Ohio Legislative Service Commission

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Office of Research and Drafting

Legislative Budget Office

H.B. 114
133rd General Assembly

Fiscal Note & Local Impact Statement

Click here for H.B. 114's Bill Analysis

Version: As Introduced

Primary Sponsors: Reps. Skindell and Crawley

Local Impact Statement Procedure Required: Yes

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Highlights

Fund	FY 2021	FY 2022	Future Years
State General Revenue Fund			
Revenues	Loss of $569 million	Loss of $580 million	Annual losses of $580 million
Local Government and Public Library funds (counties, municipalities, townships, and public libraries)			
Revenues	Loss of $20 million	Loss up to $20 million	Annual losses of $20 million

Note: The state or school district fiscal year runs from July 1 through June 30 and is designated by the calendar year in which it ends. For other local governments, the fiscal year is identical to the calendar year.

- The bill makes the earned income credit (EIC) refundable on or after January 1, 2019.
- Although the Ohio EIC was equal to 10% of the taxpayer's federal earned income tax credit (EITC) at the time H.B. 114 was introduced, the value now equals 30% of the federal credit. Enabling Ohio taxpayers to claim a refundable version of the current credit in tax year 2020 would reduce statewide personal income tax (PIT) liability by an estimated $589 million. This estimate should be considered rather rough because it depends on the number of eligible taxpayers who begin claiming the Ohio credit.
- Under current law, the GRF would bear 96.62% of any revenue loss under the income tax during the current biennium, while the Local Government Fund (LGF) would bear 1.68% and the Public Library Fund (PLF) would bear 1.70% of any such revenue loss.

Detailed Analysis

Continuing personal income tax (PIT) law allows for a nonrefundable earned income credit (EIC). Beginning with tax year (TY) 2019, the state credit equals 30% of the federal earned income tax credit (EITC) claimed on the taxpayer's federal tax return. H.B. 114 changes the nonrefundable status of the Ohio EIC to refundable. The bill was introduced on February 28, 2019, when the Ohio EIC equaled 10% of the federal EITC. Shortly thereafter, the Governor signed H.B. 62 on April 3, 2019, which contained a provision increasing the Ohio EIC to 30% of the corresponding federal credit's value.

This fiscal note estimates the cost of a refundable credit equal to 30% of the federal EITC, and assumes TY 2020 would be the first year that taxpayers could claim refunds. The As Introduced version is effective beginning with TY 2019, so the actual revenue loss would be higher if this start date was maintained. The earlier date would enable applicable PIT filers to submit amended state tax returns in order to claim refunds authorized by H.B. 114.

Fiscal effect

The bill creates a new incentive for taxpayers to claim the Ohio EIC on their state tax return. Under current law, the credit is nonrefundable, and PIT filers with a taxable income at or below $21,750 in TY 2019 do not owe any amount.[1] For these taxpayers, and others with little or no PIT liability, there is scant benefit to claim the current nonrefundable credit, but there may be costs associated with filling out the Ohio EIC portion of their state tax return. Empirical evidence from TY 2017 shows that 931,330 Ohio-based taxpayers claimed the EITC on their federal return. However, only 768,311 (approximately 82% of the federal total) personal income tax filers claimed the EIC on their state tax form.

The underrepresentation of EIC claims among PIT filers necessitates an assumption about taxpayers' behavioral response to the refundable policy in H.B. 114. When estimating the fiscal effect for the bill, LBO assumed 95% of all eligible taxpayers would claim this refundable credit on their TY 2020 PIT return, an increase from the current 82% utilization rate. The estimated revenue loss should be considered rough because, while the percentage would almost certainly increase, LBO economists are not aware of a reliable basis for projecting the increase in this utilization rate. That said, if the actual percentage turned out to be 90%, the revenue loss would be about $29 million lower; conversely, it would be about $29 million higher if 100% of eligible taxpayers utilized the refundable credit.

