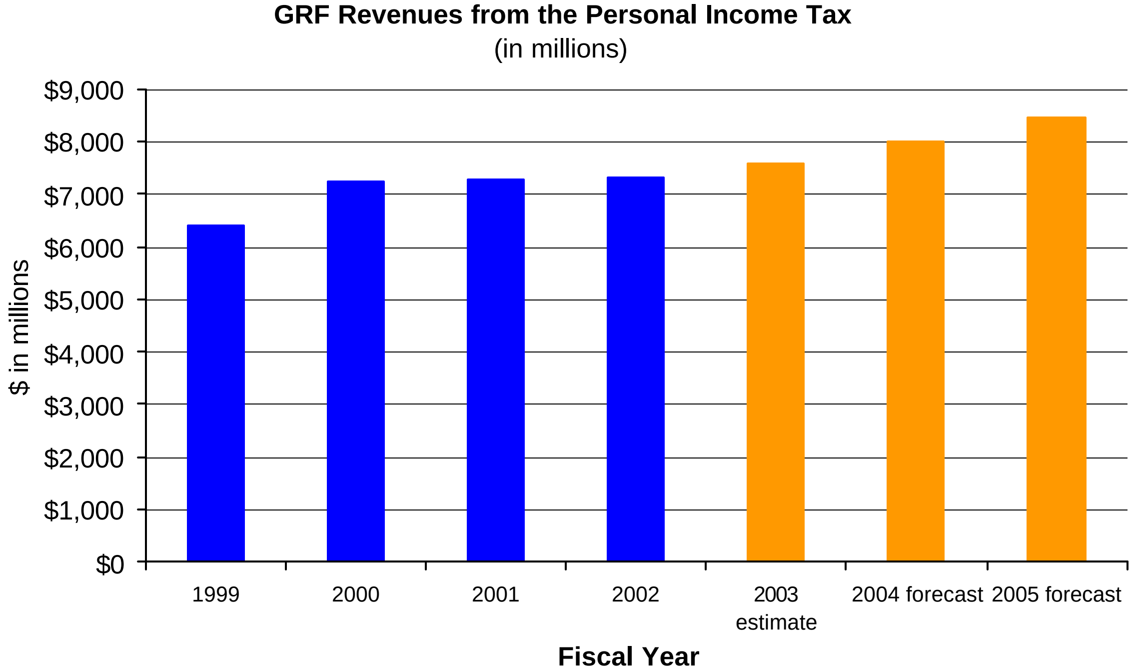
Personal Income Tax



	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Estimate	FY 2004 Forecast	FY 2005 Forecast
Personal Income Tax	$6,416.8	$7,232.0	$7,263.4	$7,304.1	$7,599.0	$7,987.1	$8,467.9
growth	3.3%	12.7%	0.4%	0.6%	4.0%	5.1%	6.0%

The Personal Income Tax is levied on Ohio taxable income (the amount reported as federal adjusted gross income (FAGI) to the U.S. Internal Revenue Service plus or minus adjustments). After these adjustments are made, a taxpayer's tax liability before credits is obtained by applying Ohio's graduated tax rates to the taxpayer's Ohio taxable income. Certain credits may be subtracted from this amount to arrive at the taxpayer's final tax liability.

Major additions to FAGI in the determination of Ohio adjusted gross income include: state and local bond interest (except Ohio governments), federal bond interest exempt from federal tax but subject to state tax, and accumulation distribution from a complex trust. Major subtractions include: federal bond interest, disability and survivors' benefits included in FAGI, compensation earned in Ohio by residents of reciprocity states, social security and railroad retirement benefits included in FAGI, and state and municipal tax refunds.

Ohio taxable income is obtained by subtracting personal exemptions from Ohio adjusted gross income. Taxpayers may claim an exemption for the taxpayer, the taxpayer's spouse (if filing a joint return), dependent children, and others to whom the taxpayer provides support and claims on the taxpayer's federal return. For tax year 2002, the personal and dependent exemption is $1,200. This amount is indexed for inflation and is expected to increase each year.

The taxpayer's tax liability before credits is obtained by applying graduated rates to the taxpayer's Ohio taxable income. Ohio's statutory tax rates range from 0.743 percent on the first $5,000 of Ohio taxable income to 7.5 percent on Ohio taxable income in excess of $200,000. For tax years 1996-2000, these rates were reduced by rate cuts paid for out of the Income Tax Reduction Fund (ITRF). The ITRF tax rebate mechanism is structured to give unanticipated surpluses back to taxpayers. If there is no surplus, there is no rate reduction.

Major credits available to taxpayers include: the personal exemption credit of $20 per exemption, the senior citizen credit of $50 per return, the retirement income credit, the child and dependent care credit, various business credits, the displaced worker training credit, the political contribution credit, the adoption credit, and the joint filer credit for two working spouses (graduated based on income with a maximum credit of $650). Statutorily, the revenue collected is disposed of as follows: 89.5 percent to the General Revenue Fund, 4.2 percent to the Local Government Fund, 0.6 percent to the Local Government Revenue Assistance Fund, and 5.7 percent to the Library and Local Government Support Fund. The FY 2002-2003 biennial budget bill temporarily froze distributions to the three local government funds at their FY 2001 levels.

The estimated revenue for FY 2003 is a revision of the OBM July 2002 estimates. The revision assumed that the trend for the last calendar quarter of 2002 would persist for the final two quarters of FY 2003. For FY 2004 and FY 2005, the estimate for FY 2003 was grown based on the results of a model of revenue collections. The model works with the four components of the tax collections as reported in Table 44 of the Department of Taxation's Annual Report. The components are: employer withholding (partial-weekly, monthly, quarterly, and annual returns), individual taxpayer (quarterly estimated payments and annual returns), other collections (Attorney General collections, assessments, and bad checks), and refunds. The data was organized on a fiscal year basis. Withholding was assumed to be a function of Ohio wage and salary income. The individual taxpayer component was assumed to be a function of the S&P 500 index (used to represent U.S. stock markets), and combined Ohio rent, interest, dividend, and proprietors' income. Other collections were assumed to be a function of the same variables as for the individual taxpayer component plus a trend variable. Refunds were assumed to be a function of gross collections (employer withholding + individual taxpayer + other collections), the value of the personal and dependent exemption, and the ITRF percentage rate cut. Forecasted values of the explanatory variables were taken from the Global Insight January 2003 release.

The revenue data used for estimation did not include the new tax on trusts. (S.B. 261 of the 124th General Assembly included income from trusts in the personal income tax base for tax years 2002 through 2005.) An estimate of the revenue from the tax on trusts was added separately. The local funds freeze was assumed to expire, so the forecasted GRF amounts reported are 89.5 percent of gross collections minus refunds.