

Fiscal Note & Local Impact Statement

125th General Assembly of Ohio

Ohio Legislative Service Commission
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BILL: Sub. H.B. 127 **DATE:** November 13, 2003

STATUS: As Enacted – Effective March 11, 2004
(certain provisions effective December 11, 2003, and January 1, 2005) **SPONSOR:** Rep. Jolivette

LOCAL IMPACT STATEMENT REQUIRED: Yes

CONTENTS: Permits municipal corporations and townships to acquire tax-delinquent land for redevelopment free from tax liens, exempts from municipal taxation certain S corporation income, and makes numerous other changes

State Fiscal Highlights

STATE FUND	FY 2004	FY 2005	FUTURE YEARS
General Revenue Fund			
Revenues	Potential gain or loss	Potential gain or loss	Potential loss
Expenditures	Potential increase	Potential increase	Potential increase
Other State Funds			
Revenues	Small loss	Small loss	Small loss
Expenditures	- 0 -	- 0 -	- 0 -

- Permits municipal corporations and townships to acquire tax-delinquent real estate before the foreclosure proceeding begins without necessarily assuming the entire tax debt. This could increase the number of local governments acquiring such properties, thus increasing the number and total value of property that is exempt from taxation.
- The state General Revenue Fund (GRF), which finances the 10% and 2.5% rollbacks on real property taxes and the state base cost funding for Ohio schools, would be affected by these exemptions. By reducing the amount of property taxes due, the amount of the rollbacks provided by the state is also reduced. However, in most cases the exemptions also increase the base cost funding payments made to school districts where these properties are located. The base cost increase is the larger of the two effects.
- Revision of the method of computing the sales factor and situsing property under the corporate franchise tax law may increase or decrease that tax, which goes mainly to the GRF (95.2%).
- Clarification that the sales tax does not apply to public transit buses that seat ten or fewer persons may result in a small loss of state revenues.
- Permitting persons operating buses that seat ten or fewer persons to apply for motor fuel tax refunds may result in a small loss of revenues to state highway funds.

- Extending the tax credit on the purchase of new manufacturing machinery and equipment will result in an estimated yearly loss beginning in FY 2006 of \$16.7 million to the GRF and \$0.8 million to local government funds.
- Permitting excess General Revenue Funds to be used to support economic development projects may increase outlays by the Department of Development by up to \$5 million, contingent on availability of moneys.
- Crediting interest earned on the School District Income Tax Fund to that fund would decrease GRF revenue.
- Changing the tax on trusts is expected to result in a small loss to the GRF.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2004	FY 2005	FUTURE YEARS
School Districts			
Revenues	Potential gain or loss	Potential gain or loss	Potential gain or loss
Expenditures	- 0 -	- 0 -	- 0 -
Counties and Other Local Governments			
Revenues	Potential gain or loss	Potential gain or loss	Potential gain or loss
Expenditures	Potential increase or decrease	Potential increase or decrease	Potential increase or decrease

Note: For most local governments, the fiscal year is the calendar year. The school district fiscal year is July 1 through June 30.

- The bill permits municipal corporations and townships to acquire tax-delinquent real estate before foreclosure proceedings begin without necessarily assuming the entire tax debt. This may result in a savings to county governments.
- Under the bill, tax debt on such tax-delinquent real estate is forgiven to the extent other taxing districts waive their claims to delinquent taxes on the properties. Any waiver of delinquent taxes would reduce potential revenue for taxing districts. If a taxing district declines to waive its claim to the delinquent taxes, the liens for such taxes and costs would continue.
- Exempts acquired property from further taxation for as long as it is owned by the municipal corporation. This exemption reduces potential future tax revenue for local taxing districts. Statewide, school districts receive 65% of property tax revenue. The remaining 35% of property tax revenue benefits counties, municipalities, and other local taxing districts.
- As a result of the property tax exemptions, most school districts could see an increase in base cost funding, which is funded by the state. This is because the exemption would lower the taxable property valuation. School districts that are “on the guarantee” would not see an immediate increase in funding.
- Exempts from municipal income tax an S-corporation shareholder’s distributive share of the S-corporation’s net profits, except any income from Ohio-based activities that represents wages. Municipal income tax revenues from Ohio-based activities that do not represent wages and from any non-Ohio-based activities that represent wages would be reduced. The bill does not alter municipal income taxation of S-corporation income at the business entity level, which is probably the principal method of taxing S-corporation net income.

