Fiscal Note & Local Impact Statement

127 th General Assembly of Ohio

Ohio Legislative Service Commission
77 South High Street, 9th Floor, Columbus, OH 43215-6136 ✧ Phone: (614) 466-3615
✧ *Internet Web Site:* http://www.lsc.state.oh.us/

BILL: **Am. Sub. H.B. 24** DATE: **December 12, 2007**

STATUS: **As Enacted – Effective December 21, 2007** SPONSOR: **Rep. Wagner**

LOCAL IMPACT STATEMENT REQUIRED: **No** **Permissive**

CONTENTS: **Municipal income tax deductions for self-employed medical care insurance and for payments to health savings accounts; moratorium on conservancy districts levying and collection of assessments; changes in Real Estate Appraiser Recovery Fund rules; extension of enhanced motor vehicle inspection program**

State Fiscal Highlights

STATE FUND	FY 2008	FY 2009	FUTURE YEARS
Real Estate Appraiser Recovery Fund (Fund 4B2) – Department of Commerce			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Potential decrease	Potential decrease	Potential decrease
Supreme Court of Ohio			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Potential minimal increase	Potential minimal increase	- 0 -

Note: The state fiscal year is July 1 through June 30. For example, FY 2008 is July 1, 2007 – June 30, 2008.

- The bill limits the entities that may apply for Real Estate Appraiser Recovery Fund (Fund 4B2) payments. As a result, future expenditures out of Fund 4B2 to reimburse claimants may decrease.

- The Supreme Court of Ohio may experience a minimal increase in costs for adjudicating cases related to landowners who have been denied exceptions to assessments as specified under the bill. Depending on the number and duration of cases, they could extend into state FY 2009.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2008	FY 2009	FUTURE YEARS
Municipalities			
Revenues	- 0 -	Potential loss of up to approximately $9.0 million	Potential loss of up to approximately $9.2 million
Expenditures	- 0 -	- 0 -	- 0 -
Conservancy Districts			
Revenues	Loss of up to $10.5 million in foregone assessment revenue depending on legislative action	Potential ongoing loss depending on legislative action	Potential ongoing loss depending on legislative action
Expenditures	- 0 -	- 0 -	- 0 -
Counties			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Potential minimal increase in administrative costs for reviewing tax bills	- 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 bill authorizes municipalities to allow an income tax deduction to self-employed taxpayers for amounts paid for medical care insurance for self, spouse, and dependents.
- If the deduction were allowed by all the municipalities levying a municipal income tax, the potential loss of municipal income tax revenue is estimated to be approximately $8.96 million in FY 2008 and $9.14 million in FY 2009, assuming a minimal growth rate of 2% in tax revenues.
- The bill also authorizes municipalities to allow individuals to deduct the amounts paid to a health savings account during the taxable year in determining their municipal income tax liability.
- If the deduction were allowed by all the municipalities levying a municipal income tax, the deduction is estimated to reduce municipal tax revenue by $95,000 in FY 2008 and $97,000 in FY 2009.
- The bill prohibits conservancy districts that include all or part of more than 16 counties (the Muskingum Watershed Conservancy District) from collecting assessments, and prohibits county treasurers from collecting assessments for such a conservancy district. This would result in an estimated annual loss of up to $10.5 million in revenue that may have otherwise been received, unless the General Assembly enacts a provision by June 30, 2008 that would once again permit collections. This includes the assessment for the Muskingum Watershed Conservancy District scheduled to begin on January 1, 2008.
- Counties may experience additional minimal administrative costs when the bill first takes effect for revising tax bills applicable to the prohibition on collecting new assessments.

Detailed Fiscal Analysis

Medical insurance premium tax deduction for self-employed taxpayers

The bill authorizes municipalities to allow a taxpayer who has a net profit from a business or profession that is operated as a sole proprietorship to deduct from the net profit the amount that the taxpayer paid during the taxable year for medical care insurance for the taxpayer, the taxpayer's spouse, and dependents as defined in section 5747.01 of the Revised Code.

National data on the proportion of taxable returns with self-employed health insurance claims for 2004 was used to estimate the impact of this deduction on municipal income tax revenue. The Internal Revenue Service reports that approximately 3.2% of tax returns carried health insurance claims of self-employed taxpayers and the amount claimed was approximately 0.23% of total adjusted gross income.

Because comparable data at the municipal level was not available, LSC used the national average ratio to calculate the potential revenue loss for municipalities if this tax deduction were allowed. A growth rate of 2% per year was assumed to make projections from the calendar year 2005 number for municipal tax revenue in Ohio (source: Ohio Department of Taxation).

Based on the above assumptions, the combined potential loss in municipal income tax revenue is estimated at $8.96 million in FY 2008 and $9.14 million in FY 2009. This estimate assumes that all municipalities allow the deduction.

