Fiscal Note & Local Impact Statement

123 rd General Assembly of Ohio

BILL: **H.B. 64** DATE: **February 9, 1999**

STATUS: **As Introduced** SPONSOR: **Rep. Coughlin**

LOCAL IMPACT STATEMENT REQUIRED: **Yes**

CONTENTS: **exempts from the personal income tax up to $10,000 annually in state and federal government retirement benefits**

State Fiscal Highlights

STATE FUND	FY 1999	FY 2000	FUTURE YEARS
General Revenue Fund			
Revenues	- 0 -	Loss of $97.7 million	Loss of $100.6 million in FY 2001 – loss grows about 3% annually
Expenditures	- 0 -	- 0 -	- 0 -

Note: The state fiscal year is July 1 through June 30. For example, FY 2000 is July 1, 1999 – June 30, 2000.

- The exemption is projected to result in a total revenue loss for tax year 1999 (FY 2000) of $109.2 million, with the GRF bearing 89.5% of that loss, or $97.7 million.
- The loss from state retirement benefits in tax year 1999 is projected to be about $58.7 million, with the other $50.5 million coming from federal retirement benefits.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 1999	FY 2000	FUTURE YEARS
LLGSF			
Revenues	- 0 -	Loss of $6.2 million	Loss of $6.4 million in FY 2001; loss increases about 3% annually
Expenditures	- 0 -	- 0 -	- 0 -
LGF and LGRAF			
Revenues	- 0 -	Loss of $5.2 million	Loss of $5.4 million in FY 2001; loss increases about 3% annually
Expenditures	- 0 -	- 0 -	- 0 -

Note: For most local governments, the fiscal year is the calendar year. The school district fiscal year is July 1 through June 30.

- The exemption results in losses to the Library and Local Government Support Fund (LLGSF), which receives 5.7% of state income tax collections, of $6.2 million in FY 2000, and $6.4 million in FY 2001.

- The exemption results in losses to the Local Government Fund (LGF) and Local Government Revenue Assistance Fund (LGRAF), which receive 4.2% and 0.6% of state income tax collections, of $5.2 million in FY 2000, and $5.4 million in FY 2001.

Detailed Fiscal Analysis

LBO's analysis of the revenue loss that results from the exemption has six essential steps.

(i) for each state retirement system (PERS, STRS, SERS, etc.), and for both civilian and military federal retirement systems, LBO obtained information on the number of retirees and the amount of annual retirement benefits (excluding disability benefits, survivor benefits, etc.)

(ii) Based on historical data, LBO projected forward the number of retirees and the benefits paid to tax year 1999.

(iii) LBO calculated the average annual amount of retirement benefits for each retirement system;

(iv) LBO then constructed a profile of the "typical" taxpaying unit for each retirement system. This profile was based in part on data from a sample of retirees drawn by the Ohio Department of Taxation.

(v) LBO estimated the taxpaying unit's Ohio tax liability under current law, and then with the proposed $10,000 exemption. This resulted in an estimated revenue loss per taxpaying unit, which was then multiplied by the number of retirees in that particular retirement system to get a subtotal revenue loss figure.

(vi) Finally, LBO added up the estimated revenue losses from each retirement system to obtain a grand total revenue loss.

PERS typical taxpayer
taxable year 1999

	pre-exemption	post-exemption	Change
state retirement income	$ 12,496	$ 2,496	$ (10,000)
other income	$ 17,494	$ 17,494	
fagi	$ 29,991	$ 19,991	$ (10,000)
exemptions	$ 2,100	$ 2,100	
oti	$ 27,891	$ 17,891	$ (10,000)
tax before credits	$ 797.48	$ 367.43	$ (430.05)
personal credit	$ 40	$ 40	
senior citizen credit	$ 50	$ 50	
retirement income credit	$ 200	$ 80	$ (120.00)
net	$ 507.48	$ 197.43	$ (310.05)
		Total	$ (31,507,199)
assume a married couple, 2 exemptions assume no joint filer credit		adjusted for Ohio residency	$ (23,945,471)

An example of the calculation of the average loss per taxpaying unit and total revenue loss is presented in the table on the preceding page. As one can see, the $10,000 exemption is roughly 80% of the projected average PERS retirement benefit for tax year 1999. The $10,000 exemption reduces the tax before credits by $430.05, using the permanent marginal tax rates (last used in tax year 1995). However, by reducing the amount of retirement income included in Ohio Adjusted Gross Income (OAGI), it also reduces the retirement income credit by $120. So, the net tax savings to the typical taxpaying unit in PERS is estimated to be $310.05. Multiplying this average tax savings by the projected 101,620 PERS retirees receiving pension income (again, survivor and disability benefits are excluded) results in an estimated revenue loss of $31.5 million from PERS.

The estimated $31.5 million loss was then reduced because not all retirees from PERS are still living in Ohio and subject to Ohio income tax. By matching the 1989 tax return data from the Ohio Department of Taxation against data from the state and federal retirement systems, LBO estimates that about 76% of state retirees from the five systems are still Ohio taxpayers. So, the net revenue loss from PERS retirees is $23.9 million.

LBO used the same method for the other four state retirement systems – State Teachers Retirement System (STRS), School Employees Retirement System (SERS), Highway Patrol Retirement System (HPRS), and Police and Firemen's Disability and Pension Fund (PFDPF). LBO also used the same method for federal retirees from the FERS and CSC systems, based on 1998 data from the federal Office of Personnel management (OPM).

The weakest link in the estimating chain is for federal military retirees in Ohio. LBO still has not received hard data on military retirees in Ohio. Instead, we have had to allocate a share of total U.S. military retirement pay to Ohio, based on such factors as Ohio's percentage of total U.S. veterans, once again allowing for the fact that some military retirees will live in Florida rather than Ohio and thus not be Ohio taxpayers.

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