- Rounds homestead exemption tax reduction amounts for the low-income elderly and disabled to the nearest \$10 rather than \$100 when indexed for inflation, if rounding to the nearest \$100 does not increase the dollar amount of reduction in taxable value. In the aggregate, the fiscal effect of this change is expected to be small, but effects on individuals will vary with some gaining and others losing.
- Revising the method of computing the sales factor and situsing property under the corporate franchise tax may affect amounts collected under that tax, by an indeterminate amount. Local government funds receive 4.8% of revenues from this tax.
- Clarifying that the sales tax does not apply to public transit buses that seat ten or fewer persons may reduce sales taxes by a small amount to counties and transit authorities. Costs to transit authorities are reduced by the amount of sales taxes foregone by both the state and local governments.
- Permitting persons operating buses that seat ten or fewer persons to apply for motor fuel tax refunds may reduce revenues by a small amount. Part of these funds are distributed to counties, municipal corporations, and townships.
- Extending the tax credit on the purchase of new manufacturing machinery and equipment from 2005 to 2015 will reduce corporate franchise tax collections, and so reduce the portion of that tax going to local government funds by an estimated \$0.8 million per year.
- Crediting interest earned on the School District Income Tax Fund to that fund will increase revenues to local school districts, which levy an income tax.
- Changes to the law regarding prepayment of real property or manufactured or mobile home taxes appear likely to reduce expenses for counties.
- Authorizing Tax Incentive Review Councils to request information from owners of tax exempted property may help to identify properties no longer qualified for tax exemption, so may increase property tax revenues.

Detailed Fiscal Analysis

Overview

The bill would make the changes enumerated below. Discussion following is numbered to correspond to this outline: (1) permit counties, municipal corporations, and townships to acquire tax-delinquent land for redevelopment free from liens for the unpaid taxes, (2) revise municipal taxation of S-corporation income, (3) change the inflation adjustment rounding for homestead exemption tax reductions, (4) revise the method of computing the sales factor and situsing property to this state under the corporation franchise tax law, (5) clarify that the sales tax does not apply to public transit buses that seat ten or fewer persons, (6) permit persons operating such buses with that seating capacity to apply for motor fuel tax refunds, (7) extend from 2005 to 2015 the tax credit on the purchase of new manufacturing machinery and equipment, (8) revise the land reutilization program, (9) update enterprise zone city and population eligibility criteria, (10) limit the Tax Commissioner's authority to enforce certain components of enterprise zone agreements, (11) revise the information that is required to be in an enterprise zone agreement, (12) revise the requirements for redeeming delinquent land after a foreclosure proceeding has been instituted, (13) permit excess General Revenue Fund moneys to be used to support economic development projects, (14) require that interest earned on the School District Income Tax Fund be credited to the fund, (15) make changes to the law regarding the prepayment of real property or manufactured or mobile home taxes, (16) authorize tax incentive review councils to request information from owners of property exempted under urban renewal and community urban redevelopment projects, community reinvestment area programs, enterprise zone agreements, or tax increment financing ordinances or resolutions, (17) delay the effective date of new sales tax situsing provisions, (18) change the tax on trusts, (19) change Air Force Institute of Technology appropriation language, and (20) change local tax levy usage for police buildings.

