Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: S.B. 194 of the 128th G.A. **Date**: January 12, 2010

Status: As Introduced **Sponsor**: Sen. Kearney

Local Impact Statement Procedure Required: No

Contents: Income tax refund - transmit directly to taxpayer's savings or retirement account

State Fiscal Highlights

STATE FUND	FY 2010	FY 2011	FUTURE YEARS
General Revenue Fund			
Revenues	- 0 -	Potential loss	Potential loss
Expenditures	- 0 -	Potential increase	Potential increase

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

- The bill's requirement that the Department of Taxation, if so directed by a taxpayer, transmit the taxpayer's refund by direct deposit to a savings or retirement account, for returns filed on paper as well as electronically or telephonically, is expected to increase the Department's administrative costs.
- The potential increase in the number of taxpayers receiving refunds by direct deposit, and the related magnitude of the increase in Department of Taxation costs, appears indeterminate at this time.
- To the extent that the bill increases participation in tax-deferred retirement accounts, it may initially reduce taxable income and state income tax revenues.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2010	FY 2011	FUTURE YEARS
Counties, Other Local Governments, Public Libraries			
Revenues	- 0 -	Potential loss	Potential 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.

- To the extent that the bill increases participation in tax-deferred retirement accounts and, initially, reduces taxable income, it may reduce revenues to the state's local government funds, which distribute funds 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 savings account, a cash or deferred arrangement account described in subsection 401(k) of the Internal Revenue Code, an individual retirement account or individual retirement annuity, or, in the case of a taxpayer who is self-employed for the purposes of subsection 401(c) of the Internal Revenue Code, a trust that is a qualified plan under section 401 of the Internal Revenue Code ("Keogh" plan), as designated by the taxpayer. This option is to be available to the taxpayer regardless of whether the taxpayer files a paper return or transmits the return electronically or telephonically.

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 now available for paper-filed returns. The direct deposit is to be to a checking or savings account with a bank routing number. These refunds deposited directly to taxpayers' checking or savings accounts are less costly for the Department of Taxation than refunds by issuance of paper checks mailed to taxpayers. More electronic filing with direct deposits of refunds to checking or savings accounts would reduce costs for the Department.

On the other hand, many IRA's, 401-k's, and other retirement accounts are with entities other than banks, such as mutual funds. The nonbank financial institutions will have banking relations for transfers of funds. Bank routing numbers and the nonbank financial institutions' account numbers, plus other information needed for direct transfers to accounts of individuals with these entities generally will exist, though such transfers may be subject to restrictions that may vary by institution. Requiring the Department of Taxation to accept directives for direct deposits into accounts with nonbank financial institutions may result in added complexity for the Department's administration of the income tax, with taxpayers potentially looking to the Department for help in filling in the needed information, and perhaps in recovering deposits that were routed to an account other than the intended account. The requirement that the Department permit direct deposits with paper-filed returns would add to coding requirements, to transcribe routing information submitted on the paper returns into electronic form, and may on balance also add to costs. Consequently, the bill could potentially increase, not decrease, the Department's costs.

A contact with the Department indicated that the bill would unquestionably increase the Department's costs. 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. This inducement would be lost with the bill, which allows direct deposits of refunds to certain accounts with paper-filed returns.

Implementation of the bill's provisions would require upfront programming costs to accommodate the expanded refund deposit option, as well as ongoing costs.

The potential magnitude of increased costs would depend on how many taxpayers chose to participate in this program, as well as the associated fixed costs. Internal Revenue Service data for 2007 indicate that 3.1% of returns nationwide for that year deducted contributions to traditional IRA and Keogh plans in calculating their taxable income. Data published on the IRS web site do not appear to include a comparable level of detail for Ohio. In addition to traditional IRA and Keogh plans, S.B. 194 would allow taxpayers to direct that refunds be direct deposited to Roth IRA accounts, contributions to which are not subtracted from income for federal income tax purposes. Also, taxpayers who file their Ohio income taxes using paper returns would be permitted under the bill to direct that the Department of Taxation direct deposit refunds to savings accounts. This could increase the number of taxpayers receiving refunds that are direct deposited to savings accounts, since only electronic filers may receive their refunds in this way currently. The potential number of persons who might specify that the Department direct deposit their refunds is clearly quite large. In tax year 2007, out of about 5.5 million Ohio personal income tax returns, nearly 3.9 million or 70% claimed refunds. Many, however, 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 reduce taxable income and state income tax revenues. These losses of income tax revenues would be offset in future years, when funds are withdrawn from the tax-deferred retirement accounts and are taxed.

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