

Fiscal Note & Local Impact Statement

127th General Assembly of Ohio

Ohio Legislative Service Commission
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BILL: **Am. H.B. 24** DATE: **March 27, 2007**
STATUS: **As Reported by House Ways & Means** 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**

State Fiscal Highlights

- No direct fiscal effect on the state.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2007	FY 2008	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 -

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 2007 and \$97,000 in FY 2008.



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.

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