Fiscal Note & Local Impact Statement

126 th General Assembly of Ohio

Ohio Legislative Service Commission
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BILL: **Am. S.B. 190** DATE: **November 15, 2005**

STATUS: **As Enacted – Effective November 22, 2005** SPONSOR: **Sen. Carey**

LOCAL IMPACT STATEMENT REQUIRED: **Yes**

CONTENTS: **Extends the job training tax credit for training expenses in TY 2006; changes the date of the Managed Care Franchise Fee**

State Fiscal Highlights

STATE FUND	FY 2006	FY 2007	FUTURE YEARS
General Revenue Fund			
Revenues	Potentially preserve $8.0 million in managed care plan assessment net revenue; plus $437,000 in additional managed care plan assessment revenue	$18.0 million loss from the tax credit; potentially preserve $127.5 million in managed care plan assessment net revenue	$1.0 million loss in FY 2008 only from the tax credit; potentially preserve approximately $127.5 million in managed care plan assessment net revenue annually
Expenditures	- 0 -	- 0 -	- 0 -

Note: The state fiscal year is July 1 through June 30. For example, FY 2006 is July 1, 2005 – June 30, 2006.

- Taxpayers apply the job training tax credit against various state taxes. By extending the tax credit an additional year, the bill decreases state tax revenues to the General Revenue Fund (GRF).

- Presently, the federal government is engaged in a federal budget reconciliation process that threatens Ohio's ability to implement the managed care franchise fee provided for in the state budget. According to ODJFS, the January 1, 2006 start date in the Ohio Revised Code will preclude Ohio from implementing the fee. The bill would change the effective date of the managed care plan assessment to December 1, 2005 to potentially preserve the revenue source. According to ODJFS, the net revenue collected through this provider assessment is projected to be $8.0 million in FY 2006 and $127.5 million in FY 2007 (all funds). If the state imposes the fee beginning December 1, 2005, the state would gain an additional $437,000 in net revenue, assuming approval from the Centers for Medicare and Medicaid.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2006	FY 2007	FUTURE YEARS
Counties and other local governments			
Revenues	- 0 -	Up to $1.0 million loss from the tax credit	- 0 -
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.

- Extending the job training tax credit by one year decreases revenues from state taxes that are distributed to several local government funds. The bill potentially decreases distributions to the Library and Local Government Support Fund (LLGSF), the Local Government Fund (LGF), and the Local Government Revenue Assistance Fund (LGRAF).

Detailed Fiscal Analysis

Job Training Tax Credit

Under current law, corporations, financial institutions, dealers in intangibles, income tax taxpayers who invest in pass-through entities (sole proprietorships, partnerships, S corporations, or limited liability companies), domestic insurance companies, and foreign insurance companies may claim a nonrefundable tax credit against their tax liability for certain job training costs they incur for their employees. The credit equals one-half of the average of the taxpayer's training costs paid or incurred over a three-year period, but the credit amount claimed cannot exceed $100,000 per year. If the credit amount exceeds the taxpayer's tax liability, the excess may be carried forward for three years following the year in which the credit was first claimed. The job training tax credit may be taken for training costs paid or incurred on or before December 31, 2005. The aggregate amount of tax credits available is $20 million per year. The bill extends the tax credit for training costs paid or incurred on or before December 31, 2006. S.B. 190 also requires a taxpayer to repay the credits awarded if the employees trained are permanently transferred or relocated within two years of receiving the tax credit certificate.

Revenue loss from the extension of the job training tax credit

Taxpayers described above pay the following state taxes: the corporation franchise tax, the individual income tax, the dealers in intangibles tax, the domestic insurance tax, and the foreign insurance tax. Revenues from those taxes are distributed to the General Revenue Fund (GRF) and several local government funds.

Revenues from the insurance taxes are deposited in the General Revenue Fund (GRF). Receipts from the individual income tax are deposited in the GRF (89.5%), the Library and Local Government Support Fund (LLGSF, 5.7%), the Local Government Fund (LGF, 4.2%), and the Local Government Revenue Assistance Fund (LGRAF, 0.6%). Revenues from the dealers in intangibles tax are distributed to the GRF if the dealer in intangibles is a "qualified" dealer, *i.e.* a dealer that is a member of a controlled group of which a financial institution or insurance company is also a member. If the dealer in tangibles is "unqualified," revenues from the tax are distributed to the GRF (37.5%) and to the County Undivided Local Government Fund (CULGF, 62.5%). LSC assumes that "qualified" dealers will obtain most of the credits available to dealers in intangibles, so there may be no decrease in distributions to the CULGF. Corporate franchise tax receipts are deposited in the GRF (95.2%), the LGF (4.2%), and the LGRAF (0.6%). The statutory distribution formulas were suspended for the current biennium by the budget bill to freeze the deposits to the various local government funds.

The tax credits will be claimed in tax returns generally filed during FY 2007 for the various taxes. Assuming that 95% of the credits will be claimed for the year for which they are allowed, state revenue loss from credits claimed in FY 2007 would be up to $19.0 million, with the remainder of the credits, $1.0 million, claimed in FY 2008. Assuming that distributions to the GRF would be at least 95.2% of all receipts from the various taxes, GRF revenue loss may be $18.0 million of the credits claimed in FY 2007. Potential revenue loss to local government funds, up to $1.0 million, will occur primarily in CY 2007 (FY 2007 for most local governments). Potential revenue loss to the GRF in FY 2008, up to $1.0 million, would be from carryover credits claimed in FY 2008. Revenue loss from the job training tax credit in that fiscal year may be higher due to the carryover of credits awarded for previous tax years.

Fiscal Impact of the Managed Care Franchise Fee Date Change

House Bill 66 of the 126th General Assembly authorized the Ohio Department of Job and Family Services (ODJFS) to begin the collection of a franchise fee on managed care plans effective January 1, 2006 through the end of the biennium. According to ODJFS, the net revenues collected through this provider assessment are projected to be $8.0 million in FY 2006 and $127.5 million in FY 2007 (all funds), and will be dedicated towards the statewide Covered Families and Children and Aged, Blind, and Disabled managed care expansions mandated in the budget bill. Presently, the federal government is engaged in a federal budget reconciliation process that threatens Ohio's ability to implement the managed care franchise fee. According to ODJFS, the January 1, 2006 start date in the Ohio Revised Code will preclude Ohio from implementing the fee. The bill would change the effective date of the managed care plan assessment to December 1, 2005 to potentially preserve the revenue source. If the state imposes the fee beginning December 1, 2005, the state would gain an additional $437,000 in net revenue, assuming approval from the Centers for Medicare and Medicaid.

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