Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: H.B. 239 of the 129th G.A.

Date: April 26, 2012

Status: As Reported by House Health & Aging

Sponsor: Rep. Stautberg

Local Impact Statement Procedure Required: No

Contents: To exempt retirement pay related to service in the Commissioned Corps of the National Oceanic and Atmospheric Administration and the Commissioned Corps of the Public Health Service

State Fiscal Highlights

STATE FUND	FY 2013	FY 2014	FUTURE YEARS
General Revenue Fund			
Revenues	Loss of approximately $243,000	Loss of approximately $235,000	Loss of approximately $235,000 per year
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 exemption provision will reduce the state personal income tax (PIT) base, consequently decreasing income tax receipts by approximately $243,000 per year.
- The GRF would bear all of the revenue loss from the PIT in this biennium due to the Local Government Fund (LGF) and the Public Library Fund (PLF) "freeze." Beginning in FY 2014, any reduction in PIT receipts would also reduce the amount distributed to the LGF and PLF. If there is any such revenue loss, it would likely be minimal.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2012	FY 2013	FUTURE YEARS
Counties, municipalities, townships, and libraries (LGF and PLF)			
Revenues	- 0 -	Minimal loss	Minimal 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.

- The exemption provision will reduce the state PIT base, consequently decreasing income tax receipts. Any reduction in PIT receipts would also reduce the amount distributed to the LGF and PLF beginning in FY 2014 by approximately $8,000 per year.

Detailed Fiscal Analysis

The bill would exempt retirement pay associated with service in the Commissioned Corps of the National Oceanic and Atmospheric Administration (NOAA) or the Public Health Service (PHS) from the Ohio personal income tax (PIT). Thus, it would reduce the state PIT base, consequently decreasing PIT receipts. The deduction may be claimed for taxable years that end on or after the bill's effective date.

Fiscal effect

According to U.S. Department of Defense data as of February 25, 2009, the latest data obtained by LSC, there were 114 PHS retirees and 15 PHS survivors living in Ohio. The retirees and survivors received a total of $8.0 million in retirement and survivor benefits in 2008 or an average of $62,160 per retiree. In addition, there were a total of two NOAA Corps retirees living in Ohio, who received a total of $123,864 in retirement benefits in 2008 or an average of $61,932.

The proposed PIT exemption would exempt approximately $8.1 million of retirement and survivors benefits for 131 such retirees and survivors per year. Assuming an effective tax rate of 3.32%, it would reduce state PIT revenue by approximately $269,712 per year. However, currently Ohio taxpayers may claim up to $200 in retirement income credit. If all of the NOAA Corps and PHS Corps retirees were no longer able to claim that credit, it would reduce the revenue loss by $26,200. The net loss of the proposed exemption would be about $243,512 per year.

In FY 2013, the GRF would bear all of the revenue loss due to the "freeze" to the Local Government Fund (LGF) and Public Library Fund (PLF) in this biennium. Any reduction in PIT receipts would also reduce the amount distributed to the LGF and PLF beginning in FY 2014. Under existing law, the amounts of total GRF revenue that will be allocated to the LGF and the PLF after the current biennium would be based on the ratio of LGF distributions to total GRF tax revenue in FY 2013 and the ratio of PLF distributions to total GRF tax revenue in FY 2013, respectively. Beginning in FY 2014, the GRF would bear approximately 96.7% of the total PIT revenue loss while the LGF and PLF (combined) would bear about of 3.3%[1] of the revenue loss. In FY 2014, the state GRF would bear approximately $235,476 of the total revenue loss while the remaining $8,036 would fall on local governments by way of lesser distributions from the LGF and PLF.

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[1] Based on Department of Taxation estimates as of July 2011, the estimated distributions to the LGF and the PLF in FY 2013 are $348.5 million and $344.3 million, respectively. The estimated total GRF tax revenue in FY 2013 is $20,277.1 million, based on the Office of Budget and Management GRF revenue forecast as of June 2011.