Fiscal Note & Local Impact Statement

127 th General Assembly of Ohio

Ohio Legislative Service Commission
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BILL: **S.B. 19** DATE: **May 14, 2007**

STATUS: **As Introduced** SPONSOR: **Sen. Cates**

LOCAL IMPACT STATEMENT REQUIRED: **Yes**

CONTENTS: **To exempt military retirement pay from the personal income tax**

State Fiscal Highlights

STATE FUND	FY 2008	FY 2009	FUTURE YEARS
General Revenue Fund			
Revenues	$14.2 million loss	$13.5 million loss	$12.6 million 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.

- Income tax exemption reduces the income tax base, thus reducing state income tax revenue.
- Exemption may reduce the amount claimed for retirement income credit.
- GRF revenue loss is calculated based on current Revised Code percentage (89.5%) of personal income tax revenue.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2008	FY 2009	FUTURE YEARS
Local Government Funds – LGF, LLGSF, LGRAF			
Revenues	$1.7 million loss	$1.6 million loss	$1.5 million loss
Expenditures	- 0 -	- 0 -	- 0 -
School districts			
Revenues	$1.2 million loss	$1.2 million loss	$1.2 million 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.

- Income tax exemption reduces the income tax base, thus reducing state income tax revenue.
- Exemption may reduce the amount claimed for retirement income credit.
- Losses to local government funds are calculated based on current Revised Code percentages (LGF at 4.2%, LLGSF at 5.7%, and LGRAF at 0.6%) for distributing personal income tax revenue.

- School district income tax revenue is reduced due to a reduction in its tax base.

Detailed Fiscal Analysis

The proposed exemption of military retirement benefits from the personal income tax would benefit approximately 38,640 retired military personnel living in Ohio (as of 2005). Under current law, military retirement benefits are included in a taxpayer's Ohio adjusted gross income (OAGI), and taxpayers receiving retirement income may be eligible for a credit of up to $200.[1] Table 1 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). Data on retired military personnel living in Ohio and the total retirement benefit received by them were obtained from the Department of Defense, Office of the Actuary for FY 2005 (latest year available).

Table 1: Military Retirement Benefits – Ohio 2005

	Number of Retirees Paid by DOD	Total Benefits Received (in millions)	Average Benefit
Army	10,886	$175.0	$16,073
Navy/Marines	9,438	$160.1	$16,965
Air Force	17,763	$374.6	$21,089
Coast Guard	556	$9.3	$16,770
Total	38,643	$719.0	$18,607

The revenue loss due to the exemption depends on the amount of military retirement benefits exempted from taxation. A growth rate of 2.63% was applied to the benefits reported for 2005 to project future benefits. This reflects the forecasted population growth in the age group 65 to 69 years.[2] At average effective tax rates based on the scheduled reductions in H.B. 66 of the 126th General Assembly (2.96% in FY 2008 and 2.80% in FY 2009), the estimated revenue loss to the personal income tax would be approximately $24.2 million in FY 2008 and $23.6 million in FY 2009. However, excluding military retirement benefit payments from a taxpayer's OAGI may reduce the amount the taxpayer could claim for the retirement income credit. If 38,640 taxpayers claiming the $200 maximum credit were no longer able to claim the credit, then there would have been a revenue gain of $7.7 million in 2005. Assuming that the military retirees do not have any other source of retirement income to declare under OAGI that may be eligible for retirement income credit, and using the projected number of retirees, the maximum revenue gain from the foregone retirement income credit was estimated for FYs 2008 and 2009. This amount was subtracted from the direct loss due to the exemption. The resulting net revenue loss of exempting military retirement benefits from the income tax was thus estimated at $15.8 million in FY 2008 and at $15.0 million in FY 2009. The GRF share, calculated at

[1] Taxpayers receiving retirement benefits, annuities, or distributions from a retirement or profit sharing plan, which are included in OAGI, are allowed a credit based on the amount of retirement income received during the taxable year. The $200 maximum credit is available to taxpayers with more than $8,000 in "qualifying retirement income."

[2] Source: Global Insight, January 2007.

the current Revised Code percentage (89.5%) is $14.2 million for FY 2008 and $13.5 million for FY 2009.

Local impact analysis

Based on current Revised Code percentages for income tax revenue distribution, the Library and Local Government Support Fund (5.7%), Local Government Fund (4.2%), and Local Government Revenue Assistance Fund (0.6%) are estimated to have a combined loss of revenue of $1.7 million in FY 2008 and $1.6 million in FY 2009.

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. 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 FAGI of taxpayers in school districts with a school district income tax is approximately 10.5% of statewide FAGI and the (weighted) average school district income tax rate is approximately 1.44%. This percentage and average tax rate yield an estimated statewide school district income tax revenue loss of $1.17 million for FY 2008 and $1.2 million for FY 2009, with a moderate increase in future years.

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