Bill Analysis

Peter A. Cooper *Legislative Service Commission*

H.B. 153

124th General Assembly
(As Introduced)

Reps. **Young, Allen, Brinkman, Cates, Coates, Collier, Damschroder, Husted, Jerse, Kearns, Latell, D. Miller, Olman, Reinhard, Roman, Shaffer, Seitz, Strahorn, Willamowski, Williams**

BILL SUMMARY

- Indexes the personal income tax brackets and certain tax credits to a measure of general price inflation, beginning with taxes payable in 2002.

CONTENT AND OPERATION

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;
- $20 personal credit;
- Senior credit, the retirement income credit, and the lump-sum distribution credit;
- Joint filing credit;
- Dependent care credit.

How indexing affects each of these elements is described below. The bill's indexing provisions affect taxes paid for taxable years beginning in 2002.

Currently, the only element of the income tax that is indexed is the personal exemption for taxpayers, their spouses, and dependents. Beginning in 1999, the personal exemption amount was $1,050, and will be indexed to increases in the Gross Domestic Product price deflator each year since.

Indexing procedure

(sec. 5747.026)

Beginning September 15, 2001, and not later than that date each year thereafter, the bill requires the Tax Commissioner to compute the cumulative percentage increase in the Gross Domestic Product price deflator from January 1, 2000, to December 31 of the current year, and increase each of the income tax elements shown above.

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 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 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. 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.

Personal $20 credit

(secs. 5747.022 and 5747.026(A)(4))

Under existing law, a credit of $20 is allowed for each taxpayer, the taxpayer's spouse, and each dependent.

The bill indexes the amount of the $20 credit, and rounds the index-adjusted amount to the nearest whole dollar.

Senior credit and retirement income credits

(secs. 5747.05 and 5747.055)

Existing law grants an annual $50 credit to taxpayers who are 65 years of age or older. An alternative credit is granted for lump-sum distributions from retirement plans equal to $50 times the number of years of the taxpayer's expected remaining life. (This credit may be claimed only once in a taxpayer's lifetime, and may be claimed only if the $50 senior credit is not claimed.)

A credit also is allowed for retirement income regardless of a taxpayer's age. (Since Social Security benefits are not taxed by Ohio, they are not considered retirement income for the purposes of the retirement credit.) The amount of the credit depends on the amount of retirement income received in a year, ranging from a $25 credit for retirement income between $500 and $1,500 to a $500 credit for retirement income over $8,000. (If the retirement income is received in a lump sum in a single year, the credit is determined in the same manner but is spread over the taxpayer's expected remaining life.) Under the bill, each of the credit amounts is to be indexed and rounded to the nearest whole dollar, and each of the income amounts is to be indexed and rounded to the nearest $100 increment.

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 al least $75,000 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.

Under the bill, 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.

HISTORY

ACTION	DATE	JOURNAL ENTRY
Introduced	03-13-01	p. 220

H0153-I.124/jc