# Ohio Legislative Service Commission

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# Fiscal Note & Local Impact Statement

**Bill**: S.B. 6 of the 129th G.A. **Date**: February 16, 2011

**Status**: As Introduced **Sponsor**: Sen. Patton

**Local Impact Statement Procedure Required**: Yes

**Contents**: Creates a new, refundable job retention tax credit

## State Fiscal Highlights

| STATE FUND | FY 2011 | FY 2012 | FUTURE YEARS |
|---|---|---|---|
| **General Revenue Fund** | | | |
| Revenues | Loss of up to $5.7 million | Loss of up to $5.7 million | Loss of up to $5.7 million |
| Expenditures | Potential increase due to the reduction in CAT receipts | Potential increase due to the reduction in CAT receipts | Potential increase due to the reduction in CAT receipts |

Note: The state fiscal year is July 1 through June 30. For example, FY 2010 is July 1, 2010 – June 30, 2011.

- The tax credits are likely to decrease revenue from the personal income tax (PIT), the corporate franchise tax (CFT), the insurance premiums tax, and the commercial activity tax (CAT). Revenue from GRF taxes is distributed to the GRF (94.35% in FY 2011 under H.B. 1, and 94.1% under permanent law). Starting in FY 2012, revenue from the CAT will be distributed, in various percentages, to the GRF.
- Revenues from the CAT are earmarked mostly for reimbursing school districts and other local governments for the reductions and phase-out of local taxes on most tangible personal property. If CAT receipts are insufficient, the GRF is required to subsidize the required reimbursements.

## Local Fiscal Highlights

| LOCAL GOVERNMENT | FY 2011 | FY 2012 | FUTURE YEARS |
|---|---|---|---|
| **Counties, Municipalities, Townships, and Libraries** | | | |
| Revenues | Loss of up to $0.3 million | Loss of up to $0.3 million | Loss of up to $0.3 million |
| 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.

- Receipts from GRF taxes are distributed in part to the Local Government Fund (3.68%) and the Public Library Fund (1.97% in FY 2011 under H.B. 1, and 2.22% under permanent law). Thus, the reduction in GRF tax receipts would decrease distributions to the two funds.

# Detailed Fiscal Analysis

Under current law, eligible businesses may claim a nonrefundable job retention tax credit (JRTC) against the personal income tax (PIT), commercial activity tax (CAT), insurance company premiums tax, or corporate franchise tax (CFT). The tax credit is measured as a percentage of the state income taxes withheld from full-time employees working at the project site. The percentage is determined by the Ohio Tax Credit Authority, up to a maximum of 75%.

S.B. 6 allows a business that meets existing JRTC requirements to claim a new, refundable tax credit if the firm also meets various additional criteria. They include making an investment of at least $25 million at a project site over a period of three years that includes the year for which the credit is granted[1] in addition, in 2010, the business must have received a written offer of financial incentives from another state, and the Director of Development must have determined that the offer is sufficient inducement for the business to relocate to that other state. And for a business to be eligible, the Director of Development must have recommended the granting of the credit to the Tax Credit Authority before July 1, 2011.

A business that qualifies for a refundable JRTC may claim the full amount of the credit in one year, regardless of tax liability, or carry any excess forward to future years. The bill requires that a recipient of a refundable JRTC employ and retain at least 1,000 employees. Also, the business must file annual reports with the Department of Development and receive a certification verifying the accuracy of the reports. If a business fails to comply with any of the conditions specified in a tax credit agreement, the Tax Credit Authority may amend the agreement to reduce the percentage or term of the credit. For a complete list of eligibility criteria and comparison of the new refundable JRTC with the existing nonrefundable JRTC, please see the *LSC bill analysis*.

## Aggregate credit limits

The bill allows the issuance of up to $6 million in refundable tax credits in any calendar year. (Current law limits the total amount of nonrefundable tax credits issued in any calendar year. In 2010, the limit was $13 million; this amount will increase every year between 2011 and 2024 by $13 million over the previous year's amount until the total reaches $195 million). Assuming the allowable amount of refundable job retention tax credits is issued, the bill reduces GRF tax revenues by up to $6 million each year.

[1] The capital investment must involve capitalized costs of basic research or new product development, or the acquisition, construction, renovation, or repair of buildings, machinery, or equipment.

Permanent law prescribes the distribution of receipts from GRF taxes to the GRF (94.1%), the Local Government Fund (LGF, 3.68%), and the Public Library Fund (PLF, 2.22%). Under temporary law, for FY 2011, 94.35% of such receipts are to be distributed to the GRF and 1.97% to the PLF. Thus, the reduction in receipts from the PIT, CFT, CAT, and the insurance premiums tax will decrease distributions to the three funds. Under the prescribed distribution of GRF tax receipts, the revenue loss to the GRF will be up to $5.7 million each year. Revenue reductions to the LGF and the PLF will be up to $0.2 million and $0.1 million, respectively.

Revenues from the CAT are earmarked mostly for reimbursing school districts and other local governments for the reductions and phase-out of local taxes on most tangible personal property (TPP). Under current law, the GRF is required to subsidize the required reimbursements to the School District Tangible Property Tax Replacement Fund and the Local Government Tangible Property Tax Replacement Fund, if CAT receipts are insufficient. The share of CAT receipts to school districts is 70%. The share of CAT receipts to local governments other than school districts, which is variable, is currently 30% for FY 2011. That share will decrease to 24.7% in FY 2012, and to 19.4% in FY 2013. The GRF share will rise from 0% in FY 2011 to 5.3% in FY 2012 and 10.6% in FY 2013. The tax credit is likely to reduce receipts from the CAT and distributions to the three funds.

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