Sponsors**: Reps. Grossman and Hottinger

Local Impact Statement Procedure Required: Yes

Contents: To repeal the estate tax for the estates of individuals dying on or after January 1, 2013

State Fiscal Highlights

STATE FUND	FY 2011	FY 2012	FUTURE YEARS
General Revenue Fund			
Revenues	- 0 -	-0-	Loss in the tens of millions of dollars, beginning FY 2014
Expenditures	- 0 -	-0-	Decrease by approximately $800,000 associated with estate tax administration

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

- The bill repeals the estate tax for estates with dates of death on or after January 1, 2013. The state GRF would no longer receive its current 20% share of revenue, less any deduction for the cost of administering the tax, from the estate tax. Over the last five fiscal years, annual GRF revenue has ranged between $54 million and $72 million.
- Any revenue loss to the GRF would also decrease the amount of tax revenue that will be deposited to the local government funds – the Local Government Fund (LGF) and the Public Library Fund (PLF).

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2011	FY 2012	FUTURE YEARS
Townships, Cities, and Villages			
Revenues	- 0 -	-0-	Loss in the hundreds of millions of dollars
Expenditures	- 0 -	- 0 -	- 0 -
Counties and Other Local Government Entities (LGF, PLF)			
Revenues	- 0 -	-0-	Loss in the millions of dollars
Expenditures	- 0 -	-0-	Decrease counties' costs in the millions of dollars, associated with administering estate tax

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

- The bill repeals the estate tax for estates with dates of death on or after January 1, 2013. Currently, 80% of estate tax revenue is distributed to the township or municipal corporation in which the tax originates. Thus, townships and municipal corporations would no longer receive any revenue from the estate tax for estates with dates of death on or after January 1, 2013.
- Any revenue loss to the GRF would also decrease the amount of tax revenue that will be deposited to the local government funds – the Local Government Fund (LGF) and the Public Library Fund (PLF), for distributions to local entities.

Detailed Fiscal Analysis

The bill proposes to abolish the estate tax for estates of individuals with dates of death on or after January 1, 2013. Currently, 20% of estate tax revenue is distributed to the state General Revenue Fund (GRF) while the remaining 80% is distributed to the township or municipality of estate origin. The estate tax is administered by the Ohio Department of Taxation, but collected by the county treasurer for the county in which a decedent resided.

Fiscal impact

The state GRF and the townships and municipal corporations in which the tax originates would no longer receive any revenue from the tax for estates with dates of death on or after January 1, 2013. Due to the time lags in collecting the estate tax, LSC staff believe the estimated revenue loss would begin to have an effect in FY 2014. In addition, the proposal would reduce the Department of Taxation's and county treasurers' administrative costs. Annually, the Department of Taxation and counties spend millions of dollars to administer the estate tax, however, the costs of administering the tax are deducted from the tax receipts.

The elimination of the estate tax is estimated to reduce GRF tax receipts by tens of millions of dollars per year. The proposal would also decrease revenues allocated from estate tax receipts to the township or municipality of estate origin by hundreds of millions of dollars annually. In addition, any revenue loss to the GRF would decrease the amount of tax revenue that will be deposited to the local government funds – the Local Government Fund (LGF) and the Public Library Fund (PLF). Under current statutory formula, in each month the LGF and PLF receive 3.68% and 2.22%, respectively, of total GRF tax revenue received in the preceding month. Any revenue loss to the LGF and PLF will thereby decrease distributions to each county and local subdivision.

Estate tax receipts vary significantly from year to year. Estate tax revenue varies because it depends on an estate's value at the time a person dies, the number of estates that are subject to the tax, and the time of settlement made to each county. Over the last five fiscal years, total receipts rose from $273 million in FY 2006 to $359 million in FY 2007, and most recently fell back down to $286 million in FY 2010. Taking the average, approximately $61 million and $252 million of estate tax revenue were allocated to the GRF and the township or municipality of estate origin, respectively. In addition, using the statutory formula and the average amount allocated to the GRF as described above, the estimated total revenue loss to the local government funds in future fiscal years would be $3.6 million, about $2.2 million and $1.4 million to the LGF and the PLF, respectively.