Tax deduction for amount paid to health savings accounts

The bill authorizes municipalities to allow an individual taxpayer to deduct, while computing the taxpayer's municipal income tax liability, an amount equal to the aggregate amount the taxpayer paid in cash during the taxable year to a health savings account (HSA) of the taxpayer.

Nationally, the HSA deduction has been claimed on 0.08% of returns and the amount claimed was equal to 0.002% of adjusted gross income. The latter percentage was applied on the projected tax collections of the municipalities and the estimated loss of municipal income tax revenue arising from this tax deduction for HSA amounts is $95,000 for FY 2008 and $97,000 for FY 2009.

Real Estate Appraiser Recovery Fund payments

Under current law, bonding or insurance companies and partnerships, corporations, or associations employing a licensed, registered, or certified real estate appraiser as part of its usual or occasional operations are excluded from applying to a court of common pleas to receive payment out of the Real Estate Appraiser Recovery Fund (Fund 4B2) to recover losses resulting from violations by such real estate appraisers.

The bill would further limit persons eligible to receive payment out of Fund 4B2 to bonding or insurance companies or any partnership, corporation, or association *that uses any tool to develop a valuation of real property for purposes of a loan* or that employs, retains, or engages *as an independent contractor* a person licensed, registered, or certified as a real estate appraiser in its usual or occasional operations. This change is intended to address a situation in which a Michigan-based bank has made court claims as well as many complaints with the Department of Commerce that could lead to court claims against Fund 4B2 because it received bad appraisals from subcontractors licensed in another state. If the claims were successful at up to $10,000 each, the balance of Fund 4B2 could be severely impacted. If the fund falls below $500,000, a transfer from the Real Estate Appraiser Operating Fund (Fund 6A4) is authorized to bring the Recovery Fund up to the minimum amount. The Real Estate Appraiser Board is also authorized to require current appraiser certificate holders, registrants, and licensees to pay an additional assessment to bring the fund back up to the minimum amount.

While only two claims have been awarded from Fund 4B2 since FY 2004 (both were in FY 2007 for $10,000 each, the statutory maximum), the bill has the potential to reduce future expenditures from that fund. Fund 4B2 currently has an unencumbered cash balance of approximately $1.1 million.

The bill also limits the jurisdiction of Real Estate Appraiser Recovery Fund filings to the Franklin County Court of Common Pleas. Currently, such cases can be filed in any court of common pleas in the state. Given the small number of filings of this type in recent years, the change in jurisdiction would likely have no discernable effect on the expenses or revenues of county common pleas courts (including the Franklin County Court of Common Pleas).

Conservancy district levy prohibition

The bill prohibits the board of directors of a conservancy district that includes all or parts of more than 16 counties (the Muskingum Watershed Conservancy District) from levying or collecting an assessment for such a district, and also prohibits county treasurers from collecting such an assessment on land that would otherwise be subject to such an assessment. This provision would create a loss in revenue to conservancy districts for assessments that would otherwise be collected. The Muskingum Watershed Conservancy District estimates that it would collect approximately $10.5 million annually from assessments. Under the bill, the district would have to forgo collecting this projected revenue, unless the General Assembly authorizes a resumption of these assessments.

The bill declares an emergency and makes the prohibition on levying and collecting assessments immediate. In practice, the bill would have the effect of preventing any new levy scheduled to be collected starting on the first day of the next tax year (January 1, 2008) from taking effect. The purpose for the delay is to allow the General Assembly to evaluate the effects of the levies and collections on the citizens residing in such a conservancy district. The bill requires the General Assembly to evaluate the composition and duties of the board of directors of a conservancy district that includes all or parts of 16 counties, as well as the levying and collection of assessments in such a district, and the economic burden on the citizens in the district. The purpose of this evaluation is to determine whether to enact legislation to revise the laws governing such districts by June 30, 2008.

There will be a revenue loss for the first half of local FY 2008 due to the prohibition on the collection of assessments that will effectively begin on January 1, 2008. Depending on legislative action taken by June 30, 2008, there could be a continued loss in revenue from assessments for the second half of the fiscal year and possibly beyond.

Additionally, the bill specifies that if necessary, county treasurers must revise applicable tax bills in order to come into compliance with the prohibition on conservancy district assessments. This may create additional minimal costs to county treasurers for researching the necessary changes that must be made. However, any such costs are not likely to be ongoing as the revisions would be a one-time occurrence when the bill takes effect.

Also under the bill, landowners in the conservancy district who filed an exception to an assessment on their property that was levied after January 1, 2007, and whose exception was denied, are permitted to have their denials reviewed in the Supreme Court. A notice of appeal must be filed in the Supreme Court within 30 days after the provision's effective date. Any cases brought before the Supreme Court on this matter would therefore occur in state FY 2008 and, depending on the number and duration of the cases, could continue into FY 2009. The Supreme Court could experience a minimal increase in administrative costs to handle these cases.

LSC fiscal staff: Brian Hoffmeister, Budget Analyst
Isabel Louis, Economist
Jason Phillips, Fiscal Analyst

HB0024EN.doc/rh