

Fiscal Note & Local Impact Statement

122nd General Assembly of Ohio

BILL: **S.B. 31**

DATE: **April 30, 1997**

STATUS: **As Introduced**

SPONSOR: **Sen. Suhadolnik**

LOCAL IMPACT STATEMENT REQUIRED: **Yes**

CONTENTS: **Modifies the Professional Associations Law; permits optometrists, chiropractors, M.D.'s, D.O.'s, and D.P.M's to form a combined professional corporation, limited liability company, partnership, or professional association. Allows these practices to apply to the Joint Underwriting Association for medical malpractice insurance.**

State Fiscal Highlights

STATE FUND	FY 1997	FY 1998	FUTURE YEARS
General Revenue Fund			
Revenues	Potential indeterminate net effect	Potential indeterminate net effect	Potential indeterminate net effect
Expenditures	- 0 -	- 0 -	- 0 -

- Potential gain of corporate franchise tax revenue if the combined practices are formed as professional corporations instead of limited liability companies. This gain in corporate tax revenue will be accompanied by a decrease in personal tax revenue, which is collected at a lower rate than that of the corporate franchise tax.
- Allows the creations of professional corporations (under ORC 1701.), limited liability companies (under ORC 1705.), partnerships, and professional associations (under ORC 1785.).
- Expands option of applying to the Joint Underwriting Association for medical malpractice insurance to limited liability companies and professional associations which provide a combination of the professional services authorized in the bill.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 1997	FY 1998	FUTURE YEARS
Local Government Fund (LGF) & Local Government Revenue Assistance Fund (LGRAF)			
Revenues	Potential indeterminate net effect	Potential indeterminate net effect	Potential indeterminate net effect
Expenditures	- 0 -	- 0 -	- 0 -
Library and Local Government Stabilization Fund (LLGSF)			
Revenues	Potential indeterminate decrease	Potential indeterminate decrease	Potential indeterminate decrease
Expenditures	- 0 -	- 0 -	- 0 -



- Potential gain in revenue to the corporate franchise tax could lead to gains to the Local Government Fund and the Local Government Revenue Assistance Fund. These gains could be offset by decreased revenue from personal income tax payments.
- The Library and Local Government Stabilization Fund (LLGSF) receives payments from personal income tax revenues. The ability for practices to form corporations could decrease personal income tax revenue credited to the LLGSF.
- The number of practices that would choose to establish LLC's or corporations is unknown.
- A provision in Am. Sub. H.B. 215 will allow the state to receive personal income tax revenue from association partners who are not residents of Ohio.

Detailed Fiscal Analysis

STATE EFFECTS

Types of Combined Practice

The bill permits individuals licensed by the Medical Board, Optometry Board, and Board of Chiropractic Examiners to engage in a combined form of practice. Under this bill, the combined practice can be established as one of the following types of organizations:

1. A corporation formed under the General Corporation Law (ORC 1701.)
2. A limited liability company formed under the Limited Liability Company Law (ORC 1785.)
3. A partnership
4. A professional association formed under the Professional Association Law (ORC 1785.)

Of these four structures, only a corporation is required to file corporate franchise tax. Under current law, medical doctors and osteopaths cannot operate as a corporation or limited liability company (LLC). This bill would allow these professionals, as well as optometrists and chiropractors, the option of forming corporations and LLC's. This could potentially increase corporate franchise tax revenue. LBO cannot predict the amount of increased revenue attributed to corporations and LLC's because the number of potential practices choosing to operate as a corporation or LLC is unknown.

LOCAL EFFECTS

Local Government Fund & Local Government Revenue Assistance Fund

The Local Government Fund (LGF) and the Local Government Revenue Assistance Fund (LGRAF) both receive revenue from the state's corporate franchise tax and personal income tax.

Under this bill, medical doctors and osteopaths will be permitted to practice as a corporation or a LLC. As discussed above, corporations pay corporate franchise taxes and while members of an LLC pay the personal income tax. It is impossible to determine how many professionals would elect to form corporations. For this reason, LBO estimates that there will be a potential indeterminate net effect on revenues to the LGF and the LGRAF.

Library and Local Government Stabilization Fund

Revenues to the Library and Local Government Stabilization Fund (LLGSF) could decrease indeterminately. The LLGSF is funded by the personal income tax. Under this bill, certain professionals will be allowed to form practices as corporations. Although the exact number is not known, the increase in corporations will decrease personal income tax revenues, which will adversely affect the LLGSF.

Personal Income Tax and Am. Sub. H.B. 215

Under current state law, partners who are non-residents of Ohio are not required to pay personal income tax to the state. A provision in Am. Sub. H.B. 215 would eliminate this exemption and would provide indeterminate increases in personal income tax revenue.

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