(1) Acquisition of Tax-Delinquent Real Property

The bill authorizes counties, municipal corporations, and townships to acquire tax-delinquent real property without necessarily incurring the entire tax debt, and before substantial costs are undertaken by the county in proceeding with the foreclosure. The tax debt is discharged to the extent that overlapping taxing units (school districts, etc.) release their claims on the delinquent taxes. Under current law, local government units generally may acquire tax-delinquent property on relatively favorable terms only after the property has been offered for sale at public auction, and only after most of the costs of the foreclosure proceedings have been assumed; even then, the tax debt remains with the property, to be discharged, at least in part, from the eventual sale of the property by the local government.

The fiscal impact of this portion of the bill is difficult to determine. Legislative Service Commission believes there could be significant savings to counties by forgoing the foreclosure process. However, the provision may entice local governments to acquire more real properties than they would under current law. If this is the case, not only will taxing districts have the ability to forgo tax liens on the properties, but the number of properties no longer subject to taxation will also increase.

The 10% rollback on real property taxes and the state base cost funding for Ohio schools are both financed by the GRF. By increasing the number of properties exempt from taxation, thus reducing the amount of property taxes due, the amount of the rollback would also be

reduced. On the other hand, the exemption would lead to a lower property tax valuation in the corresponding school district, and this could cause the state's base cost funding payments to the school district to increase. The base cost funding increase is by far the larger of the two effects.

The cost of the provision will depend upon the assessed value of properties acquired by local government units, the tax rates in the corresponding taxing districts, and the likelihood that taxes would have been collected had the local government unit not acquired the property.

(2) Municipal Taxation of S-Corporation Income

The bill expands the scope of the exemptions from municipal income tax for net profits flowing through S-corporations to a shareholder. Under current law, such S-corporation income attributable to the corporation's business activities in Ohio is subject to the tax, and that attributable to activities outside Ohio is exempt from municipal income taxation, unless the income represents wages for services performed by the shareholder for the corporation, or the municipality taxed such income as of December 6, 2002, and voters approved continuing such taxation at the 2003 general election. The bill would exempt all S-corporation net profits flowing to a shareholder from municipal income tax, except any that represent wages, with two exceptions. Municipalities which on December 6, 2002, taxed shareholders' distributive shares of S-corporation income attributable to activities outside Ohio and whose electors voted to continue to tax such income at the November 4, 2003, election may continue to do so. Municipalities which on December 6, 2002, taxed shareholders' distributive shares of S-corporation income attributable to activities within Ohio may continue to impose the tax only until December 31, 2004, unless voters choose at the election to be held November 2, 2004, to continue the tax after that date. Removing this income from the municipal income tax base represents a loss of revenues to municipal corporations. However, some municipalities may not tax this source of revenue while a few others may not have any current payments from this source. The impact would vary widely among municipalities. The bill does not alter municipal income taxation of S-corporation income at the business entity level, which is probably the principal method of taxing S-corporation net income.

Only limited information on municipal income tax is available. We have no data on S-corporation income's share of Ohio municipal income tax collections. Neither municipalities for which we have information nor the Ohio Department of Taxation's data provide any breakout of the portion attributable to S-corporations as a share of total business income subject to tax or as a share of distributions to individuals. We do not have data breaking out municipal income tax collections on S-corporation shareholder distributive shares of S-corporation net profits from Ohio-based activities that do not represent wages, the category of taxable income that could no longer be taxed, with the exception noted above, by municipalities under the provisions of the bill.

Table 1 Current Law

Current municipal income taxation of S corporation net profits

Alternative bases - municipal corporation may choose one

- 1) Business entity net profits
 - 2) Shareholder distributive shares of net profits
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Business entity tax

- 1) Entity/business activity wholly within municipal corporation
 - Net profits taxable
 - 2) Entity/business activity partly within municipal corporation
 - % of profits allocable to municipal corporation under factor formula is taxable
 - 3) Entity located outside municipal corporation
 - Profits generally not taxable, unless % of profits is allocable to municipal corporation under factor formula (example: sales to regular customers)
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Shareholder tax

- 1) Shareholder owes tax on distributive share of S corporation net profit
- 2) Shareholder receives credit for taxes paid on distributive share at business entity level

The chief fiscal effect of H.B. 127 would be to exempt from municipal taxation the part of S-corporation income distributions attributable to its business activities in Ohio, except any which represent wages. The magnitude of this wage exception probably is small. Businesses deduct expenses, including wages, from revenues in calculating net income, thus their net income excludes wages. Municipal income tax law, in referencing the S-corporation shareholders' distributive share of net profits that represents wages as defined in the Internal Revenue Code, was aimed at abuses under which compensation for personal services the shareholder performs for the S-corporation was classified as net income rather than wages.

