Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: Am. H.B. 58 of the 129th G.A. **Date**: February 11, 2011

Status: As Reported by House Ways & Means **Sponsor**: Rep. Beck

Local Impact Statement Procedure Required: Yes

Contents: Incorporates into Ohio income tax law changes to the Internal Revenue Code since December 15, 2010 and declares an emergency

State Fiscal Highlights

STATE FUND	FY 2011	FY 2012	FUTURE YEARS
General Revenue Fund			
Revenues	$14.3 million loss	$23.2 million loss	$10.9 million loss in FY 2013; diminishing annual losses after FY 2013
Expenditures	- 0 -	- 0 -	- 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 reduces Ohio Adjusted Gross Income and decreases revenue from the personal income tax (PIT). Revenue from the PIT is distributed to the GRF at 94.35% in FY 2011 under H.B. 1, and 94.1% under permanent law.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2011	FY 2012	FUTURE YEARS
Counties, Municipalities, Townships, and Libraries			
Revenues	$0.9 million loss	$1.5 million loss	$0.7 million loss in FY 2013; diminishing annual losses after FY 2013
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.

- Receipts from GRF taxes are distributed in part to the Local Government Fund (3.68%) and the Public Library Fund (1.97% in FY 2011 under H.B. 1, and 2.22% under permanent law). Thus, the reduction in PIT receipts would decrease distributions to the two funds.

Detailed Fiscal Analysis

The bill incorporates changes to the Internal Revenue Code (IRC) since December 15, 2010 to Ohio income tax law. Conforming Ohio law to the IRC is expected to reduce state income tax revenue, on an all-funds basis, by $15.2 million in FY 2011, $24.7 million in FY 2012, and $11.6 million in FY 2013. Revenue losses will gradually diminish in years after 2013. The estimates are from the Department of Taxation. Under permanent law, tax revenue is distributed to the GRF at 94.1% (94.35% in FY 2011),[1] the Local Government Fund at 3.68%, and the Public Library Fund at 2.22% (1.97% in FY 2011). Thus, GRF losses, based on distribution of state tax revenue, would be $14.3 million in FY 2011, $23.2 million in FY 2012, and $10.9 million in FY 2013. Losses to the two local government funds would total, respectively, $0.9 million, $1.5 million, and $0.7 million.

H.R. 4853, the federal "Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010" (TRUIRaJCA), was signed into law December 17, 2010. This federal law was enacted after Ohio Revised Code section 5701.11 was last amended (H.B. 495, signed December 15, 2010). Ohio income tax returns start with the federal adjusted gross income (FAGI). The new federal income tax law contains numerous individual and business provisions that reduce FAGI. The bill allows those changes amending FAGI in the TRUIRaJCA to be incorporated into the definition of Ohio adjusted gross income (OAGI) as defined in Ohio Revised Code section 5747.01. The effective date for certain provisions is for taxable years starting after December 31, 2009. Those provisions are expected to reduce FY 2011 receipts. The effective date of other provisions is for taxable years starting after December 31, 2010, thus affecting receipts in FY 2012 and later fiscal years. Also, some of the provisions have a sunset date while others do not.

The revenue loss estimates above are primarily based on nationwide estimates of the fiscal impact of the various provisions of the federal law. Those federal revenue losses were projected by the Joint Committee on Taxation of the U.S. Congress on December 10, 2010. Ohio revenue losses were calculated based on Ohio's share of federal taxable income, and income tax rates.

Please note that the revenue loss estimates above do not include the impact of the expansion of the "bonus depreciation" and enhanced expensing in the TRUIRaJCA. Under current rules for "bonus depreciation" in Ohio, only 1/6th of any deduction taken in the federal return is allowed in the Ohio return, for the first applicable taxable year, *i.e.*, 5/6th of the deduction is added back into OAGI before the computation of the state tax liability. Then, in each of the five subsequent taxable years, the taxpayer deducts

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[1] H.B. 1 of the 128th General Assembly changed the statutory distribution of tax revenues for FYs 2010-2011.

one-fifth of the amount previously added back. The estimates assume the "1/6th deduction and 5/6th add back" mechanism continues. Taxpayers are allowed the full federal depreciation deduction, but the mechanism ensures that revenue losses to Ohio from "bonus depreciation" are spread out over several years. The impact of the "bonus depreciation" is assumed to fall largely on corporations. However, Ohio does not have a corporate income tax; and, due to the "1/6th deduction and 5/6th add back" mechanism, the fiscal impact of the "bonus depreciation" is generally deemed minimal on an annual basis, though it might increase overall revenue loss estimates for the bill. The bill declares an emergency, meaning its provisions would go into immediate effect.

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