Ohio Legislative Service Commission

Todd A. Celmar

Fiscal Note & Local Impact Statement

Bill: H.B. 268 of the 130th G.A.

Date: October 16, 2013

Status: As Introduced

Sponsor: Reps. Blessing and Gerberry

Local Impact Statement Procedure Required: Yes

Contents: Authorizes an income tax deduction for gambling losses

State Fiscal Highlights

STATE FUND	FY 2014	FY 2015	FUTURE YEARS
General Revenue Fund			
Revenues	Revenue loss ranging from $26.5 million to $46.7 million	Revenue loss ranging from $26.4 million to $46.4 million	Revenue loss ranging from $26.1 million to $45.9 million
Expenditures	- 0 -	- 0 -	- 0 -

Note: The state fiscal year is July 1 through June 30. For example, FY 2014 is July 1, 2013 – June 30, 2014.

- The bill will result in a loss of personal income tax revenue beginning in FY 2014. The estimated range of the revenue loss will decrease slightly in FY 2015 and FY 2016, due to statutory decreases to personal income tax rates in tax years 2014 and 2015. Personal income tax receipts are deposited into the GRF.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2014	FY 2015	FUTURE YEARS
Local Government Fund (Fund 7069)			
Revenues	Revenue loss ranging from $440,500 to $775,600	Revenue loss ranging from $438,100 to $771,000	Revenue loss ranging from $433,300 to $762,500
Expenditures	- 0 -	- 0 -	- 0 -
Public Library Fund (Fund 7065)			
Revenues	Revenue loss ranging from $440,500 to $775,600	Revenue loss ranging from $438,100 to $771,000	Revenue loss ranging from $433,300 to $762,500
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.

- In accordance with state law, each month the Local Government Fund (Fund 7069) and the Public Library Fund (Fund 7065) receive each 1.66% of total GRF tax revenues from the prior month. Thus, the bill would reduce distributions to these funds by the amounts listed in the table above.

Detailed Fiscal Analysis

The bill

The bill authorizes a personal income taxpayer to deduct gambling losses from the taxpayer's Ohio adjusted gross income. The deduction is allowed for any loss from gambling transactions that the taxpayer took as a federal itemized gambling loss deduction. The Internal Revenue Code permits losses to be deducted to the extent of the gains from such transactions. Under the bill, a taxpayer may deduct gambling losses for taxable years beginning on or after January 1, 2013.

Fiscal effect

State

The bill will result in a loss of personal income tax revenue beginning in FY 2014, ranging from about $26.5 million to about $46.7 million. The estimated range of the revenue loss will decrease slightly in FY 2015 and FY 2016, due to statutory decreases to personal income tax rates in tax years 2014 and 2015.[1] The estimated revenue loss ranges from about $26.4 million to $46.4 million in FY 2015, and from $26.1 million to $45.9 million in FY 2016 and thereafter. Personal income tax receipts are deposited into the GRF.

Lower range

The lower range is based on the estimate reported by the Ohio Department of Taxation in their Tax Expenditure Report for FY 2014 and FY 2015. The agency estimated that the gambling loss deduction would result in foregone tax revenue of $29.0 million in FY 2014 and FY 2015. This estimate did not account for the personal income tax rate reductions implemented in Am. Sub. H.B. 59. The enacted budget bill reduced personal income tax rates across all income brackets so that rates for tax years 2013, 2014, and 2015, are below 2012 rates by 8.5%, 9.0%, and 10.0%, respectively. When these rate decreases are applied, the estimated revenue loss decreases to $26.5 million in FY 2014, $26.4 million in FY 2015, and $26.1 million in FY 2016 and thereafter.

As of the writing of this fiscal note, LSC staff could not confirm the methodology used to arrive at the $29.0 million estimate, though the Department used data from the Internal Revenue Service (IRS) and other nonstate data sources. The most recent IRS data available of tax deductions is from tax year 2011. When applying the aggregate percentage reduction of federal taxable income from the gambling loss deduction in 2011 to Ohio taxable income in that year, and assuming the same effective average tax rate in the state (tax liability as a percentage of taxable income), then the estimated loss

[1] R.C. 5747.02.

of personal income tax revenue is about $35.2 million, somewhat higher, but near the $29.0 million estimated by the Department.

Higher range

The higher range was calculated by LSC staff using federal data on gambling loss deductions reported on federal personal income tax returns for 2011, delineated by Ohio's income tax brackets. The estimates assume that the deducted gambling losses are distributed across Ohio's income tax brackets at the same percentages as reported on federal tax returns in 2011. (Data on gambling losses deducted from federal tax returns by Ohio residents is not available from the IRS.) Federal tax returns with higher gross adjusted incomes generally account for the majority of gambling losses.[2] More specifically, in 2011, tax returns with adjusted gross incomes of $100,000 or more accounted for about 73% of total gambling losses reported; returns with incomes of less than $40,000 accounted for about 9% of losses. Therefore, the estimated revenue loss is greater when applying the actual nationwide distribution of gambling loss deductions, which are uneven and skewed to higher incomes, versus using an average distribution across all income levels. The estimated loss in personal income tax revenue to Ohio based on 2011 federal data amounts to about $51.1 million. When the statutory income tax reductions are applied, the estimate is reduced to $46.7 million in FY 2014, $46.4 million in FY 2015, and $45.9 million in FY 2016 and thereafter.

The actual loss of personal income tax revenue experienced by the state would depend upon the amount deducted from incomes on Ohio tax returns. Based on national data, this amount will likely fluctuate from year to year. According to the IRS, in tax year 2011, nationwide gambling loss deductions amounted to about $17.57 billion. This amount is greater than the amount deducted in 2009 of $15.35 billion, but lower than the amount deducted in 2006 of $19.10 billion.

Local governments

A percentage of GRF revenues are deposited into two local government funds: the Local Government Fund (Fund 7069) and the Public Library Fund (Fund 7065). In accordance with state law, each month both funds receive 1.66% of total GRF tax revenues from the prior month. Based on the estimates listed above, the bill would reduce distributions to these funds from about $881,000 to about $1.5 million beginning in FY 2014. Under the lower estimate, the loss per fund would total about $440,500 in FY 2014, $438,100 in FY 2015, and $433,300 in FY 2016 and thereafter. Under the higher estimate, the loss per fund would total about $775,600 in FY 2014, $771,000 in FY 2015, and $762,500 in FY 2016 and thereafter.

HB0268IN.docx/th

---

[2] The data on federal deductions used for these estimates would include gambling losses incurred by individuals living in areas of the country in close proximity to major gambling centers such as Las Vegas.