Peter A. Cooper *Legislative Service Commission*

H.B. 7

123rd General Assembly
(As Introduced)

Reps. D. Miller, Metelsky, Opfer, Bender, Allen

BILL SUMMARY

- Generally lowers the personal income tax by exempting an additional $5,000 and lowering the tax rates of the middle brackets.
- Creates a new tax bracket for the $30,000 to $40,000 income range.
- Indexes the personal income tax brackets, certain credits, and personal exemptions to a measure of general price inflation, beginning in 2000.
- Requires the tax withholding schedules to be adjusted annually.
- Adjustments affect income taxes payable for 2001.

CONTENT AND OPERATION

Lowering income taxes by changing rates, exempting $5,000

(sec. 5747.02)

The existing Ohio income tax has a progressive rate structure whereby higher levels of income are subjected to relatively higher tax rates. Currently there are nine brackets, with tax rates ranging from 0.743% to 7.5%. Every dollar of adjusted income above the personal exemption amounts for taxpayers, spouses, and dependents is taxed.[1]

The bill adds a tenth bracket near the middle of the income ranges and adjusts the tax rates that apply to the lower and middle brackets. The current and proposed brackets and rates are compared in the following table. In years that

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[1] *Under current law, the personal exemption will be $1,050 beginning in 1999, and will be indexed thereafter to increase with the GDP deflator.*

there are excess revenue collections in the Income Tax Reduction Fund, the existing rates and tax amounts are reduced uniformly below those shown. These reductions are continued under the bill.

Existing law		**Proposed law**	
Income	**Tax**[2]	**Income**	**Tax**
$0 to 5,000	0.743%	$0 to 5,000	0
$5,001 to 10,000	$37 + 1.468%	$5,001 to 10,000	1.6%
$10,001 to 15,000	$111 + 2.972%	$10,001 to 15,000	$80 + 3.2%
$15,001 to 20,000	$260 + 3.715%	$15,001 to 20,000	$240 + 3.8%
$20,001 to 40,000	$445 + 4.457%	$20,001 to *30,000*	$430 + 4.3%
[no corresponding bracket]		$*30,001* to 40,000	$860 + 4.772%
$40,001 to 80,000	$1,337.20 + 5.201%	[same as existing law]	
$80,001 to 100,000	$3,418 + 5.943%	[same as existing law]	
$100,000 to 200,000	$4,606 + 6.9%	[same as existing law]	
Over $200,000	$11,506 + 7.5%	[same as existing law]	

The general effect of the rate changes and the additional bracket is to reduce taxes, and to exempt the first $5,000 of any taxpayer's income (plus the existing personal exemptions).

[2] *Percentages are applied only to the income within the bracket, not income in lower or higher brackets.*

Indexing

(secs. 5747.02, 5747.026, 5747.05, 5747.054, and 5747.06)

The bill requires certain elements of the personal income tax to be indexed to increases in the Gross Domestic Product price deflator, a broad gauge of general price inflation. Specifically, the following elements of the personal income tax are to be indexed:

- The income brackets corresponding with each of the tax rates under the graduated rate schedule;
- Joint filing credit;
- Dependent care credit.

How indexing affects each of these elements is described below. Indexing affects taxes paid for taxable years beginning in 2001.

Indexing procedure

(sec. 5747.026)

Beginning December 15, 2000, and continuing each December 15 thereafter, the Tax Commissioner must compute the cumulative percentage increase in the Gross Domestic Product price deflator from July 1, the preceding calendar year, to June 30 of the current year, and increase the income brackets in the tax rate schedule, the joint filing credit schedule, and the dependent care credit schedule, and in the tables indicating how much employers should withhold from employees' pay. The amount of tax due that corresponds with the lower limit of each bracket also must be adjusted to reflect the increase in the lower limit resulting from the adjustment of the brackets.

No adjustment is made in a year when the Gross Domestic Product price deflator does not increase.

Effect of indexing

Tax rate brackets

(sec. 5747.02)

Under the existing tax rate schedule, higher tax rates are imposed on levels of income exceeding certain specified thresholds. As a taxpayer's income falls within a higher bracket, the tax rate paid on the income within that bracket is higher than the rates paid on income below that bracket. By indexing the brackets, the bill causes the brackets to encompass increasingly higher income ranges, so that each year that the Gross Domestic Product price deflator increases, the higher tax rates apply to a decreasing portion of taxpayers' incomes, resulting in lower tax bills for a given income level. The income amounts defining each bracket are rounded to the nearest $100; the corresponding tax amounts are rounded to the nearest multiple of five cents.

Dependent care and joint filing credits

(secs. 5747.05 and 5747.054)

The dependent care credit and the joint filing credit are determined on the basis of a taxpayer's income--the amount of each credit is smaller for taxpayers with higher incomes. The dependent care credit is 100% of the federal dependent care credit for taxpayers whose incomes are less than $20,000, and 25% of the federal credit for taxpayers whose incomes are between $20,000 and $40,000; no credit is granted for taxpayers whose income exceeds $40,000.

The joint filing credit ranges from 5% for taxpayers whose joint income is $75,000 or more to 20% for taxpayers whose joint income is $25,000 or less, with a 10% credit for incomes between $50,000 and $75,000, and 15% for incomes between $25,000 and $50,000.

The income amounts used to determine the amount of, and eligibility for, these credits are adjusted upward each year the Gross Domestic Product price deflator increases. Generally, this allows some taxpayers with somewhat higher incomes to claim the credits (if they are otherwise qualified), and allows some taxpayers who are currently qualified to claim somewhat greater credits.

Withholding tables

(sec. 5747.06(A))

Employers are required to withhold income taxes from employees' pay throughout the year. The amount deducted from an employee's pay each pay period must be computed to result, as near as is practical, to result in the cumulative amount withheld equaling the tax due for the year on the employee's pay. Department of Taxation tables assist employers in determining the appropriate amount to withhold.

Since the bill requires the income tax brackets to be indexed, it also requires the withholding tables to be adjusted accordingly each year to achieve the appropriate withholding.

HISTORY

ACTION	DATE	JOURNAL ENTRY
Introduced	01-20-99	p. 85

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