Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: H.B. 258 of the 129th G.A. **Date**: September 27, 2011

Status: As Introduced **Sponsor**: Reps. Grossman and Dovilla

Local Impact Statement Procedure Required: Yes

Contents: To authorize a five year exclusion of wage income from the Ohio personal income tax for those who, after the enactment of the legislation, obtain journeyperson status or a baccalaureate degree

State Fiscal Highlights

STATE FUND	FY 2012	FY 2013	FUTURE YEARS
General Revenue Fund			
Revenues	Potential minimal revenue loss	Revenue loss of $24.3 million or more	Annual revenue loss will vary, but magnitude will increase from tens of millions of dollars to potentially more than $174.7 million
Expenditures	Potential increase for administration of tax provisions	Potential increase for administration of tax provisions	Potential increase for administration of tax provisions

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

- The GRF revenue loss will increase over the first five full years of the tax provisions' existence before plateauing at an amount above $150 million depending on the tax incentives' impact on future behavior. Subsequent growth before the provisions' expiration in tax year (TY) 2022 will be roughly equivalent to the growth in Ohio wage and salary income.
- The bill does not appropriate any amounts to administer the cost of implementing and enforcing lawful application of these tax benefits, but it is conceivable that state agencies (i.e., the Department of Taxation, the Department of Job and Family Services, or the Board of Regents) will incur costs after the enactment of H.B. 258.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2011	FY 2012	FUTURE YEARS
Counties, municipalities, townships, and public libraries (LGF and PLF)			
Revenues	- 0 -	- 0 -	Annual revenue loss will vary, but magnitude will increase from several million dollars to potentially more than $5.3 million
Expenditures	- 0 -	- 0 -	- 0 -
School districts that levy a school district income tax (SDIT)			
Revenues	Negligible, if any	Potential revenue loss of $900,000 or more statewide	Annual revenue loss will vary, but magnitude will increase from $2.0 million to potentially more than $7.0 million, statewide
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.

- Authorizing a five-year exclusion of wage income from the Ohio personal income tax for eligible taxpayers would potentially reduce Local Government Fund (LGF) and Public Library Fund (PLF) revenues starting in FY 2014.
- The exclusion of wage and salary income from the personal income tax will reduce the tax base of those Ohio school districts that levy a school district income tax (SDIT). As of January 2011, 181 school districts levy an SDIT, and approximately 14.4% of Ohio's taxable income is attributable to taxpayers in one of these 181 school districts.

Detailed Fiscal Analysis

H.B. 258 amends current statute by changing the calculation of Ohio Adjusted Gross Income (OAGI) under the personal income tax. Specifically, the bill excludes "the individual's wages, salaries, tips, deferred compensation, and other employee compensation, and net earnings from self-employment as defined in section 1402(a) of the Internal Revenue Code" from the computation of OAGI. Taxpayers who can receive this five year tax benefit include: (a) an individual who completes an apprenticeship program registered with the Ohio Department of Job and Family Services (ODJFS) apprenticeship council, and (b) graduates from an institution of higher education with a baccalaureate degree.

The taxpayer can defer the tax benefit if the taxpayer pursues an advanced degree from an institution of higher education. The Tax Commissioner is given authority to inspect the credentials of taxpayers that certify their eligibility for the tax benefit, but no amounts are appropriated for implementing and enforcing the lawful application of these tax benefits.

If at any time during the five years in which a deduction may be taken, the graduate no longer receives Ohio taxable income for any reason other than because the graduate is pursuing an advanced degree, the graduate is liable to the state for the tax reduction resulting from any deductions previously taken and forfeits any future deduction that would have been allowed.

Fiscal impact

The total personal income tax revenue loss for the tax benefit in H.B. 258 could be $24.3 million or more in the first year, but it would grow rapidly during the first five years of operations, and could be $180.0 million or more in FY 2022, which corresponds with the expiration of the tax provision at the conclusion of TY 2021. Receipts from the personal income tax are deposited into the GRF, but beginning in FY 2014 any losses in GRF tax revenue would also affect the Local Government Fund (LGF) and the Public Library Fund (PLF).

The underlying assumption in this analysis maintains that 75% of college graduates and 90% of journeypersons will remain in Ohio, regardless of the tax provision in H.B. 258. To the extent that the bill's tax incentive succeeds in increasing this historically typical percentage, the revenue losses in future years would be offset by revenue gained from other state taxes on account of those individuals that changed their decision and instead decided to work in Ohio. The baccalaureate degree assumption is rooted in Board of Regents surveys of Ohio college graduates whereas the journeyperson assumption borrows from retention rate data of associate's degree graduates. Certainly, numerous factors affect whether individuals will choose to work in Ohio, but the extent to which state income tax policy bears on a person's decision making remains unclear. Given that the data on existing behavior does not lend itself to a definitive conclusion, LSC economists do not speculate about the tax exemption's effects on Ohio residency in producing the estimates below.

Apprenticeship tax provision

The revenue loss from the apprenticeship tax provision in H.B. 258 could be $3.3 million or more in the first full year after its enactment, but it could be $18.3 million or more in the fifth year and every year thereafter depending on the number of participants and economic conditions. Table 1 provides a more detailed illustration of the revenue impact of this legislation.

The exclusion of wages and salary from taxable income for those completing an apprenticeship program would be applicable only to those individuals that earn the proper designation after the bill becomes law. Upon enactment, Ohioans that complete an appropriate program will be eligible for the tax benefit for five years. Information from the ODJFS, which provides data about registered apprenticeship programs, suggests that approximately 4,500 people will annually complete a registered apprenticeship program.

