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Bill Analysis

Legislative Service Commission

H.B. 480

125th General Assembly
(As Introduced)

Reps. Wolpert, Peterson, Reidelbach, Seitz, Trakas, Perry

BILL SUMMARY

- Permits a school district board when proposing a school district income tax to specify that the tax applies only to an individual's earned income.
- Permits a school district board that specifies that the school district income tax applies only to earned income to also specify an upper limit on the amount of an individual's earned income that is taxable.

CONTENT AND OPERATION

Background

The board of education of any school district, except a joint vocational school district, may propose an income tax levy to the district's voters.¹ The proposal may be submitted separately or in combination with a property tax levy and bond issue for permanent improvements. Currently, a school district income tax is levied on the "taxable income" of (1) an individual during the portion of the tax year that the individual is a resident of the district and (2) on the estate of a decedent who was domiciled in the district at the time of death. It does not apply to corporate income.

Currently, an individual's "taxable income" is the individual's "Ohio adjusted gross income," which consists of *both*:

¹ *The amount of a school district income tax levied for current expenses is counted toward the district's obligation to raise 20 mills of local tax effort in order to qualify for state funding for operations. Accordingly, the Tax Commissioner annually computes the amount of the income tax proceeds, when converted to a millage equivalent, that applies to the 20-mill requirement. (R.C. 3317.01(A) and 3317.021(D), neither section in the bill.)*

(A) "Earned income" (wages, salaries, tips, self-employment net earnings, and other employee compensation that is reported as earned income on state and federal income tax returns); and

(B) "Unearned income" (investment income, such as interest, dividends, and capital gains, and retirement benefits).

Administration

School district income taxes are administered by the Department of Taxation in conjunction with the state income tax. Taxpayers liable for a school district income tax generally remit their tax liability to the Department in the form of employer withholding and estimated payments, in a manner similar to the state income tax. Every taxpayer liable for a school district income tax annually must submit to the Department a state school district income tax return by April 15 of the following year. This return is currently the same form for taxpayers in all school districts that levy school district income taxes. All money collected by the state on behalf of school districts is distributed back to the districts quarterly, except that 1½% of the collections are retained by the state to defray the Department's costs of administering the districts' taxes.²

Alternative school district income tax base

(R.C. 5748.01(E), 5748.02(A) and (B), 5748.03(B), 5748.04(B), and 5748.08(A)(4), (B), and (E))

The bill permits a school district board to choose to levy a school district income tax on only individual earned income instead of levying the tax on an individual's and a decedent's entire taxable income.³ Nevertheless, school districts are not required to use the alternative tax base and may continue to levy an income tax on taxable income as provided under current law. If the board opts to use the alternative tax base, however, the board must specify in its resolutions and the ballot language proposed to the voters that the tax, if approved, will be levied on only the "earned income of individuals residing in the school district."

The bill also permits, but does not require, a district board to limit the amount of an individual's earned income that is subject to the tax. It may specify,

² See R.C. 5747.03, 5747.06, and 5747.08, none in the bill.

³ It appears that the bill requires a district to choose between levying the income tax on the taxable income of both individuals and estates or on just the earned income of individuals. The bill does not appear to permit levying the tax on both earned income of individuals and the taxable income of estates.

for example, that the tax applies to the first \$50,000 (or some other specified amount) of an individual's earned income. In that case, any amount over the specified limit would not be taxed. Under continuing law, school district boards do not have the authority to limit the amount of "taxable income" that is subject to an income tax. The bill's option to limit the amount of the tax base that is subject to the tax is restricted to those districts that use the alternative tax base.

Finally, the bill makes modifications to the statutory procedures for levying and repealing school district income taxes to account for the new alternative tax base and the specifications that must be made by the district board in its resolutions and the applicable ballot language.

HISTORY

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