Bill Analysis

Peter A. Cooper *Legislative Service Commission*

H.B. 577

126th General Assembly
(As Introduced)

Rep. G. Smith

BILL SUMMARY

- Exempts from the income tax all unearned income of individuals who are 65 years of age or older.
- Eliminates the $50 per-return income tax credit for individuals who are 65 years of age or older.
- Eliminates the retirement income credit.

CONTENT AND OPERATION

Tax only earned income of persons 65 or older

The Ohio income tax base adopts the comprehensive definition of "income" that is the basis for the federal income tax, so, with some exceptions, the Ohio income tax base incorporates almost all the various forms of income included in federal tax base.[1] Thus, the Ohio income tax base includes most forms of "earned" income arising from an individual's labor and many forms of "unearned" income arising from rights in property (e.g., interest, dividends, capital gains) or received under a pension, retirement, or similar plan.

The bill narrows the Ohio income tax base for individuals 65 years old or older by allowing them to deduct all income other than "earned income." For the purpose of the deduction, earned income is defined as wages, salaries, tips, other employee compensation, and self-employment income.

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[1] The most notable forms of income not included in the Ohio tax base are Social Security benefits and disability and survivor benefits to the extent they are taxable under the federal income tax.

The deduction applies to a qualifying individual's taxable year beginning in 2006 or thereafter. A taxpayer may deduct unearned income under the deduction only if it has not been otherwise deducted as Social Security or disability or survivor benefits.

Elimination of elderly taxpayer and retirement income credits

(R.C. 5747.05(C), (D), and (E) and 5747.055)

Current law authorizes an income tax credit for individuals who receive more than $500 in retirement income. The credit is between $25 and $200 per year, depending on the amount of retirement income received.

The bill eliminates the retirement income credit. (R.C. 5747.055.)

Current law also authorizes individuals 65 years of age or older to claim a $50 credit against the income tax each year and for each income tax return filed. Alternatively, if the individual receives a lump-sum distribution from a retirement plan, the individual may choose to take a one-time credit equal to $50 times the number of years in the individual's expected remaining life (computed according to federal income tax annuity tables).

The bill eliminates the $50 per-return credit and the corresponding lump-sum credit. (R.C. 5747.05(C), (D), and (F).) The bill also eliminates obsolete language that authorized a credit for lump-sum distributions of retirement income for persons younger than 65 years if the distribution occurred in a taxable year ending before August 1991. (R.C. 5747.05(E).)

HISTORY

ACTION	DATE
Introduced	05-09-06

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