The wage and salary exclusion from Ohio taxable income is available to those that complete a program that is registered with the Ohio State Apprenticeship Council in ODJFS. Data on recent graduates suggest that those who complete a registered apprenticeship program can earn an average yearly wage of $40,500, which would likely yield a net annual tax liability of $814 when assuming a 2.01% effective tax rate. The estimated annual tax liability was derived, in part, from the effective tax rates of those earning a comparable salary in recent years. If 4,500 individuals attain journeyperson status in a given year, the total revenue loss that year could be as much as $3.3 million. However, the annual revenue loss would be a sum less than this amount depending on a variety of factors (e.g., whether the qualifying taxpayer is filing jointly, the number of dependents claimed on his or her return).

Table 1. Multi-year Estimate of Foregone Revenue ($ in millions) Attributable to Apprenticeship Tax Provision

Fiscal Year	Personal Income Tax	GRF	LGF and PLF
2013	3.3	3.3	0.0
2014	6.8	6.6	0.2
2015	10.4	10.1	0.3
2016	14.2	13.8	0.4
2017	18.3	17.7	0.6

Note: Sum of GRF, and LGF and PLF figures may not equal Personal Income Tax total because of rounding.

Baccalaureate degree provision

The revenue loss from the baccalaureate degree provision in H.B. 258 could be $21.0 million or more in FY 2013 depending on the tax incentive's impact on future behavior. In the second full year of the exemption, the revenue loss would increase as graduates who received an exemption in the previous year would receive a second year's worth of incentives, and another year's worth of new graduates would be able to claim the exemption for the first time. The GRF revenue loss will further increase over the first five full years of the tax incentive's existence before the annual revenue loss plateaus to a sum potentially more than $138.2 million. Subsequent growth will be roughly equivalent to the growth in Ohio wage and salary income.

H.B. 258 only grants the baccalaureate degree income tax exemption to an individual that graduates from an Ohio institution of higher education on or after the enactment of the legislation, so it is likely that if H.B. 258 were enacted during TY 2011, it would not affect a full year's worth of college graduates, and the first full year with a revenue effect would be FY 2013. An exemption-eligible bachelor's degree graduate earning an average of $32,362 in wages for FY 2013 would save approximately $550 on his or her Ohio income taxes, which is consistent with the effective tax rate of those in that income classification in recent years.

The estimated revenue loss is based on multiplying the per graduate figure, $550 in FY 2013, by approximately 51,015 graduates, who do not seek a tax benefit deferral for the purpose of pursuing an advanced degree. The 51,015 figure is derived from historical data on college graduates in Ohio, National Center for Education Statistics (NCES) data on bachelor's degree graduates that pursue a post-baccalaureate degree on a full-time basis, grade level enrollment data from the Ohio Department of Education (ODE), and birth rate information from the Ohio Department of Health (ODH). Generally, this analysis assumes the number of conferred degrees peaks at a level above 60,000 in 2014 before subsiding somewhat in the future years.

Table 2. Multi-Year Estimate of Foregone Revenue ($ in millions) Attributable to Baccalaureate Degree Tax Provision

Fiscal Year	Personal Income Tax	GRF	LGF and PLF
2013	21.0	21.0	0.0
2014	44.3	43.0	1.3
2015	74.6	72.4	2.2
2016	109.1	105.9	3.2
2017	142.4	138.2	4.2

Local Government Fund and Public Library Fund

Receipts from the personal income tax are deposited into the GRF. Under permanent law, a portion of GRF tax receipts are subsequently transferred to the Local Government Fund and the Public Library Fund. Am. Sub. H.B. 153 (the operating budget act for fiscal years 2012 and 2013) fixed the LGF and PLF transfer amounts at pre-determined levels so that any increase (or decrease) in tax receipts during the biennium will affect the GRF only. For FY 2014 and subsequent years, transfers to the LGF and PLF will resume based on a fixed percentage, but the applicable percentage is not yet known. The Tax Commissioner will determine, by July 5, 2013, the ratio of FY 2013 transfers to the respective funds to total FY 2013 GRF tax revenues. Subsequent transfers to the LGF and PLF will be based on those respective ratios. The revenue loss to the local government funds on account of H.B. 258, which is predicated upon the maximum revenue loss for the Ohio income tax, would be indeterminable for future biennia, but likely to be up to $5.3 million or more in the last year of the tax provision if the previous LGF share is reinstated at 50% of its FY 2011 level.

School district income tax impact

As of January 1, 2011, 181 of Ohio's 614 school districts levy an income tax. Approximately 14.4% of Ohio's Taxable Income (OTI) is sourced from residents filing returns in school districts that levy SDITs. In those areas where taxpayers pay both the SDIT and the Ohio personal income tax (PIT), the SDIT liability is approximately 26.9% of the PIT liability, on average. Therefore, the reduction in statewide SDIT revenue will be equal to approximately 3.9% of the statewide PIT revenue loss for a given year. The 3.9% figure is subject to change based upon the number of school districts that levy an SDIT, the change in Ohio personal income tax rates, as well as the distribution of income within Ohio's school districts. The maximum revenue loss to school districts, which is predicated upon the maximum revenue loss for the Ohio income tax, would be up to $7.0 million or more in the last year of the tax provision.

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