



Bethany Boyd

*Bill Analysis*  
*Legislative Service Commission*

## **S.B. 298**

123rd General Assembly  
(As Introduced)

**Sens. Spada, Latta, Hottinger, Armbruster, Blessing, Carnes, Cupp, Finan, Gardner, Horn, Johnson, Kearns, Mumper, Nein, Oelslager, Schafrath, Wachtmann, Watts, White**

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### **BILL SUMMARY**

- Reduces the state estate tax by 36% for all but the largest estates, and eliminates most of the state's share of revenues from the tax, beginning January 1, 2001.
- Increases the state income tax personal exemption amount from \$1,050 to \$1,600, for taxable years beginning after 1999.
- For taxable years beginning on or after January 1, 2000, increases the income tax joint filing credit.

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### **CONTENT AND OPERATION**

#### **The state estate tax**

##### **Overview**

The Ohio estate tax consists of four separate levies: the main levy on Ohio residents' estates, a levy on the portion of a nonresident's estates that is located in Ohio, and two "pick-up" taxes equal to the credits that the federal government gives for estate taxes paid to a state. One of the pick-up taxes is levied on Ohio residents' estates and the other is levied on generation-skipping transfers (of property to a person that is two or more generations below the transferor, for example, from a grandparent to a grandchild).

##### **Reduction of the tax on residents' estates**

(sec. 5731.02)

The main levy on Ohio residents' estates is levied on the value of the taxable estate, which generally is the value of all property in which the decedent

had an interest on the date of death, minus certain deductions. Each estate receives a tax credit of \$500 or the amount of taxes due, whichever is less. In effect, this credit excludes estates valued at \$25,000 or less from bearing any tax liability. Under current law, the tax is levied at graduated rates, through six tax brackets, ranging from 2% for taxable estates of \$40,000 or less, to \$23,600 plus 7% of the excess over \$500,000 for estates of that value.

The bill reduces the estate tax by 36% for all but the largest estates, for persons dying on or after January 1, 2001. Under current law, a taxable estate of \$38,000 owes a tax of \$760. Under the bill, the same estate would pay a tax of \$486.40.

The bill adds an upper limit to the sixth tax bracket that under current law applies to all taxable estates over \$500,000. Under the bill, this bracket applies to estates over \$500,000 but not over the "federal exemption amount." A seventh tax bracket is created for estates valued over that amount. The bill defines the "federal exemption amount" as the amount of an estate that is excluded from federal estate taxes. Under federal law, the federal exemption amount for 2000 and 2001 is \$675,000. It increases each year until 2006 when it levels out at \$1 million for that year and thereafter (26 U.S.C. §2010). The corresponding Ohio estate tax for this additional bracket is the "cumulative tax" (which the bill defines as \$15,104 plus 4.48% of the excess of the federal exemption amount over \$500,000), plus 7% of the excess over the federal exemption amount. Thus, in 2001, a taxable estate of \$700,000 would be liable for Ohio estate taxes of \$26,444: \$15,104 + \$7,840 (4.48% of \$175,000) + \$3,500 (7% of \$25,000).

### **Elimination of most of the state's share of estate tax revenues**

(sec. 5731.48)

Under existing law, municipal corporations and townships in which the estate tax originates receive 64% of the gross amount of estate taxes levied and paid, and the state receives the remainder of the estate tax revenues, less fees and costs charged by sheriffs and county auditors for administering the tax (see "**Payment of fees and expenses for administration of the estate tax**," below). The bill provides that if a decedent dies on or after January 1, 2001, **all** of the estate taxes levied and paid on the part of the taxable estate that are not in excess of the federal exclusion amount (discussed above) for the year in which the decedent dies must be credited to the municipal corporation or township in which the tax originates. The 64% local/36% state split of the tax revenues occurs only for that portion of estate taxes that exceeds the federal exclusion amount.

### **Payment of fees and expenses for administration of the estate tax**

(sec. 5731.47)

The sheriff's office or other officers and the county auditor receive fees and expenses for services performed under the estate tax law. Under current law, these fees and expenses are charged against the state's share of the estate tax revenues. The bill provides that if such fees and expenses exceed the amount of the state's share, the county auditor must certify the amount of the excess to the Tax Commissioner, who must certify the amount to the Director of Budget and Management for payment of the excess from the General Revenue Fund to the county treasury. The county auditor then must draw warrants on the county treasurer in favor of the appropriate fee funds or officers.

**The state personal income tax**

**Increases in personal exemptions**

(sec. 5747.025; Section 4)

Currently under state income tax law, a taxpayer is allowed a personal exemption of \$1,050 each for the taxpayer and his or her spouse and dependents. Beginning in 2000, the Tax Commissioner must adjust the amount of the exemption each year to reflect changes in inflation, using the annual percentage increase in the gross domestic product deflator as reported by the Bureau of Economic Analysis of the United States Department of Commerce. For tax year 2000, the exemptions are projected to increase to \$1,100.

The bill increases the personal exemption amount to \$1,600 for taxable years beginning after 1999, and provides that the annual inflation adjustments of the exemption commence in 2001. The bill provides that the increase to \$1,600 includes the \$50 increase that would result from the inflation computation otherwise required if that computation were to be made in 2000.

**Increase in the joint filing credit**

(sec. 5747.05; Section 3)

Current law provides that a husband and wife who file a joint income tax return are allowed a maximum tax credit of \$650 in any taxable year, if each had at least \$500 of income, exclusive of specified types of income, such as royalties. The credit is calculated as a percentage of adjusted gross income (AGI), less exemptions and after allowing for all other credits (except the resident/nonresident and nonrefundable business credits), as follows:

<u>If AGI, less exemptions, is:</u>	<u>The credit for the taxable year is:</u>
\$25,000 or less	20%
More than \$25,000 but not	

more than \$50,000	15%
More than \$50,000 but not more than \$75,000	10%
More than \$75,000	5%

For taxable years beginning on or after January 1, 2000, the bill increases the joint filing credit by merging the income brackets into two brackets, resulting in a higher percentage corresponding to a broader range of incomes. The two brackets are: if AGI, less exemptions, is \$50,000 or less, the credit is 20%; if such AGI is more than \$50,000, the credit is 10%. The maximum credit remains \$650.

**One-time reduction of surplus revenue**

(Section 5)

Under continuing law, by July 31 of each year, the Director of Budget and Management must determine surplus state revenue and transfer parts of the surplus to the Income Tax Reduction Fund, to be used to reduce state income taxes. The bill requires that the Director subtract \$345.7 million from the surplus for fiscal year 2000 before transferring it to the Fund.

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**HISTORY**

ACTION	DATE	JOURNAL ENTRY
Introduced	05-03-00	p. 1657

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