Ohio Legislative Service Commission

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# Fiscal Note & Local Impact Statement

**Bill**: H.B. 188 of the 128th G.A.

**Date**: April 15, 2010

**Status**: As Passed by the House

**Sponsor**: Reps. Stautberg and Ujvagi

**Local Impact Statement Procedure Required**: No — Minimal cost

**Contents**: To exempt retirement pay related to service in the Commissioned Corps of the National Oceanic and Atmospheric Administration and the Commissioned Corps of the Public Health Service from the personal income tax

## State Fiscal Highlights

| STATE FUND | FY 2010 | FY 2011 | FUTURE YEARS |
|---|---|---|---|
| **General Revenue Fund** | | | |
| Revenues | - 0 - | Potential loss of approximately $153,000 | Potential loss of approximately $152,000 |
| Expenditures | - 0 - | - 0 - | - 0 - |

Note: The state fiscal year is July 1 through June 30. For example, FY 2010 is July 1, 2009 – June 30, 2010.

- The exemption provision will reduce the state personal income tax base, consequently decreasing income tax receipts. The GRF would bear 94.35% of the revenue loss in FY 2011, and 94.1% of the total revenue loss in subsequent fiscal years.

## Local Fiscal Highlights

| LOCAL GOVERNMENT | FY 2010 | FY 2011 | FUTURE YEARS |
|---|---|---|---|
| **Counties, municipalities, townships, and libraries (LGF and PLF)** | | | |
| Revenues | - 0 - | Potential loss of approximately $9,000 | Potential loss of approximately $10,000 |
| 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 exemption provision will reduce the state personal income tax base, consequently decreasing income tax receipts. The Local Government Fund (LGF) would bear 3.68% of the revenue loss. The Public Library Fund (PLF) would bear 1.97% of the revenue loss in (state) FY 2011, and 2.22% of the revenue loss in subsequent state fiscal years.

# Detailed Fiscal Analysis

The bill proposes to exempt retirement pay related to service in the Commissioned Corps of the National Oceanic and Atmospheric Administration (NOAA) or the Public Health Service (PHS) from the Ohio personal income tax. The bill will reduce the state personal income tax base, thus decreasing personal income tax receipts.

## Fiscal effect

According to U.S. Department of Defense data as of February 25, 2009, there were 114 PHS retirees and 15 PHS survivors living in Ohio. The retirees and survivors received a total of $8.0 million in retirement and survivor benefits in 2008 or an average of $62,160 per retiree. In addition, there were a total of two NOAA Corps retirees living in Ohio, who received a total of $123,864 in retirement benefits in 2008 or an average of $61,932.

The proposed exemption would exempt approximately $8.1 million of retirement and survivors benefits for 131 such retirees and survivors per year. Assuming a tax year 2009 effective tax rate of 2.311%, it would reduce state personal income tax revenue by approximately $188,174 per year. However, currently Ohio taxpayers may claim up to $200 in retirement income credit. If all of the NOAA Corps and PHS Corps retirees were no longer able to claim that credit, it would reduce the revenue loss by $26,200. The net loss of the proposed exemption would be $161,974 per year.

In FY 2011, the GRF would bear 94.35% of the revenue loss while the remaining 3.68% and 1.97% would be borne by the Local Government Fund (LGF) and Public Library Fund (PLF), respectively, due to a temporary funding provision for the PLF in the current state operating budget bill, H.B. 1 of the 128th General Assembly. H.B. 1 suspended the statutory percentage for the PLF, lowering the funding share to 1.97% of total GRF tax revenue received in the preceding month, in each month from August 2009 through June 30, 2011. After that period, the monthly deposits for the PLF will be based on the statutory formula, unless the General Assembly makes additional changes. Therefore, after FY 2011, the GRF would bear 94.1% of the total revenue loss while the LGF and PLF would bear 3.68% and 2.22% of the revenue loss, respectively. In FY 2011, the state GRF would bear approximately $152,822 of the total revenue loss while the remaining $9,151 would fall on local governments by way of lesser distributions from the LGF and PLF. In subsequent fiscal years, the GRF would bear about $152,418 of the annual loss, while the local government funds would lose a combined $9,556.

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