



H.B. 331

124th General Assembly
(As Introduced)

Reps. Krupinski, R. Miller, Beatty, Bocchieri, Barrett, Patton, Strahorn, Rhine, Metelsky, Allen, Flannery, Distel

BILL SUMMARY

- Authorizes a temporary personal income tax deduction for retirees who receive reduced pension benefits on account of the termination of a defined benefit pension plan.
- The deduction is available for taxable years beginning in 2002, 2003, or 2004.
- Limits the fiscal impact to \$1 million annually; if the fiscal impact exceeds that threshold, each taxpayer's deduction is reduced proportionately.

CONTENT AND OPERATION

Income tax deduction for terminated pension plan benefits

(sec. 5747.011)

The bill authorizes a three-year personal income tax deduction for persons who are retired and who receive a reduced pension because the pension plan paying the benefit was terminated. The deduction is available for taxable years beginning in 2002, 2003, or 2004. To claim the deduction, the following criteria must be satisfied:

- The retiree participated in an employer-sponsored defined benefit pension plan.¹

¹ A defined benefit pension plan typically is a pension plan under which the benefit paid to a retiree (or the survivors) is determined on the basis of the retiree's salary and years of service, or a combination thereof. Defined benefit plans are distinguishable from so-

- The pension plan was terminated.
- The retiree receives payments from a pension plan guarantor (see below) that are less than the benefits the retiree was entitled to under the pension plan.

The amount that a retiree may deduct is the difference between the maximum annual benefit the retiree was entitled to before the plan terminated and the maximum annual payments paid by the pension plan guarantor.

Guarantor

Although the bill does not define or specify the identity of any pension plan guarantor, the guarantor is most likely to be the Pension Benefit Guarantee Corporation (PBGC), which was established by Congress in 1974 to help ensure that participants in defined benefit plans continue to receive benefits when such plans are terminated. When a plan is terminated, PBGC may intervene to make payments to plan participants. But federal law limits the amount of any participant's payment at \$3,392.05 per month or \$40,704.60 per year.² According to the PBGC, plans may be terminated by the employer when the plan runs out of money, if the employer liquidates and leaves the plan underfunded, or if the employer demonstrates that it is unable to continue funding the plan and stay solvent. Plans also may be terminated by the PBGC itself if the PBGC's insurance fund is at risk.

Example

A taxpayer was entitled to \$59,000 in annual pension benefits under his employer's defined benefit plan when the employer terminated the plan in 2001. The PBGC will pay the taxpayer \$40,704.60 per year--its maximum guaranteed payment amount. Under the bill, in 2002, 2003, and 2004, the taxpayer may deduct the difference--\$18,295.40--in computing Ohio taxable income.

called defined contribution plans, under which the benefit typically is determined on the basis of the amount contributed by the retiree and the employer and the gains or losses accruing to the plan's assets.

² *These are the maximum benefit levels for plans terminated in 2001. The benefit levels are lower for participants under 65 years of age, and are adjusted to account for survivor benefits, if applicable.*

\$1 million maximum total fiscal impact

The bill limits the impact of the deduction on state revenue to about \$1 million in each of the three years the deduction is available. In order to enforce the limit, the bill requires the Tax Commissioner to estimate the annual total reduction in taxes resulting from the deduction. If the total reduction in taxes exceeds \$1 million for any year, the Tax Commissioner must determine the percentage that \$1 million is of the estimated tax reduction, and taxpayers will be allowed to deduct only that percentage of the difference between their pre-termination plan benefit and the guarantor's maximum guaranteed payment.

HISTORY

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Introduced	07-26-01	p. 807

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