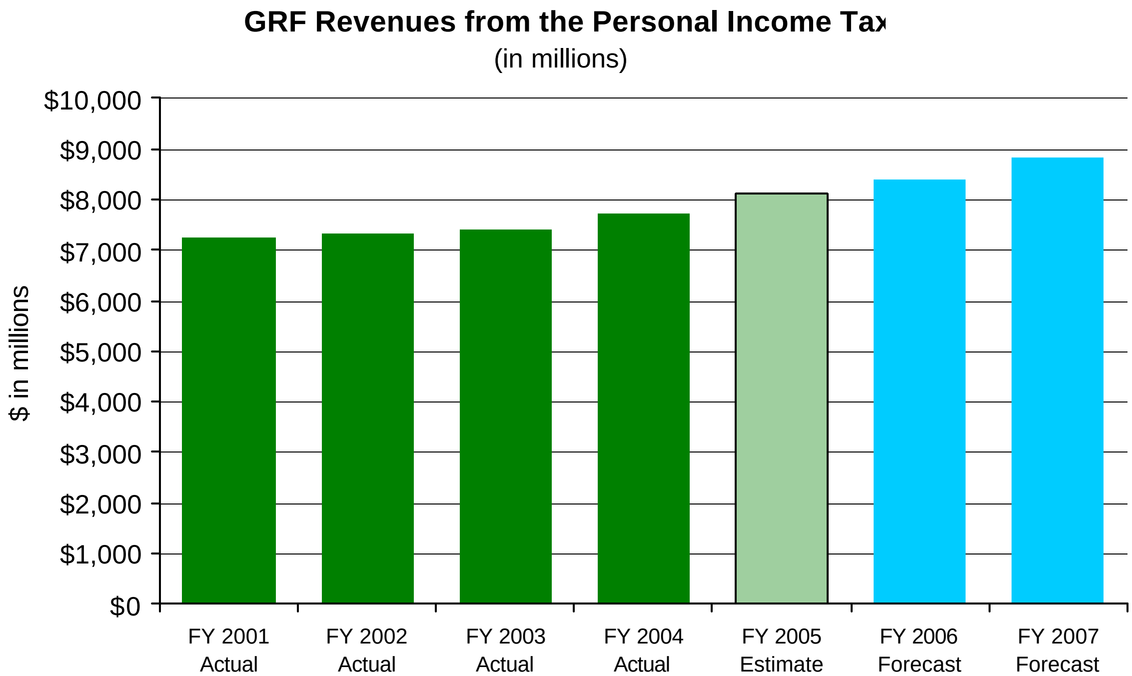
Personal Income Tax



	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Estimate	FY 2006 Forecast	FY 2007 Forecast
Revenue	$7,263.4	$7,304.1	$7,420.7	$7,696.9	$8,119.1	$8,379.5	$8,842.8
Growth	0.4%	0.6%	1.6%	3.7%	5.5%	3.2%	5.5%

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), and federal bond interest exempt from federal tax but subject to state tax. 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 2004, the personal and dependent exemption is $1,300. 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% on the first $5,000 of Ohio taxable income to 7.5% on Ohio taxable income in excess of $200,000. The Income Tax Reduction Fund (ITRF) can reduce these rates. The ITRF tax rebate mechanism is structured to give unanticipated surpluses back to taxpayers. If there is no surplus, there is no rate reduction. Tax rates were last reduced for tax year 2000. Also, beginning in tax year 2005, the income brackets will be indexed for inflation.[8]

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).

Under statutory law the revenue collected from the Personal Income Tax is distributed as follows: 89.5% to the General Revenue Fund, 4.2% to the Local Government Fund, 0.6% to the Local Government Assistance Fund, and 5.7% to the Library and Local Government Support Fund. For FYs 2002 - 2005 the distributions to these three local government funds have been frozen under temporary law at their FY 2001 levels.

The estimated revenues for FYs 2005 - 2007 are based on the results of a model of revenue collections. The model works with the four components of tax collections. These 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

[8] In July of each year, beginning in 2005, the tax commissioner shall adjust the income brackets by multiplying the percentage increase in the gross domestic product deflator computed that year by each of the income amounts resulting from the adjustment in the preceding year, adding the resulting product to the corresponding income amount resulting from the adjustment in the preceding year, and rounding the resulting sum upward to the nearest multiple of $50. For example, if the percentage change in the GDP deflator in 2004 was 2.1% the lower end of each tax bracket would be increased by 2.1%. The upper end of the lowest bracket is currently $5,000. Assuming a 2.1% increase the upper end of this bracket would be $5,150, and the lower end of the highest tax bracket would increase from $200,000 to $204,200.

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 nonwage 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 2005 release.

Through January, FY 2005 GRF revenues from the Personal Income Tax are 3.9% greater than estimate, and 9.4% above FY 2004 levels. Gross collections are 2.8% above estimate and 7.3% above FY 2004 levels. Net collections are 3.4% above estimate and 8.3% above FY 2004 levels. This trend is expected to continue throughout the second half of the fiscal year.

The original FY 2005 estimate for GRF revenues from the Personal Income Tax was $8,103.2 million, a 5.3% increase over FY 2004 revenues. The new FY 2005 estimate is $8,119.1 million, a 0.2% increase over the original estimate, and 5.5% greater than FY 2004 revenues. For FY 2006 and FY 2007 GRF revenues should continue to increase. It is projected that Personal Income Tax revenue will grow by 5.4% in FY 2006 and 5.5% in FY 2007.

There are changes in the tax laws that may affect future receipts from the Personal Income Tax. In accordance with Am. Sub. S.B. 261 of the 124th General Assembly, the income tax brackets will be indexed for inflation starting in tax year 2005. Since most of the impact from this change will most likely be from refunds, the effects will first occur in FY 2006. The estimated loss in revenue for FY 2006 is $60 million. The loss will increase exponentially each year. The projected loss in revenue for FY 2007 will be $116 million and $260 million in FY 2008.

Another tax law change is the expiration of the trust tax, which is set to expire on June 30, 2005. The trust tax is a tax on undistributed income from a complex trust. Under statutory law certain trusts are treated as taxable entities. The tax is levied on the trust, and amounts included in the adjusted gross income of the beneficiaries are not taxable. This trust tax is set to expire on June 30, 2005. Once the tax expires distributions to beneficiaries will once again be taxable. The loss of revenue from the expiration of the trust tax is estimated to be approximately $40 million per fiscal year, starting in FY 2006.