



Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: Am. Sub. S.B. 194 of the 128th G.A. **Date:** May 11, 2010
Status: As Enacted **Sponsor:** Sen. Kearney

Local Impact Statement Procedure Required: No

Contents: Permits an individual taxpayer to direct the state to transmit an income tax refund directly to taxpayer's checking, savings, or individual retirement account or individual retirement annuity if the taxpayer files a return electronically

State Fiscal Highlights

STATE FUND	FY 2011	FY 2012	FUTURE YEARS
General Revenue Fund			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Potential small increase or decrease	Potential small increase or decrease	Potential small increase or decrease

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

- The bill requires that the Department of Taxation, if so directed by a taxpayer, transmit the taxpayer's refund by direct deposit to a checking, savings, or individual retirement account or individual retirement annuity, for returns filed electronically.
- By broadening the Department's current program to include deposits to individual retirement accounts, the bill may induce more taxpayers to file electronically, potentially decreasing the Department's costs.
- The Department would incur minor upfront costs and no more than nominal ongoing costs to administer the provisions of this bill.
- To the extent that the bill leads taxpayers to increase their participation in tax-deferred retirement accounts, it could initially reduce taxable income and state income tax revenues.

Local Fiscal Highlights

- To the extent that the bill leads taxpayers to increase their participation in tax-deferred retirement accounts, it could initially reduce taxable income and income tax revenues, resulting in revenue losses to the state's local government funds, which distribute money to counties, other units of local government, and public libraries.

Detailed Fiscal Analysis

The bill permits a taxpayer to direct the Department of Taxation to deposit any state personal income tax refund owed to the taxpayer directly in a checking or savings account or an individual retirement account or individual retirement annuity, as designated by the taxpayer. This option is to be available to the taxpayer if the return is filed electronically.

Currently, a taxpayer who files electronically may specify that the Department of Taxation is to direct deposit any refund owed to the taxpayer. Direct deposit is not available for paper-filed returns. The direct deposit is to be to a checking or savings account and is less costly for the Department than a refund by issuance of a paper check mailed to the taxpayer.

The Department indicated that it would incur some minor upfront costs for this bill, mostly for programming. No specific dollar figure was estimated for these costs, but they were thought likely to be no more than \$50,000 and perhaps much less than this. Ongoing costs to the Department to administer the change made by the bill were characterized as no more than nominal, and could be partly offset, or more than offset, by savings from increased electronic filing.

More electronic filing reduces costs for the Department. The speed and convenience of a direct deposited refund currently is a "carrot" to induce taxpayers to file electronically, which reduces the Department's administrative costs. By adding individual retirement accounts to the types of accounts to which taxpayers may direct deposit their refunds, the bill may increase electronic filing, which would reduce the Department's costs. LSC staff are uncertain whether this provision would provide sufficient incentive to change taxpayer behavior. In tax year 2008, out of about 5.4 million Ohio personal income tax returns, about 4.1 million, or 76%, claimed refunds. Many might wish to spend their refunds, rather than save them, so might not change their behavior in response to the additional alternatives that the bill would make available.

To the extent that the bill increases participation in tax-deferred retirement accounts, it may initially reduce taxable income and state income tax revenues. These possible indirect losses of income tax revenues would be offset in future years, when funds are withdrawn from the tax-deferred retirement accounts and are taxed. Any initial reduction in total income tax revenues would reduce revenues to the local government funds as well as the GRF.