Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: Sub. S.B. 194 of the 128th G.A.

Date: February 25, 2010

Status: As Passed by the Senate

Sponsor: Sen. Kearney

Local Impact Statement Procedure Required: No

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

State Fiscal Highlights

STATE FUND	FY 2010	FY 2011	FUTURE YEARS
General Revenue Fund			
Revenues	- 0 -	- 0 -	- 0 -
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 amount of this increase in Department of Taxation costs appears indeterminate at this time.
- 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 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 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 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 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. Errors and complications associated with the proposed direct deposit option could be expected to absorb an unknown, but potentially significant, amount of taxpayer agent time and effort. Service to taxpayers might deteriorate, resulting for example in longer call waiting times for assistance. This situation might not improve much over time as a result of efforts by the Department to educate taxpayers, because of changes in taxpayers' accounts and their choices about where to direct their refunds.

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 2.3% of returns nationwide for that year deducted contributions to traditional IRA 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 plans, S.B. 194 appears to 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 refund 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 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.

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