Table 2

Effect of Sub. H.B. 127 on municipal income taxation
of distributive shares of S corporation net profits:

	Apportioned to Ohio	Not Apportioned to Ohio
Represents wages (IRS definition)	Taxable	Taxable
Non-wage distributive shares	Taxable, becomes non-taxable (with exception)	Non-taxable (with exception)

Data on federal tax collections, which do separately break out data on S-corporations, but include both Ohio and non-Ohio based income, provide an indication of the share of S-corporation income in total taxable income. This approach is not fully satisfactory as a measure of the magnitude of S-corporation income in Ohio municipal income tax collections both because the share of S-corporation income in total income in Ohio may differ substantially from that nationwide and because Ohio municipalities may use different definitions of taxable income than the federal definitions. Also, the federal data are based on distributed shares whereas most of the Ohio tax is at the entity level. While these two methods should give approximately the same result at the national level, the two bases would lead to substantial differences at the municipal tax level.

In tax year 2000, federal tax statistics for the United States show individual adjusted gross income (AGI) for federal tax purposes totaling \$6.37 trillion. S-corporation net income in 2000 was \$199 billion, or about 3% of individual AGI. These figures suggest that S-corporation income may be a significant component of the income tax base of Ohio municipalities, but it could be a larger or smaller share than nationwide.

Current Ohio law pertaining to municipal income taxation of S-corporation income was shaped in recent years by three bills and a court case. H.B. 477 of the 123rd General Assembly, which became law in 2000, defines an S-corporation as a pass-through entity. It required that from January 1, 2003, any municipal corporation that taxes income from a pass-through entity credit a taxpayer domiciled in the municipal corporation for taxes paid to another municipal corporation by a pass-through entity that does not conduct business in the municipal corporation. It permitted a municipal corporation, also effective January 1, 2003, to tax S-corporation income either at the entity or the individual level, not both. (See Table 1.)

In 2001, the Ohio Supreme Court, in *Tetlak v. Bratenahl*, ruled that distributive shares of S-corporation earnings are taxable by Ohio municipal corporations, unless the income was intangible when received by the S-corporation. Tetlak's contention had been that his distributive share of net profits from an S-corporation in tax years 1990, 1991, and 1992 was intangible income, which was and is currently not taxable by Ohio municipalities.

S.B. 180 of the 124th General Assembly, effective April 9, 2003, precluded Ohio municipal corporations from taxing an S-corporation shareholder's distributive share of the S-corporation's net profits that are attributable to non-Ohio activities and that do not represent wages as defined by the Internal Revenue Service. It carved out an exception, however, for municipal corporations which taxed such income on December 6, 2002, and whose electors vote on November 4, 2003, in favor of continuing to tax such income. The Legislative Service Commission thinks few municipalities benefit from this exception.

S.B. 180 also deleted S-corporations from the definition of a pass-through entity for municipal income tax purposes, and so eliminated the requirement, put in place by H.B. 477, that a credit be given an S-corporation shareholder for taxes paid by the S-corporation to another municipality. The requirement that such a credit be given remained in place, however, for those municipalities subject to the exception noted above. H.B. 95 of the current biennium restored the credit for income tax paid to another municipality on distributive shares of S-corporation net profit. Those municipalities taxing at the individual level would have an incentive to shift to tax at the entity level.

