



H.B. 558

124th General Assembly
(As Introduced)

Reps. Gilb, Grendell

BILL SUMMARY

- Indexes the personal income tax rate brackets to a broad measure of price inflation.

CONTENT AND OPERATION

Indexing income tax rate brackets

(R.C. 5747.02)

The bill requires the personal income tax rate schedule to be indexed for inflation on the basis of increases in the implicit Gross Domestic Product Price Deflator. This index indicates the periodic change in the overall price level of all goods and services produced or provided by labor and capital within the United States. It is the same inflation measure used currently to index the personal exemption.

Indexing the rate brackets will moderate, and in some cases eliminate, the tendency for increases in a taxpayer's income to be taxed at higher marginal tax rates. Income taxes are computed on the basis of a graduated rate schedule that causes higher levels of income to be taxed at higher rates. (The schedule is set forth in R.C. 5747.02.)

The rate schedule is to be adjusted each September by the Tax Commissioner, beginning in 2003. Each of the income amounts defining a rate bracket is to be increased by the percentage increase in the GDP price deflator over the preceding calendar year. (For example, the September 2004 adjustment is to be based on the increase in the index over 2003.) Income amounts are to be rounded to the nearest multiple of \$50. If the price index decreases, no adjustment is to be made.

The adjustment applies to taxable years beginning in the calendar year in which the adjustment is made. (For example, the September 2004 adjustment would apply to taxable years beginning in 2004; for nearly all taxpayers, that would affect the tax reported on returns filed in 2005.) To the extent that tax withholding schedules are not adjusted to account for the indexing adjustment (which will not be known until nine months of most taxpayers' taxable year has passed), refunds will be larger, or the amount of tax due with a return will be smaller, than if the withholding schedules accounted for the indexing.

HISTORY

ACTION	DATE	JOURNAL ENTRY
Introduced	04-16-02	p. 1654

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