Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: H.B. 400 of the 128th G.A. **Date**: January 13, 2010

Status: As Introduced **Sponsor**: Rep. J. Adams

Local Impact Statement Procedure Required: Yes

Contents: Phases out the personal income tax over ten years

State Fiscal Highlights

STATE FUND	FY 2010	FY 2011	FUTURE YEARS
General Revenue Fund			
Revenues	- 0 -	Loss of $768 million	Increasing losses
Expenditures	- 0 -	- 0 -	- 0 -
Local Government Fund (Fund 7069)			
Revenues	- 0 -	Loss of $30 million	Increasing losses
Expenditures	- 0 -	Decrease of $30 million	Increasing reductions
Public Library Fund (Fund 7065)			
Revenues	- 0 -	Loss of $16 million	Increasing losses
Expenditures	- 0 -	Decrease of $16 million	Increasing reductions

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

- The phase out of the personal income tax over 10 years would reduce revenue to the General Revenue Fund and the local government funds, totaling an estimated $814 million in FY 2011 and rising to more than $12 billion by FY 2020, of which approximately $11.5 billion is GRF.
- Revenue losses to the local government funds would result in equivalent reductions in expenditures by those funds.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2010	FY 2011	FUTURE YEARS
Counties, Other Local Governments, Public Libraries			
Revenues	Loss of $46 million	Loss of $79 million	Increasing losses
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.

- Reductions in expenditures by the state's local government funds, as a result of the phase out of the personal income tax, would result in reduced revenues to counties, municipal corporations, other units of local government, and public libraries. Revenue losses to local governments rise to more than $700 million by FY 2020.

- The estimated tax year 2010 revenue loss is shown in the table above as the FY 2010 local government revenue loss. The bill does not specify this timing. It is approximately consistent with an assumption that withholding and estimated tax payments are reduced enough in the second half of calendar year 2010 to result in the 10% tax cut for the full year specified in the bill.

Detailed Fiscal Analysis

The As Introduced version of H.B. 400 amends Section 5747.02 of the Revised Code as it was worded prior to H.B. 318, which was signed into law by the Governor on December 22, 2009. The base for the phase-out of the personal income tax in H.B. 400 is the tax rates and bracket amounts in tax year (TY) 2009, after the full 21% rate reduction enacted in H.B. 66 of the 126th General Assembly. However, the changes in H.B. 318 hold the rates and bracket amounts in TY 2009 unchanged from those in TY 2008, and delay the last of the five rate reductions until TY 2011. In what follows, the base for the phase-out in H.B. 400 is assumed to be the rates and bracket amounts in Section 5747.02 for TY 2009 following application of H.B. 318. If, alternatively, the rates and bracket amounts for TY 2009 as stated in H.B. 400, were to serve as the base, taxes owed would be lower and revenue losses would be higher than those indicated below. Future drafts of the bill would be based on current law including the changes made by H.B. 318, and so would eliminate the need to make an assumption, in writing the fiscal note, about reconciliation of the bill and current law.

H.B. 400 phases out the personal income tax by requiring that taxpayers in future years calculate their taxes using the rates and bracket amounts for TY 2009, then subtract nonrefundable credits to which the taxpayer is entitled, and multiply the result of this calculation by 90% for TY 2010, 80% for TY 2011, and by percentages reduced by ten percentage points for each succeeding tax year, until the tax is eliminated in TY 2019 and thereafter. In what follows, TY 2010 personal income tax revenues are assumed to be the principal determinant of FY 2011 revenues from that tax, and similarly for subsequent years. Consequently, the phase-out of the tax in TY 2019 is approximately equivalent to phasing out the tax in FY 2020 (apart from any delayed revenues from sources such as enforcement actions or amended returns).

The projections for revenue losses that follow for FY 2012 and FY 2013 are not derived from official LSC forecasts for the next biennium. They are based on Global Insight's baseline forecast released in October 2009, applied to a model of revenue collections that LSC used in forecasting revenues for H.B. 1. This forecast shows an upturn in growth of personal income tax receipts, on an all-funds basis, of 7.5% in FY 2012, followed by growth of 6.7% in FY 2013.

The provisions of H.B. 400 would reduce personal income tax revenues, on an all-funds basis, in FY 2011 by an estimated $814 million, in FY 2012 by an estimated $1.35 billion, in FY 2013 by an estimated $2.37 billion, and by increasing amounts in subsequent years, rising to more than $12 billion in FY 2020. Revenue losses to the GRF would be an estimated $768 million in FY 2011, an estimated $1.27 billion in FY 2012, an estimated $2.23 billion in FY 2013, and increasing amounts thereafter. Revenue losses to the Local Government Fund (LGF) would be an estimated $30 million in FY 2011, $49 million in FY 2012, $87 million in FY 2013, and increasing amounts thereafter.

Revenue losses to the Public Library Fund (PLF) would be an estimated $16 million in FY 2011, $30 million in FY 2012, $53 million in FY 2013, and increasing amounts thereafter. These local government funds distribute their revenues to counties, municipal corporations, other units of local government, and public libraries.

These estimates do not take account of any private sector responses to the tax rate reductions. Lower tax rates might lead individuals and organizations to shift the timing and location of income recognition, to take advantage of the more favorable tax rates in Ohio. The lower tax rates might also lead to different choices between income and leisure, encouraging increased economic activity and higher saving and investing. Other indirect effects might also result from the loss of state personal income tax revenue. The magnitudes of such indirect effects are, in general, outside the scope of LSC fiscal notes.[1]

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[1] Estimates of the magnitudes of private-sector responses to changes in tax rates range widely. See, for example, Emmanuel Saez, et. al, "The Elasticity of Taxable Income with Respect to Marginal Tax Rates: A Critical Review," National Bureau of Economic Research Working Paper 15012, May 2009.