In CY 2001, Ohio municipal income tax collections totaled \$3,353.9 million. On average 90% was collected from individuals and 10% from businesses, statewide.⁶ If approximately 3% (from the national figures above) of the roughly \$3 billion of municipal income tax collected from individuals was taxes on S-corporation income, about \$90 million of Ohio income taxes might be derived from taxation of S-corporations, assuming all municipalities tax S-corporation income and that taxing at the entity level in many instances and the individual level in others produce a similar result to the national figure. The loss of municipal income tax collections from passage of S.B. 127 could be much smaller than this. S-corporation net profits would still be taxable at the business entity level by Ohio municipal corporations. If, contrary to the provisions of H.B. 127, shareholder non-wage distributive shares of S-corporation net profits from Ohio activities remained taxable but those taxes were offset by credits as required under current law, taxes collected net of these credits on those distributive shares might be small.

However, S-corporation net profits apportioned to areas of the state not subject to the municipal income tax, taxed at a lower rate than in the municipality of residence of the S-corporation shareholder, or apportioned to another state would escape in whole or in part municipal income taxation. This would be more favorable treatment than is accorded to other types of pass-through entities, such as partnerships and limited liability companies, whose owners benefit from the requirement that credit be given for municipal income taxes paid at the business entity level but whose distributive shares are taxable at the individual level if not offset by such a credit. According to one official, this disparity could prompt some businesses organized as other types of pass-through entities to reorganize as S-corporations, although there would be many factors to consider.

⁶ According to Ohio Manufacturing Association publication.

3) Rounding of Tax Reduction Amounts for Low-Income or Disabled Property Owners

Under current law, low-income elderly or disabled property owners may reduce their property taxes. In tax year 2003, those with total incomes of \$12,800 or less may reduce their property's taxable value by the lesser of \$5,200 or 75%; those with total income of \$12,801 to \$18,700 may reduce their property's taxable value by the lesser of \$3,200 or 60%; and those with total incomes of \$18,701 to \$24,700 may reduce their property's taxable value by the lesser of \$1,000 or 25%. These income and tax reduction brackets are indexed to inflation, and under current law the results of the calculation are rounded to the nearest \$100. The bill would change this rounding. If rounding to the nearest \$100 does not increase the dollar amount by which taxable value is reduced, rounding is instead to the nearest \$10.

In the aggregate, the effects of this change are likely to be small, but rounding in such a way as to provide a tax reduction ensures that no individuals would lose. For example, a 1.3% inflation adjustment (about the recent annual rate of increase in the gross domestic product implicit price deflator, the inflation index required by this law) would increase the \$5,200 reduction in taxable value to \$5,300 but leave the other reductions unchanged, under current law with rounding to the nearest \$100. If rounding is instead as provided in the bill, the reduction in taxable value for those in the lowest income bracket would still be \$5,300, so those in the lowest income bracket would not be disadvantaged by the change. For the higher income brackets, rounding to the nearest \$10 would result in larger reductions in taxable value. The \$3,200 reduction would rise \$40 to \$3,240 and the \$1,000 reduction would rise \$10 to \$1,010. Individuals in these income brackets would benefit. Overall, however, effects of this change will be small. In general, the difference in tax reduction would be roughly 8% of the valuation difference so that a \$30 valuation difference might mean about a \$2 tax difference.

(4) Revise the Method of Computing the Sales Factor and Siting Property Under the Corporation Franchise Tax Law

The bill revises and clarifies the computation of the sales factor to conform to the changes made in H.B. 95 (the budget act) in corporate franchise tax law regarding the new method of determining multi-state corporation business and nonbusiness income for allocation and apportionment purposes.⁷ The bill also clarifies the siting of rents and royalties from real and tangible personal property, and sale of electricity and related services. These technical changes to corporate franchise tax law have minimal fiscal effects, if any.

