Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: S.B. 211 of the 130th G.A.

Date: November 1, 2013

Status: As Introduced

Sponsor: Sens. Schaffer and Peterson

Local Impact Statement Procedure Required: Yes

Contents: Authorizes an income tax credit for donations to the permanent endowment fund of an eligible community foundation

State Fiscal Highlights

STATE FUND	FY 2014	FY 2015	FUTURE YEARS
General Revenue Fund			
Revenues	- 0 -	Loss of up to $19.3 million	Loss of about $19.3 million per year
Expenditures	- 0 -	- 0 -	- 0 -
Local Government Fund (LGF, Fund 7069)			
Revenues	- 0 -	Loss of up to $332,000	Loss of about $332,000 per year
Expenditures	- 0 -	Decrease of up to $332,000	Decrease of about $332,000 per year
Public Library Fund (PLF, Fund 7065)			
Revenues	- 0 -	Loss of up to $332,000	Loss of about $332,000 per year
Expenditures	- 0 -	Decrease of up to $332,000	Decrease of about $332,000 per year

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

- Credits for authorized donations to eligible foundations could reduce personal income tax revenue, with credits per year subject to a maximum of $20 million.
- Revenue loss of $20 million per year would reduce revenue to the LGF and PLF by $332,000 each, and would reduce revenue to the GRF by about $19.3 million.
- Unused credits could be carried forward for up to five years, which might result in credits claimed in some future years totaling more than $20 million.
- The Department of Taxation's costs to administer the program would be defrayed by application fees from taxpayers requesting authorization to claim the credit.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2014	FY 2015	FUTURE YEARS
Local Governments and Public Libraries			
Revenues	- 0 -	Loss of up to about $0.7 million	Loss of about $0.7 million per year
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.

- Revenues of counties, municipal corporations, and public libraries would be reduced if decreased state tax revenues resulted in smaller distributions from the LGF and PLF.
- Reduced LGF distributions would reduce revenue to other units of local government to which counties redistribute these funds.

Detailed Fiscal Analysis

The bill allows a credit against the personal income tax for an authorized donation to a permanent endowment fund of an eligible community foundation. To claim the credit, a taxpayer must first receive authorization for the donation from the Department of Taxation. A community foundation is eligible if it is exempt from federal income taxation,[1] is accredited by the Community Foundations National Standards Board, and publishes at least annually and circulates widely within its community an audited report of its fund balances, activities, and donors.

Twenty-nine community foundations in Ohio were accredited by the Community Foundations National Standards Board as of October 30, 2013, based on information downloaded on that date from the organization's website. To be accredited by that organization, according to information on the website, a community foundation must be exempt from federal income tax. It must have an annual financial audit, or a financial review if assets total less than $5 million, that is made available to the public. It must keep private information on donors confidential to the fullest extent possible, according to the website. The 29 accredited community foundations in Ohio are located in various towns around the state. Potentially, some of them might not meet the requirements of the bill to receive an authorized donation, for example if one or more have a financial review performed rather than an audit.

An individual taxpayer may claim a credit for 20% of the authorized donation, up to a maximum of $10,000 for an individual return or $20,000 for a joint return. The credit is nonrefundable but may be carried forward for up to five tax years. The total of

[1] Under certain specified sections of the Internal Revenue Code.

all credits that the Department may authorize is limited to $20 million per calendar year, starting with taxable years beginning on or after January 1, 2014.

The credit may reduce GRF revenue by up to $20 million per year. Initially, some portion of the credits might be carried forward, so that the initial reduction in GRF revenue could be less than $20 million. In subsequent years, credits carried forward plus new credits might result in reductions of GRF revenue approaching or in excess of $20 million per year. Little or no fiscal impact is likely before FY 2015.

Under current law, unchanged by the bill, 1.66% of GRF revenue is transferred to each of the LGF and the PLF. A $20 million reduction in annual personal income tax revenue as a result of the bill would reduce distributions to each of these funds by $332,000, and would reduce revenue remaining for the GRF by about $19.3 million. All revenue to the LGF is distributed to counties and municipal corporations. The counties redistribute part of receipts from the LGF to other units of local government. Almost all revenue to the PLF is distributed to public libraries, with the remainder distributed to other local governments in a few counties.

The bill authorizes the Department of Taxation to charge a reasonable application fee to defray its costs for administering the credit.

Four other states currently offer similar credits, according to a presentation at a 2013 Federation of Tax Administrators meeting.[2] The range of tax credits as a percentage of the contribution in these other states is from 20% in Kentucky to 40% in North Dakota. The tax credit is not refundable in any of the states, but may be carried forward three to five years, except in Montana which does not allow the credit to be carried forward. Kentucky lets the taxpayer claim both the credit and an itemized deduction, according to the presentation.

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[2] Amy Harris and Jennifer Tilkes, Iowa Department of Revenue, "Endow Iowa Encouraging Charity through the Tax Code," presentation at the Federation of Tax Administrators Revenue Estimation & Tax Research Conference on October 8, 2013.