

Fiscal Note & Local Impact Statement

127th General Assembly of Ohio

Ohio Legislative Service Commission
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BILL: **H.B. 372** DATE: **October 31, 2007**
STATUS: **As Introduced** SPONSOR: **Rep. R. McGregor**
LOCAL IMPACT STATEMENT REQUIRED: **Yes**
CONTENTS: **To exempt military retirement pay from the income tax and exempt the estates of armed forces members who died while serving in a combat zone from probate fees**

State Fiscal Highlights

STATE FUND	FY 2008	FY 2009	FUTURE YEARS
General Revenue Fund			
Revenues	- 0 -	\$15 to \$22 million loss	\$15 to \$22 million loss
Expenditures	- 0 -	- 0 -	- 0 -
Various State Funds—Licensing Boards			
Revenues	Potential small loss	Potential small loss	Potential small loss
Expenditures	- 0 -	- 0 -	- 0 -

Note: The state fiscal year is July 1 through June 30. For example, FY 2007 is July 1, 2006 – June 30, 2007.

- Exempting military retirement pay from the state income tax will reduce the tax base and therefore reduce income tax revenues. However, exempting military retirement pay may reduce the amount claimed for the retirement income credit, partially offsetting the revenue reduction from the exemption. The GRF would bear 94.1% of the revenue loss.
- The bill's probate fee exemption does not appear to have any direct and readily discernible effect on state revenues and expenditures.
- Requiring state licensing boards to defer late fees and penalties for National Guard or reserve members for up to six months after they have completed service might result in some foregone licensing revenue. It would depend on the number of licensees who fit into this category.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2008	FY 2009	FUTURE YEARS
Counties, municipalities, townships, and libraries (LGF and LLGSF)			
Revenues	- 0 -	\$900,000 to \$1.4 million loss	\$900,000 to \$1.4 million loss
Expenditures	- 0 -	- 0 -	- 0 -
School districts			



LOCAL GOVERNMENT	FY 2008	FY 2009	FUTURE YEARS
Revenues	- 0 -	\$765,000 loss	\$765,000 loss
Expenditures	- 0 -	- 0 -	- 0 -
Counties – due to exemption of estates from probate fees			
Revenues		Potential probate fees loss, likely to be minimal at most	Potential probate fees loss, likely to be minimal at most
Expenditures		No apparent fiscal effect on probate court operations	No apparent fiscal effect on probate court operations
Political subdivisions with licensing responsibilities			
Revenues	Potential small loss	Potential small loss	Potential small loss
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.

- Exempting military retirement pay from the state income tax will reduce the tax base and therefore reduce income tax revenues. However, exempting military retirement pay may reduce the amount claimed for the retirement income credit, partially offsetting the revenue reduction from the exemption. The Local Government Fund (LGF) would bear 3.68% of the revenue loss and the Library and Local Government Support Fund (LLGSF) would bear 2.22% of the revenue loss.
- School district income tax revenues would be reduced due to a reduction in the tax base.
- Based on conversations that LSC fiscal staff had with certain probate judges, it does not appear that, generally speaking, the number of estates potentially exempted in any affected probate court from paying certain court service fees will be very large in any given year. Assuming that were true, it seems unlikely that the magnitude of probate court service fees lost in any affected county will exceed minimal on an ongoing basis. For the purposes of this fiscal analysis, "minimal" means an estimated revenue loss of no more than \$5,000 for any affected county per year. The bill's fee exemption provision does not appear to directly affect the annual operating expenses of any county, in particular those of the probate division of its court of common pleas.
- Requiring political subdivisions involved with professional or occupational licensing to defer late fees and penalties for National Guard or reserve members for up to six months after military service is completed might result in some foregone licensing revenue. It would depend on the number of licensees who fit into this category.

Detailed Fiscal Analysis

The bill exempts military retirement pay from the income tax, exempts estates of armed forces members who died while serving in a combat zone from probate fees, provides that reservists and National Guard members may renew their professional licenses within six months after active duty service, and extends continuing education reporting periods for National Guard members ordered to duty by the Governor.