⁷ Am. Sub. H.B. 95 adopted the distinction between "business" and "nonbusiness" income used by many other states in the Uniform Division of Income for Tax Purposes Act (UDITPA). UDITPA defines "business income" as income, including gains or loss, arising from transactions and activities in the regular course of the taxpayer's trade or business, and includes income from tangible and intangible property if the acquisition, management, and disposition of the property constitute integral parts for the taxpayer's regular trade or business operations. "Nonbusiness income" means all income other than business income and may include, but is not limited to, compensation, rents and royalties from real or tangible property, capital gains, interest, dividends and distributions, patent and copyright royalties, and lottery winnings, prizes and awards. Generally, business income will be apportioned to Ohio according to the same three-factor formula, and nonbusiness income will be entirely allocated either to Ohio or to another state. As a general rule under this new method, all income is presumed to be business income. The budget act also changed how the property and sales factors are computed, and how certain sources of nonbusiness income are allocated. For example, any property a corporation rents or leases will be included in the calculation of the property factor if the net income from these operations is "business" income. If the income were "nonbusiness" income, the property would be excluded from the property factor and thus would be allocated to Ohio or elsewhere.

(5) Clarify That The Sales Tax Does Not Apply To Public Transit Buses That Seat Ten Or Fewer Persons

This section of the bill changes the definition of “transit bus” to include vehicles having seating capacity for ten or fewer passengers. The intent of this section is to clarify that the sales tax does not apply to public transit buses that seat ten or fewer person. The dollar amount of buses purchased in this category is thought to be small. To the extent that public transit systems are paying sales and use tax on their purchases, this provision will result in a loss of a small amount of sales tax revenue to the state and to local governments, and will save transit systems a similar amount of expenses.

(6) Permit Persons Operating Buses That Seat Ten or Fewer Persons to Apply for Motor Fuel Tax Refunds

Based on the same change of definition as (5) above, this section will result in loss of a minimal amount of motor fuel tax revenue to the state.

(7) Extend from 2005 to 2015 the Tax Credit on the Purchase of New Manufacturing Machinery and Equipment

Under Revised Code section 5733.33, a nonrefundable credit is allowed against the corporate franchise tax for a portion of the purchase cost of new manufacturing machinery and equipment, if certain criteria are met. The bill extends the period for which this credit can be claimed from 2005 to 2015. Extension of the period for claiming this credit will cost the state an estimated \$17.5 million per year. This loss would be shared between the GRF (95.2%) and local government funds (4.8%).

(8) Revise the Land Reutilization Program

Changes to Revised Code sections 5722.01 and 5722.02 under this part of the bill appear to be technical in nature and have no fiscal impact.

(9) Update Enterprise Zone City and Population Eligibility Criteria

Revised Code section 5709.61 sets several criteria, at least two of which must be met in order for an area to qualify to be designated an enterprise zone. The bill changes the reference to the decennial census in Revised Code section 5709.61, for calculations of population changes, from the 1990 census to the 2000 census. This change may make some areas eligible to be enterprise zones that would not otherwise be, and may make others not eligible that would be, but the fiscal effect on local governments, if any, is indeterminate. There would be no fiscal impact on the state.

(10) Limit the Tax Commissioner's Authority to Enforce Certain Components of Enterprise Zone Agreements

The limitation of the Tax Commissioner's authority in determining the accuracy of any tax exemption granted under an enterprise zone agreement, specified by these changes to Revised Code sections 5709.62 and 5709.63, does not appear to have fiscal effects. Local officials would still be responsible for determining whether an agreement was in compliance with the provisions of these code sections not within the purview of the Tax Commissioner's authority.

(11) Revise the Information Required in an Enterprise Zone Agreement

Changes to Revised Code section 5709.631 in this portion of the bill specify language that must be included in an enterprise zone agreement, but do not appear to have any fiscal effect.

(12) Revise the Requirements for Redeeming Delinquent Land After a Foreclosure Proceeding Has Been Instituted

The changes to Revised Code sections 323.25 and 5721.25 allow a person entitled to redeem land on which a foreclosure proceeding has been commenced, but before filing of an entry of confirmation of sale, to redeem the land by paying back taxes and any additional charges owed including penalties and interest, and by showing that the property complies with zoning and other requirements. Permitting such redemption of property might help preserve the value of the property. It would appear to involve neither any substantial gain nor loss to local government units. There would be no fiscal impact on the state.

