Fiscal Note & Local Impact Statement

127 th General Assembly of Ohio

Ohio Legislative Service Commission
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BILL: **H.B. 433** DATE: **April 9, 2008**

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

LOCAL IMPACT STATEMENT REQUIRED: **Yes**

CONTENTS: **Exempts up to $10,000 of the retirement income of government retirees from the personal income tax**

State Fiscal Highlights

STATE FUND	FY 2008	FY 2009	FUTURE YEARS
General Revenue Fund			
Revenues	- 0 -	- 0 -	$12.8 million loss in FY 2011 $25.6 million loss in FY 2012 $38.4 million loss in FY 2013 $51.2 million loss in FY 2014 $64.0 million loss in FY 2015
Expenditures	- 0 -	- 0 -	- 0 -

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

- The personal income tax exemption, starting at $2,000 for tax year 2010 and increasing to $10,000 for tax year 2014, for the retirement income of Ohioans retired from local, state, and federal government services will reduce state income tax revenue starting in FY 2011. The GRF will bear 94.1% of the revenue loss. The revenue loss increases as the exemption increases.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2008	FY 2009	FUTURE YEARS
Counties, municipalities, townships, and libraries (LGF, LLGSF)			
Revenues	- 0 -	- 0 -	$0.8 million loss in FY 2011 $1.6 million loss in FY 2012 $2.4 million loss in FY 2013 $3.2 million loss in FY 2014 $4.0 million loss in FY 2015
Expenditures	- 0 -	- 0 -	- 0 -
School Districts			
Revenues	- 0 -	- 0 -	$0.8 million loss in FY 2011 $1.7 million loss in FY 2012 $2.6 million loss in FY 2013 $3.5 million loss in FY 2014 $4.5 million loss in FY 2015
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 personal income tax exemption, starting at $2,000 for tax year 2010 and increasing to $10,000 for tax year 2014, for the retirement income of Ohioans retired from local, state, and federal government services will reduce state income tax revenue starting in FY 2011. The local government funds will bear 5.9% of the revenue loss. The revenue loss increases as the exemption increases.

- School district income tax revenue will be reduced due to a reduction in the tax base.

Detailed Fiscal Analysis

H.B. 433 permits taxpayers receiving state and federal government employee retirement benefits to exempt up to $10,000 in retirement benefits when computing their Ohio income tax liability. The exemption is phased in starting with tax year 2010 and retirement benefits are deductible only to the extent they are included in the taxpayer's federal adjusted gross income (the starting point for computing the taxpayer's Ohio taxable income). Eligible taxpayers may deduct $2,000 for tax year 2010, $4,000 for tax year 2011, $6,000 for tax year 2012, $8,000 for tax year 2013, and $10,000 for tax year 2014 and each year thereafter. The exemption is available to all local, state, and federal retired employees covered by the five Ohio retirement systems—Public Employee Retirement System (PERS), State Teachers Retirement System (STRS), School Employee Retirement System (SERS), Ohio Police & Fire Pension Fund (OP&F), and Highway Patrol Retirement System (HPRS) —and the Federal Employees Retirement System or Federal Civil Service Retirement System.

The exemption will reduce the income tax base, resulting in a reduction in income tax revenue. The reduction in state income tax revenue was estimated at $13.6 million for tax year 2010, increasing to $68.0 million for tax year 2014. Revenue reductions for a given tax year are assumed to fall in the following fiscal year. The reductions in state income tax revenue will be shared by the General Revenue Fund (GRF), the Local Government Fund (LGF), and the Library and Local Government Support Fund (LLGSF). The GRF will bear 94.1% of the revenue reductions, the LGF will bear 3.68%, and the LLGSF will bear 2.22%.

The school district income tax, as originally designed, uses the same income base as the state income tax.[1] Exempting parts of the retirement income from the state income tax could also reduce revenues to those districts levying the school district income tax against the same income base as the state income tax.

The exemption of up to $10,000 of retirement income may reduce the amount that the taxpayer may claim for the retirement income credit. The maximum retirement income tax credit that can be claimed is $200 for retirement income of $8,000 and above. The average retirement benefit of government retirees is more than this maximum income limit, even after the proposed maximum deduction of $10,000. Thus, the amount of retirement tax credit that can be claimed is assumed to be unaffected by the exemption.

The following table provides information about the exemption and its effects on tax revenues. The first column contains the tax year of the exemption and the fiscal year in which the revenue reduction is assumed to occur. The second column contains an estimate of the number of retirees eligible for the exemption. The next column is the estimated average benefit for the retirees. The fourth column is the amount of the exemption. The next three columns contain the estimated reductions in state income tax revenue (in millions of dollars) allocated between the GRF and the local government funds (LGF and LLGSF). The estimated total state

[1] Am. Sub. H.B. 66 of the 126th General Assembly permits a school district to levy the school district income tax against an alternative tax base that includes only the earned income and self-employment income of school district residents. As of January 2008, 13 districts have adopted this alternative tax base.

revenue reduction is the product of the estimated number of retirees, the exemption amount, and the effective tax rate for the $20,000 to $40,000 tax bracket. The final column contains the estimated reductions (in millions of dollars) in school district income tax (SDIT) revenues. The estimated SDIT revenue reduction is the product of the estimated number of retirees, the exemption amount, the statewide percent of income from school districts levying an income tax, and the average school district income tax rate.

Exempting State and Federal Government Retirement Benefits

				State Revenue Reduction			
Tax Year/Fiscal Year	Retirees	Average Benefit	Exemption	Total	GRF	Local Funds	SDIT
2010/2011	403,728	$31,312	$2,000	$13.6	$12.8	$0.8	$0.8
2011/2012	413,429	$31,559	$4,000	$27.2	$25.6	$1.6	$1.7
2012/2013	423,392	$31,807	$6,000	$40.8	$38.4	$2.4	$2.6
2013/2014	433,624	$32,055	$8,000	$54.4	$51.2	$3.2	$3.5
2014/2015	444,133	$32,304	$10,000	$68.0	$64.0	$4.0	$4.5

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