Ohio Legislative Service Commission

Russ Keller

Fiscal Note & Local Impact Statement

Bill: S.B. 210 of the 130th G.A.

Date: October 28, 2013

Status: As Introduced

Sponsor: Sen. Widener

Local Impact Statement Procedure Required: Yes

Contents: To provide for a permanent income tax rate reduction of 4% for all tax brackets beginning in 2014

State Fiscal Highlights

STATE FUND	FY 2014	FY 2015	FUTURE YEARS
General Revenue Fund			
Revenues	Loss of $511.5 million over the 18-month period between January 1, 2014 and June 30, 2015		Annual loss of at least $377.3 million; annual losses to increase as Ohio taxable income grows
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.

- Reducing income tax rates by 4% beginning in tax year (TY) 2014 will reduce personal income tax (PIT) liabilities by $364.7 million in TY 2014 and $382.3 million in TY 2015. Foregone liability amounts in future years will increase as Ohio taxable income grows.
- The GRF shares of the foregone PIT liabilities are $352.6 million in TY 2014 and $369.6 million in TY 2015.
- The GRF revenue loss over the final 18 months of the FY 2014-FY 2015 biennium would be $511.5 million. If withholding rates are not adjusted in the first six months of TY 2014, FY 2014 GRF losses will not occur; instead, the 4% tax rate reduction will lower GRF revenues by the full amount shown in FY 2015.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2014	FY 2015	FUTURE YEARS
Counties, municipalities, townships, and public libraries (LGF and PLF)			
Revenues	Loss of $12.1 million	Loss of $12.7 million	Annual loss of at least $13.3 million; annual losses to increase as Ohio taxable income grows
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.

- Reducing the personal income tax rates by 4% will reduce Local Government Fund (LGF) and Public Library Fund (PLF) revenues up to $12.1 million in TY 2014 and $12.7 million in TY 2015. Revenue losses in future years will increase as Ohio taxable income grows. Both the LGF and PLF each receive 1.66% of GRF tax receipts; the personal income tax deposits revenues into the GRF.

Detailed Fiscal Analysis

S.B. 210 provides for a permanent income tax rate reduction of 4% for all tax brackets beginning in 2014. The FY 2014-FY 2015 operating budget, Am. Sub. H.B. 59 of the 130th General Assembly, enacted changes to the tax rates for TY 2013, TY 2014, as well as TY 2015 and every year thereafter. S.B. 210 lowers the enacted TY 2014 rates by 4%, and lowers by 4% the tax rates enacted for TY 2015 and subsequent years.

Fiscal effect

Reducing income tax rates by 4% beginning in TY 2014 will reduce personal income tax (PIT) liabilities by $364.7 million in TY 2014 and $382.3 million in TY 2015. The estimate for TY 2014 is based upon LSC's FY 2014-FY 2015 personal income tax revenue forecast presented to the H.B. 59 Conference Committee on June 13, 2013, and it reflects LSC's estimate of PIT provisions enacted by H.B. 59. There is no official LSC revenue forecast for FY 2016. The estimate assumes growth in average income per return of 4.3% from TY 2014 to TY 2015. The permanent reduction in PIT rates will reduce receipts in future years, and those foregone revenue amounts will increase as Ohio taxable income grows.

The GRF shares of the foregone PIT liabilities are $352.6 million in TY 2014 and $369.6 million in TY 2015. The GRF revenue losses for these two tax years will occur between FY 2014 and FY 2016, and the actual revenue loss for a given fiscal year depends on the timing of when the Tax Commissioner adjusts withholding rates to reflect the 4% tax reduction; LSC is uncertain when the withholding rates would be adjusted. If withholding changes are effective on January 1, 2014, the FY 2014 GRF revenue loss would be approximately $151.6 million, and the FY 2015 GRF revenue loss would be $359.9 million. If withholding changes begin on July 1, 2014, the FY 2014 GRF revenue loss would be $0, and the FY 2015 GRF revenue loss would be $511.5 million (i.e., the FY 2014 revenue loss attributable to withholding would instead occur during FY 2015 when taxpayers file their annual returns for TY 2014). The GRF loss in FY 2016 would be $377.3 million, and annual losses would increase as Ohio taxable income grows.

The personal income tax is a GRF tax, and the Local Government Fund (LGF) and Public Library Fund (PLF) each receive 1.66% of GRF receipts. Reducing PIT rates by 4% will reduce the LGF and PLF by approximately $6.1 million in TY 2014 for a combined total of $12.1 million in that year. The combined LGF and PLF revenue losses would be $12.7 million in TY 2015, and the amounts would increase in future years as Ohio taxable income grows.

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