Ohio Legislative Service Commission

Russ Keller

Fiscal Note & Local Impact Statement

Bill: S.B. 108 of the 130th G.A. **Date**: April 30, 2013

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

Local Impact Statement Procedure Required: No

Contents: To repeal the income tax deduction for wagering losses, to increase the income tax credit for the legal adoption of a child to $10,000 for each child, and to increase the maximum income tax deduction for college savings contributions to $10,000 annually for each beneficiary

State Fiscal Highlights

STATE FUND	FY 2014	FY 2015	FUTURE YEARS
General Revenue Fund			
Revenues	Gain between $13 million and $17 million	Gain between $8 million and $14 million	Gain between $5.5 million and $8.5 million
Expenditures	- 0 -	- 0 -	- 0 -

Note: The state fiscal year is July 1 through June 30. For example, FY 2014 is July 1, 2013 – June 30, 2014.

- Repealing the income tax deduction for wagering losses would increase GRF revenues by $29 million per year.
- Increasing the income tax credit for the legal adoption of a child to $10,000 for each child, and increasing the maximum income tax deduction for college savings contributions to $10,000 annually for each beneficiary would reduce GRF revenues by $12 million to $16 million in FY 2014 and by $15 million to $21 million in FY 2015.
- The net revenue gains will be lessened over the next six years due to the growing impact of the modified adoption tax credit. However, the bill will not create a net revenue loss unless there are significant behavior changes among taxpayers.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2013	FY 2014	FUTURE YEARS
Counties, municipalities, townships, and public libraries (LGF and PLF)			
Revenues	Gain between $450,000 and $600,000	Gain between $275,000 and $500,000	Gain between $200,000 and $300,000
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.

- The net effect of the bill's tax proposals is a Local Government Fund (LGF) and Public Library Fund (PLF) revenue gain in FY 2014 between $450,000 and $600,000, a revenue gain in FY 2015 between $275,000 and $500,000, and a revenue gain in future years between $200,000 and $300,000. The net revenue gains will be lessened over tax years 2013 through 2018 due to the growing impact of the modified adoption tax credit. However, the bill will not create a net revenue loss unless there are significant behavior changes among taxpayers.

Detailed Fiscal Analysis

S.B. 108 repeals the income tax deduction for wagering losses, increases the income tax credit for the legal adoption of a child to $10,000 for each child, and increases the maximum income tax deduction for college savings contributions to $10,000 annually for each beneficiary.

Gambling loss deduction

Existing law permits an Ohio income tax deduction for any loss from wagering transactions that is allowed as an itemized deduction for federal income tax purposes (i.e., losses deducted only to the extent of the gains from such transactions) and deducted by the taxpayer in computing federal taxable income. According to the most recent Tax Expenditure Report, which is prepared by the Ohio Department of Taxation, and released in conjunction with the Executive Budget proposal, the elimination of the income tax deduction for wagering losses would increase personal income tax revenue to the GRF by $29.0 million per year in FY 2014-FY 2015.

Deduction for contributions to college savings programs

The Tax Expenditure Report also estimates that the personal income tax deduction for contributions to college savings programs reduced GRF revenues by $10.2 million in FY 2012. Current law allows taxpayers to deduct purchases of tuition units and contributions to OTTA's CollegeAdvantage 529 Savings Plan, up to $2,000 per beneficiary per year. Qualifying purchases exceeding the $2,000 limitation may be deducted on future years' returns, subject to the annual $2,000 per beneficiary limitation. Married taxpayers may deduct up to a maximum of $2,000 per beneficiary whether their filing status is married filing jointly or married filing separately.

OTTA contribution information shows that over the past five years (2008-2012), between 43% and 52% (*percentage varies depending upon year being observed*) of Ohio beneficiary accounts receiving a contribution, received more than $2,000. Essentially, these statistics suggest the median contribution amount per beneficiary is close to $2,000, but the median only exceeded $2,000 in the most recent year of the five-year sample. Over the past five years (2008-2012), between 14% and 20% of Ohio beneficiary accounts receiving a contribution, received more than $5,000, which implies that increasing the per beneficiary limitation beyond $5,000 would affect fewer than 1-in-5 beneficiaries.

Summary data indicate that increasing the deduction from $2,000 per beneficiary to $10,000 per beneficiary is likely to reduce GRF revenues by an additional $9 million to $12 million per year in FY 2014-FY 2015. In FY 2014, the revenue loss would likely be closer to $12 million, if not higher, because the accumulated carryforward balances, which were incurred under the lower $2,000 per beneficiary limitation, can be deducted from some taxpayers' TY 2013 returns. After this one-time phenomenon occurs, the annual revenue loss in future years will likely be closer to the lower end of the range because taxpayers will be less likely to accumulate carryforward balances when the law allows a $10,000 per beneficiary limitation.

This analysis does not account for any potential behavioral responses from existing and future taxpayers to the new incentive. Though such responses are likely, LSC economists are unaware of research that would provide a reliable basis for estimating effects on revenue.

Credit for adoption-related expenses

Ohio taxpayers can claim a nonrefundable credit against their tax if the taxpayer adopted a minor child (under 18 years of age) during the taxable year. The amount of the credit is $1,500 per child adopted, and this is a one-time credit per child. Any unused amounts can be carried forward for up to two years. The adoption must be final and recognizable under Ohio law in the year for which the taxpayer first claims the credit.[1]

The Tax Expenditure Report estimates that this tax credit reduces GRF revenues by $2 million per year. If the amount of the credit is increased by $8,500 to $10,000 per child adopted, the tax expenditure may increase by an amount up to $11.5 million for a given year, but the revenue loss for a given year would potentially be spread over six taxable years. The GRF revenue loss in FY 2014 would be between $3 million and $4 million, and the GRF revenue loss in FY 2015 would be between $6 million and $9 million. Presently, the nonrefundable credit may be carried forward for up to two years if the taxpayer cannot fully realize the credit on the tax return for the year the adoption occurs, but the bill extends the carryforward provision to five years, which makes it more likely that most taxpayers will exhaust the $10,000 credit before it expires.

Local Government Fund and Public Library Fund

Personal income tax revenues are deposited into the GRF, and specified amounts of GRF tax revenue are transferred the following month to the Local Government Fund (LGF) and the Public Library Fund (PLF). H.B. 153 of the 129th General Assembly specified amounts that would be transferred each month. Starting in FY 2014, a certain fraction of GRF tax receipts will be transferred, but the fraction is not yet known.

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[1] The Revised Code stipulates that "legally adopt" does not include the adoption of a minor child by the child's stepparent.

H.B. 153 required the Tax Commissioner to determine the fraction, based on FY 2013 data, in July of 2013. At this time, LGF and PLF shares of total GRF tax receipts are estimated at 1.69% and 1.67%, respectively, during the FY 2014-FY 2015 biennium.

The net effect of the bill's tax proposals is a LGF and PLF revenue gain in FY 2014 between $450,000 and $600,000, a revenue gain in FY 2015 between $275,000 and $500,000, and a revenue gain in future years between $200,000 and $300,000. However, the revenue gains may be lessened, if not altogether eliminated, if taxpayer behavior changes in response to the incentives in the bill.

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