Fiscal Note & Local Impact Statement

123 rd General Assembly of Ohio

BILL: **H.B. 237** DATE: **June 24, 1999**

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

LOCAL IMPACT STATEMENT REQUIRED: **Yes**

CONTENTS: **Increases the real property tax rollback on homestead property from 2.5% to 7.5% and reduces personal income tax rates by at least 5%**

State Fiscal Highlights

STATE FUND	FY 2000	FY 2001	FUTURE YEARS
General Revenue Fund			
Revenues	$148.8 million loss	$380.8 million loss	Loss exceeding $400 million in FY 2002, increasing thereafter
Expenditures	$108.85 million increase	$225.3 million increase	Increasing to $295.3 million in FY 2005
Other State Funds			
Revenues	- 0 -	- 0 -	- 0 -
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.

- Reducing marginal income tax rates by 5% causes a state income tax revenue loss of $166.2 million in FY 2000 (GRF share is $148.8 million). The FY 1999 budge surplus by itself will produce a rate cut for taxable year 1999 of almost 3 percent. This bill creates an additional 2.06% rate cut in order to make the total 5%.

- In FY 2001 and thereafter, the 5% rate cut is made without regard to any additional rate cuts through the budget surplus. In FY 2001, the state income tax revenue loss is estimated at $425.4 million, with the GRF share of the loss being $380.8 million. The GRF loss will probably exceed $400 million in FY 2000 and will increase annually thereafter.

- A family of four with income of $40,000, where the parents file jointly and use the joint filer credit, would save about $49 from a 5% rate cut in taxable year 1999.

- Increasing the 2.5 percentage rollback to 7.5 percent increases state reimbursement cost to school districts and local governments by a factor of three. Actual state reimbursement for the first year of the increase would not occur until the second half of fiscal year 2000 and the first half of fiscal year 2001. Thus, there is only a half-year worth of impact in FY 2000.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2000	FY 2001	FUTURE YEARS
LLGSF – Libraries and Other Local Governments			
Revenues	$9.5 million loss	$24.2 million loss	Loss exceeding $25 million in FY 2002, increasing annually thereafter.
Expenditures	- 0 -	- 0 -	- 0 -
LGF and LGRAF – Counties, Municipalities, Townships, Special Districts			
Revenues	$8.0 million loss	$20.4 million loss	Loss exceeding $21 million in FY 2002, increasing annually thereafter.
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. Nevertheless, we have shown the loss here by state fiscal year.

- The three local government funds would lose a combined $17.5 million in FY 2000 and $44.6 million in FY 2001 from the reduction in state income tax revenue.

Detailed Fiscal Analysis

The increase in the property tax rollback has only a half-year impact in FY 2000. This limits the total state GRF impact from the income tax cut and the property tax rollback increase in FY 2000 to $257.7 million ($108.9 million expenditure increase + $148.8 million revenue loss). In FY 2001, the combined GRF impact is $606.1 million ($225.3 million expenditure increase + $380.8 million revenue loss).

Income Tax Cut

For taxable year 1999, the rate cut would be 5% or the reduction called for by surplus revenue, whichever is larger. OBM's estimate of the surplus revenue available at the end of FY 1999 is $237.9 million. Given current estimates of FY 2000 income tax collections, this would result in a rate cut of 2.94%. In order to get to 5%, the 1999 tax cut would have to be $404.1 million, or an additional $166.2 million.

For taxable years 2000 and afterwards, the permanent rate cut would be a straight 5%. Any surplus revenue at the end of FY 2000 and FY 2001 would go toward increasing the tax cut to a figure above 5%. Neither OBM or LBO currently project any surplus revenue for FY 2000 and FY 2001.

Table 1, below, summarizes the estimated revenue losses in each fiscal year from the proposed 5% rate cut. The estimates assume the following:

(i) Cutting tax rates by 5% reduces total tax collections by 5%. This is actually a simplification, since LBO's simulations of 5% rate cuts on historical data show that, while the tax before credit amount is reduced by exactly 5%, bottom-line tax liability can be reduced by more than 5%, due to the influence of tax credits. This is illustrated below in the calculations of the tax savings for a family of four at different income levels.

(ii) There is no mid-year change in the income tax withholding tables. As we have pointed out before, a mid-year change in the withholding tables would lead to a disproportionately large revenue loss in FY 2000.

(iii) The appropriate baseline projection of fiscal year income tax collections is OBM's June 1999 forecast for the conference committees on the budget bills. If LBO's higher baseline forecasts are used,

Table 1 - Revenue Impact of 5% Permanent Income Tax Rate Cut

	FY 1999	FY 2000	FY 2001
Estimated Surplus Revenue (OBM)	$237.9	$0.0	$0.0
Baseline Tax Collections (All Funds) *		$8,082.9	$8,508.4
% cut from surplus revenue		2.94%	0.00%
% cut required by HB 237		2.06%	5.00%
$ cut required by HB 237		$166.2	$425.4
GRF revenue loss		$148.8	$380.8
LLGSF revenue loss		$9.5	$24.2
LGF + LGRAF revenue loss		$8.0	$20.4

* baseline collections for FY 2000 are adjusted for the estimated impact of the tax year 1998 rate cut. Estimated collections for both years are net of the income tax deductions in the Governor's tax package, some of which are not in HB 282 or HB 283.

the revenue loss will be larger.

Table 2, below, shows the tax savings from a 5% rate cut in taxable year 1999, for a family of four where the parents file jointly, and a household income of $40,000. For this "vanilla" return, without any deductions or credits (except the joint filer credit) the tax savings would be about $49. Note that this savings is not completely due to HB 237, because under the assumptions stated above, current law will provide a tax cut of almost 3% out of the GRF budget surplus.