Exemption of military retirement pay

The proposal to exempt military retirement benefits from the personal income tax would exempt the retirement benefits of approximately 38,640 retired military personnel in Ohio. The table below shows the breakdown of retired military personnel in Ohio and the benefits they received in federal fiscal year 2005 (the data include national guard retirees receiving pensions from the Department of Defense (DOD)).¹

	Retirees	Retirement Benefits	Average Benefit
Army	10,886	\$174,972,000	\$16,073
Navy/Marines	9,438	\$160,116,000	\$16,965
Air Force	17,763	\$374,604,000	\$21,089
Coast Guard	556	\$9,324,000	\$16,770
Total	38,643	\$719,016,000	\$18,607

Military retirees in Ohio received a total of \$719 million in benefit payments. The average retiree received approximately \$18,610. At an effective tax rate of 3.23%, Ohio would lose approximately \$23.2 million in revenues from the personal income tax each year that military retirement benefits are exempted. Excluding military retirement benefit payments from a taxpayer's Ohio adjusted gross income (OAGI) may reduce the amount the taxpayer could claim for the retirement income credit. If 38,643 taxpayers claiming the \$200 maximum credit were no longer able to claim the credit, then the aggregate amount of the credit claimed would fall by \$7.7 million. Depending on other credits these taxpayers may claim, tax revenue may increase by up to this amount. This would reduce the net cost of exempting military retirement benefits from the income tax. The net revenue loss may be between \$15.5 million and \$23.2 million. The GRF would bear 94.1% of the loss, the Local Government Fund would bear 3.68%, and the Library and Local Government Support Fund would bear 2.22%.

In view of the income tax rate reductions in H.B. 66 of the 126th General Assembly for fiscal years 2005 and beyond, the revenue loss due to the proposed exemption of military retirement benefits

¹ Source: Department of Defense - Office of the Actuary - DOD Statistical Report on the Military Retirement System Fiscal Year 2005.

from income tax may likely reduce in the future. Increases in the number of retirees and the benefits they receive would act to increase the size of the revenue loss.

The exemption would also reduce the tax base for some school district income taxes. The revenue loss would depend on the school districts in which the military retirees reside, the school district income tax rates for those districts, and the value of the exemptions claimed.² If an individual were in a district without a school district income tax, there would be no revenue loss due to that individual's exemption. The federal adjusted gross income (FAGI) of taxpayers in school districts with a school district income tax is approximately 10.4% of statewide FAGI and the (weighted) average school district income tax rate is approximately 1.02%.³ This percentage of income and average tax rate yield an estimated statewide school district income tax revenue loss of \$765,000.

Exemption of estates from probate fees

The bill's probate fee exemption does not appear to have any direct and readily discernible effect on state revenues and expenditures. Based on conversations that LSC fiscal staff had with certain probate judges, it does not appear that, generally speaking, the number of estates potentially exempted in any affected probate court from paying certain court service fees will be very large in any given year. Assuming that were true, it seems unlikely that the magnitude of probate court service fees lost in any affected county will exceed minimal on an ongoing basis. For the purposes of this fiscal analysis, "minimal" means an estimated revenue loss of no more than \$5,000 for any affected county per year. The bill's fee exemption provision does not appear to directly affect the annual operating expenses of any county, in particular those of the probate division of the court of common pleas.

Expired license exemptions—National Guard and reserve members

Requiring state licensing boards and political subdivisions involved with professional or occupational licensing to defer late fees and penalties for National Guard or reserve members for up to six months after military service is completed might result in some foregone late fee revenue. It would depend on the number of licensees who fit into this category.

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² There is no tax rate limit. The only stipulation by law is that the tax rate must be in increments of a quarter percent (0.25%). Currently, the minimum tax rate levied by a district is 0.50%, the maximum tax rate is 2.00%, the median tax rate is 1.00%, and the most frequently charged tax rate is 1.00%.

³ The percentage of FAGI in districts with a school district income tax and the average tax rate were calculated using information from 2004 Ohio income tax returns and 2006 school district income tax rates.