

Fiscal Note & Local Impact Statement

127th General Assembly of Ohio

Ohio Legislative Service Commission
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BILL: **S.B. 162** **DATE:** **November 13, 2007**
STATUS: **As Introduced** **SPONSOR:** **Sen. Stivers**
LOCAL IMPACT STATEMENT REQUIRED: **Yes**
CONTENTS: **Exempts unearned income from the personal income tax for taxpayers who are 65 years of age or older and eliminates the \$50 per return tax credit for taxpayers who are 65 years of age or older**

State Fiscal Highlights

STATE FUND	FY 2008	FY 2009	FUTURE YEARS
General Revenue Fund			
Revenues	\$594.6 million loss	\$520.7 million loss	Potential increase in loss
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.

- Exempting the unearned income of taxpayers age 65 and above will reduce the income tax base, thus reducing state income tax revenue.
- Elimination of the \$50 credit will act to reduce the revenue loss. Additionally, the exemption may reduce the amount claimed for the retirement income credit, thus reducing the revenue loss.
- The General Revenue Fund would bear 94.1% of the revenue loss.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2008	FY 2009	FUTURE YEARS
Counties, municipalities, townships, and libraries (LGF, LLGSF)			
Revenues	\$37.3 million loss	\$32.6 million loss	Potential increase in loss
Expenditures	- 0 -	- 0 -	- 0 -
School Districts			
Revenues	\$45.9 million loss	\$49.5 million loss	Potential increase in 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 the unearned income of taxpayers age 65 and above will reduce the income tax base, thus reducing state income tax revenue. Elimination of the \$50 credit will act to reduce the revenue loss. Additionally, the exemption may reduce the amount claimed for the retirement income credit, thus reducing the revenue loss. 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.

Detailed Fiscal Analysis

The bill exempts from the Ohio personal income tax all unearned income of taxpayers who are 65 years old or older. Additionally, the senior citizens credit of \$50 per taxpayer and the corresponding tax credit for lump sum distribution of retirement income are eliminated. The net impact of these proposals on income tax revenue is an estimated loss of \$631.9 million in FY 2008 (for tax year 2007) and \$553.4 million in FY 2009 (for tax year 2008). 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%.

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 taxpayers claiming the exemption reside, the school district income tax rates for those districts, and the value of the exemptions claimed.¹ 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 1.44%.² This percentage of income and average tax rate yield an estimated statewide school district income tax revenue loss of \$45.9 million for FY 2008 and \$49.5 million for FY 2009.

For estimating the fiscal impact of the proposal, "unearned income" of the senior citizens is defined as any income that is not "earned income." Earned income is defined by the bill as salaries, wages, tips, deferred compensation, other employee compensation, and net earnings from self-employment. Unearned income includes retirement benefits.

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¹ 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%.

² 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.