Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: H.B. 318 of the 128th G.A.

Date: October 19, 2009

Status: As Introduced

Sponsor: Rep. Sykes

Local Impact Statement Procedure Required: No – minimal cost

Contents: Postpones state personal income tax rate reduction for two years and reduces legislators' pay

State Fiscal Highlights

STATE FUND	FY 2010	FY 2011	FUTURE YEARS
General Revenue Fund			
Revenues	$405 million to $416.1 million gain	$420 million to $428.3 million gain	- 0 -
Expenditures	$285.2 million increase	$566.0 million increase	$0.6 million reduction
Lottery Profits Education Fund (Fund 7017)			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	$285.2 million decrease	$566.3 million decrease	- 0 -

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

- The bill delays the reduction in personal income tax rates scheduled for tax year (TY) 2009 by two years. Most (94.35%) of the resulting increase in revenues is retained by the GRF.
- The 5% reduction to legislators' pay will reduce GRF expenditures in the second half of FY 2011 and all of FY 2012 and thereafter.
- Expenditures from the Lottery Profits Education Fund are reduced $851.5 million for the biennium and expenditures from the GRF for foundation funding are increased by the same amount.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2010	FY 2011	FUTURE YEARS
Local Government Funds			
Revenues	$24 million to $24.9 million gain	$25 million to $25.6 million gain	- 0 -
Expenditures	- 0 -	- 0 -	- 0 -
Municipal Corporations, School Districts			
Revenues	- 0 -	Minimal loss	Minimal 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.

- Delaying the reduction in personal income tax rates scheduled for TY 2009 by two years increases revenues to the Local Government Fund and the Public Library Fund by 5.65% of the total increase in income tax revenues in the current biennium.
- The reduction in legislators' pay beginning in January 2011 would result in a minimal decrease in income tax revenues of municipal corporations and school districts where the legislators reside.

Detailed Fiscal Analysis

The bill delays the last of five reductions in state personal income tax rates that were enacted in H.B. 66 of the 126th General Assembly, and reduces pay of state Senators and Representatives by 5%. In addition, the bill reduces the appropriation from the Lottery Profits Education Fund (Fund 7017), used for foundation funding payments by the Department of Education, by about $851.5 million for the biennium and increases funding for GRF line item 200550, Foundation Funding, by the same amount.

Delay of personal income tax rate reduction

H.B. 66 of the 126th General Assembly reduced state personal income tax rates by 21% in approximately equal increments, 4.2 percentage points each year, over the five years from tax year (TY) 2005 through TY 2009. H.B. 318 delays the last of these rate reductions from TY 2009 to TY 2011, holding tax rates unchanged in TY 2009 and TY 2010 at the TY 2008 levels. The TY 2009 personal income taxes, with returns generally due April 15, 2010, are the main determinants of FY 2010 receipts from this tax. Similarly, TY 2010 personal income taxes correspond to FY 2011 receipts.

LSC estimates that deferring the TY 2009 personal income tax rate reduction until TY 2011 will increase personal income tax revenues to all funds by $429 million in FY 2010 and by $445 million in FY 2011, a total of $874 million for the current biennium. Of these amounts, 5.65% will be paid to the Local Government Fund and the Public Library Fund. This will result in the two local government funds receiving an additional $24 million in FY 2010 and $25 million in FY 2011, a total of $49 million. The GRF will retain the remaining 94.35%, an estimated $405 million in FY 2010 and $420 million in FY 2011, a total of $825 million for the biennium.[1]

These estimates are based on forecasts presented in LSC's testimony before the General Assembly's Conference Committee in June, updated to take account of TY 2007 tax data released by the Department of Taxation. The estimates are not adjusted downward for any tax avoidance behavior on the part of taxpayers that might occur in response to retaining the current higher tax rates. They also assume indexing of tax brackets for inflation beginning in TY 2010, as provided in current law, unchanged by the bill.

Estimates provided to LSC by the Department of Taxation show somewhat higher gains in personal income tax revenue, on an all-funds basis, of $441 million in FY 2010 and $453.9 million in FY 2011. Out of these totals, the GRF retains $416.1 million in FY 2010 and $428.3 million in FY 2011. The local government funds receive additional amounts of $24.9 million in FY 2010 and $25.6 million in FY 2011.

[1] These estimates are not adjusted for any delays in collection of the additional amounts owed.

The bill, in addition, increases the tax credit on returns reporting Ohio taxable income of $10,000 or less from $88 to $93, for TYs 2009 and 2010. Under current law, the $88 credit offsets the maximum tax that would be owed on returns reporting incomes at that level or lower, at the TY 2009 tax rates, ensuring that those persons pay no personal income tax. The $93 credit offsets the maximum tax that would be owed at the TY 2008 tax rates, held unchanged by the bill in TY 2009 and TY 2010. This change is thus necessary to hold unchanged at zero the personal income taxes owed by persons with Ohio taxable income of $10,000 or less in TY 2009 and TY 2010.

Pay cut for legislators

The bill reduces the salaries of legislators specified in R.C. 101.27 by 5%. This includes base pay of Senators and Representatives, indexed for inflation through 2008 from 2001 levels, and pay increments for chairpersons, vice-chairpersons, and ranking minority members of standing committees and standing subcommittees. These pay amounts total approximately $9 million. Consequently, a 5% reduction lowers pay by about $0.45 million each year. Under the Ohio Constitution, legislators are prohibited from changing their compensation during their terms of office. Consequently, the pay reductions will not go into effect until the 129th General Assembly, in January 2011. Pay will be reduced in FY 2011 by about $0.23 million.

Reduction of legislators' salaries by $0.23 million will result in additional savings to the GRF for the cost of benefits. The largest of these is state matching contributions to the Public Employees Retirement System toward legislators' retirement funds, in an amount equal to 14% of pay. Others include the cost to the state for premiums on life insurance, paid by the state for an amount of coverage equal to one year's salary, workers' compensation premiums, and accrual of leave for sick pay. These additional savings raise the total estimated cost savings to the state to about $0.3 million. Not included are state payments for benefits that do not vary with the amount of the employees' pay. The state's share of medical insurance premiums, for example, does not vary with the amount of the employee's pay.

Legislators pay school district income taxes and municipal income taxes based on their location of residence, not their place of work. A 5% cut in legislators' pay will reduce income tax revenues to those school districts and municipal corporations in which the legislators reside. The amounts of these reductions in local tax revenues will generally be quite small relative to total collections for these governments from these taxes.

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