(13) Permit Excess General Revenue Fund Moneys To Be Used To Support Economic Development Projects

This provision, in temporary law, would allow use of unspent and unobligated GRF cash balances, if sufficient, to be used to support economic development projects in an amount up to \$5 million during the fiscal 2003-2005 biennium. The Director of Budget and Management is to increase the Department of Development's appropriation if unspent and unobligated funds are sufficient. The bill appropriates these increases. This provision may increase state expenditures, depending on availability of cash balances. There would be no fiscal impact on local governments.

(14) Interest Earned on the School District Income Tax Fund To Be Credited to the Fund

This change to Revised Code section 5747.03 would increase revenues to local school districts with income taxes. Currently interest earnings from the fund are deposited in the GRF. GRF revenue for interest earnings would be reduced and interest earnings would be deposited in the fund.

(15) Make Changes to the Law Regarding the Prepayment of Real Property or Manufactured or Mobile Home Taxes

The changes to Revised Code section 321.45 allow county treasurers to take account of expenses incurred to process prepayments in determining discounts to be credited to taxpayers prepaying their property taxes, and to maintain either a separate record for each parcel or a single record for all parcels included in a prepayment agreement covering multiple parcels (or manufactured or mobile homes). These provisions appear to reduce expenses for counties.

(16) Authorize Tax Incentive Review Councils to Request Information from Owners of Tax Exempted Property

Under this change to Revised Code section 5709.85, a Tax Incentive Review Council may request information from a recipient of a tax exemption under urban renewal and community urban redevelopment projects, community reinvestment area programs, enterprise zone agreements, or tax increment financing ordinances or resolutions. The request may cover any information reasonably needed by the Council for it to determine whether the owner has complied with the terms of the agreement. The owner has ten days following receipt of the request in which to respond. To the extent that this provision facilitates identifying properties no longer eligible for tax exemption, it may increase property tax revenues to local governments. The amount of any such gain is undetermined.

(17) Delay the Effective Date of The Sourcing of Sales for Sales and Use Tax Purposes

This temporary law amendment of Sec. 3.18 of Am. Sub. H.B. 95 of the 125th General Assembly delays the effective date of a change in the sourcing location of a sale, determining the rate at which sales tax is to be charged, from January 1, 2004, to January 1, 2005. This delay will benefit some local governments and adversely affect others, but the overall effect is indeterminate. The effect on state sales and use tax collections is also indeterminate. However, LSC believes that the overall net fiscal effect, both for state and county sales and use tax purposes, is likely to be minimal.

(18) Change Tax on Trusts

The bill changes the calculation of apportionment factors for the tax on trusts, which may lower the income tax liability for certain trusts. Any decrease is expected to have a small negative effect on the GRF with no fiscal impact on the three local government funds supported by the personal income tax.

(19) Change Air Force Institute of Technology Appropriation Language

The bill amends Am. Sub. H.B. 95 of the 125th General Assembly to alter an earmark to line item 235-508, Air Force Institute of Technology, in the budget of the Board of Regents. H.B. 95 earmarked \$477,237 in FY 2004 and \$476,786 in FY 2005 from this line item to support the Wright Brothers Institute. The bill leaves the amount of the earmark unchanged, but specifies that the funds earmarked should be disbursed through the Miami Valley Economic Development Research Corporation.

(20) Change Local Tax Levy Usage for Police Buildings

The bill amends current law to permit funds generated by the passage of a tax levy in a political subdivision to be used for providing and maintaining buildings and building sites for police departments of that political subdivision. This provision adds these permitted uses to the current list of permitted uses for police departments, which permits the use of the funds for providing and maintaining motor vehicles, communications, and other equipment used by the police department.

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