Table 2 - Family of Four, HB 237 5% Rate Cut Tax Savings

2 adults, 2 children, married filing joint returns
Tax Year **1999** Personal Exemptions and Personal Credits

	Exemption	Credit
Taxpayer and Spouse	$1,050	$20
Dependent	$1,050	$20

	Tax Before 5% Rate Cut	Tax After 5% Rate Cut	Tax Savings
FAGI	$40,000	$40,000	
OAGI	$40,000	$40,000	
Exemptions	4	4	
Exemption Amount	($4,200)	($4,200)	
Other Deductions	$0	$0	
Ohio Taxable Income (OTI)	$35,800	$35,800	
Tax Before Credits	$1,150.00	$1,092.47	
Child Care Credit	$0.00	$0.00	
Personal Credit	($80.00)	($80.00)	
Tax Before JFCredit	$1,070.00	$1,012.47	($57.53)
Joint Filer Credit	($160.50)	($151.87)	$8.63
Net Tax	$909.50	$860.60	($48.90)

In general, a 5% income tax rate cut provides tax savings of at least 5% to taxpayers. The bottom-line savings in the state income tax bill can actually exceed 5%. This is illustrated in Table 3, below, which shows the tax savings for a family of four in taxable year 1999, at different income levels, under certain simplifying assumptions. As Table 3 shows, the rate cut provides tax relief of somewhat more than 5% for lower-income households.

TABLE 3 - Tax Savings in Percentage Terms, for Various Income Levels, Family of Four

2 adults, 2 children, married filing joint returns
Tax Year **1999** Personal Exemptions

Taxpayer and Spouse	$1,050
Dependent	$1,050

Ohio Adjusted Gross Income (OAGI)	Exemption Amount	Ohio Taxable Income (OTI)	Tax Before Credits - Before Rate Cut	Tax Before Credits - After Rate Cut	% Savings	Tax After Credits - Before Rate Cut *	Tax After Credits - After Rate Cut *	$ Savings	% Savings
$15,000	$4,200	$10,800	$135.23	$128.46	-5.00%	$0.00	$0.00	$0.00	NA
$20,000	$4,200	$15,800	$289.77	$275.28	-5.00%	$0.00	$0.00	$0.00	NA
$30,000	$4,200	$25,800	$704.31	$669.09	-5.00%	$326.66	$296.73	($29.93)	-9.16%
$40,000	$4,200	$35,800	$1,150.01	$1,092.51	-5.00%	$705.50	$656.63	($48.88)	-6.93%
$60,000	$4,200	$55,800	$2,158.96	$2,051.01	-5.00%	$1,871.06	$1,773.91	($97.15)	-5.19%
$80,000	$4,200	$75,800	$3,199.16	$3,039.20	-5.00%	$2,963.20	$2,811.24	($151.96)	-5.13%
$100,000	$4,200	$95,800	$4,356.59	$4,138.76	-5.00%	$4,062.76	$3,855.83	($206.94)	-5.09%
$125,000	$4,200	$120,800	$6,041.40	$5,739.33	-5.00%	$5,663.33	$5,376.36	($286.97)	-5.07%
$150,000	$4,200	$145,800	$7,766.40	$7,378.08	-5.00%	$7,302.08	$6,933.18	($368.90)	-5.05%
$200,000	$4,200	$195,800	$11,216.40	$10,655.58	-5.00%	$10,579.58	$10,046.80	($532.78)	-5.04%
$250,000	$4,200	$245,800	$14,941.20	$14,194.14	-5.00%	$14,118.14	$13,408.43	($709.71)	-5.03%
$500,000	$4,200	$495,800	$33,691.20	$32,006.64	-5.00%	$31,930.64	$30,330.31	($1,600.33)	-5.01%
$1,000,000	$4,200	$995,800	$71,191.20	$67,631.64	-5.00%	$67,555.64	$64,174.06	($3,381.58)	-5.01%

* Credits estimated here are the child care credit, personal exemption credit ($20 per exemption) and joint filer credit

Homeowner Property Tax Rollback Increase

The state grants property tax relief on owner occupied dwellings in the amount of 2.5 percent of the taxpayer's real property tax bill. The bill would increase the 2.5 percent rollback to 7.5 percent. In CY 1998, $101.7 million was reimbursed by the state to local governments and school districts for the 2.5 percent rollback. Assuming a seven percent growth rate in the 2.5 rollback program and tripling the program's cost for the increased reduction, Table 4 shows the state cost of reimbursement through 2005.

Table 4
Estimated State Cost to Increasing the 2.5 Percent Rollback to 7.5 Percent

Tax Year	2.5 Percent Rollback	7.5 Percent Rollback	Addition Cost
1999	$108.8 million	$326.5 million	$217.7 million
2000	$116.5 million	$349.4 million	$232.9 million
2001	$124.6 million	$373.8 million	$249.2 million
2002	$133.3 million	$400.0 million	$266.7 million
2003	$142.7 million	$428.0 million	$285.3 million
2004	$152.7 million	$458.0 million	$305.3 million
2005	$163.3 million	$490.0 million	$326.7 million

The increase in the rollback from 2.5 percent to 7.5 percent first applies to tax year 1999 real property taxes. Payment of half these taxes is due by December 31st, 1999, while the remaining balance is due by June 20th, 2000. The first actual state reimbursements for tax year 1999 would not occur till the end of fiscal year 2000 and the beginning of fiscal year 2001, and so on.

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