The table below displays estimates of the average PIT refund in a given income category, and then multiplies that amount by the projected number of tax returns. The resulting PIT revenue loss for each income category is found in the right hand column of the table. Since these income classifications are predicated on federal taxpayer information, they reflect federal adjusted gross income (FAGI) rather than Ohio taxable income.

[1] R.C. 5747.02 requires the Tax Commissioner to revise income tax brackets for inflation every August, so the threshold will increase for TY 2020.

Estimated Impact of Refundable Ohio EIC in TY 2020, as Compared to Baseline Law			
Income Category	Average PIT Refund per Tax Return	Number of Tax Returns	PIT Revenue Loss (in millions)
$1 to $10,000	$336	172,683	$58.0
$10,001 to $25,000	$1,052	360,319	$379.1
$25,001 to $50,000	$510	296,479	$151.2
$50,001 to $75,000	$18	17,850	$0.3
Above $75,000	$0	0	$0
Total	**N/A**	**847,331**	**$588.6**

Note: Totals computed using unrounded numbers. Estimated using sample of PIT returns filed for TY 2017.

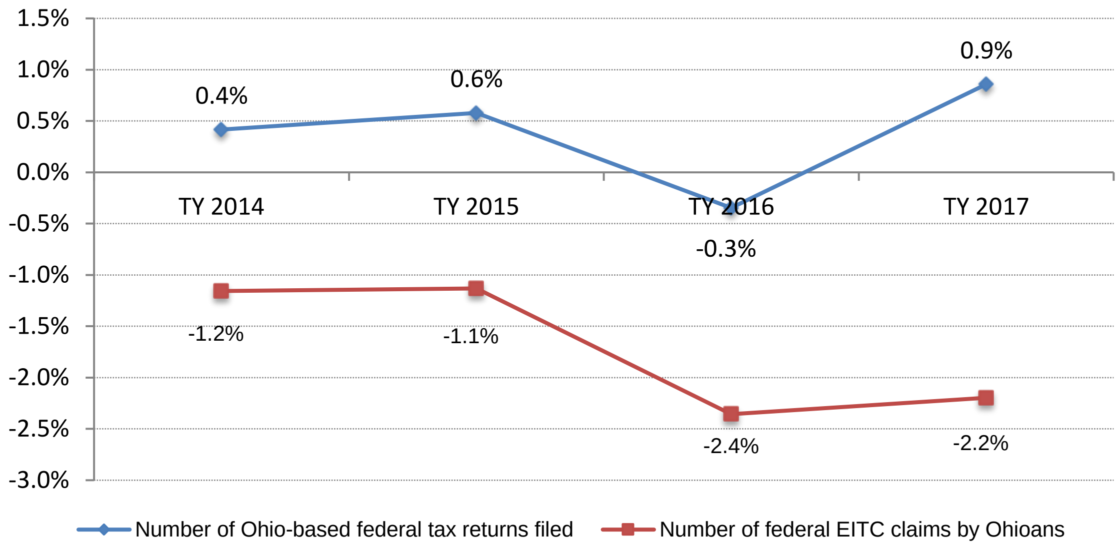
The table only estimates PIT losses for TY 2020, which corresponds with FY 2021 receipts, but foregone revenue amounts in future years would be comparable absent any forthcoming tax policy changes at the state or federal level. The GRF would bear 96.62% of any revenue loss from the income tax during the current biennium under an uncodified provision of H.B. 166 of the 133rd General Assembly, while the Local Government Fund (LGF) would bear 1.68% and the Public Library Fund (PLF) would bear 1.70% of any such revenue loss.[2]

Trends in federal EITC claims

As noted above, in TY 2017, the most recent year for which the Internal Revenue Service (IRS) has published the data, 931,330 tax returns filed by Ohio residents claimed the federal EITC, in amounts totaling $2.26 billion. The overall number of federal EITC claims have declined in recent years. The chart below illustrates the trends among Ohio taxpayers over the most recent five-year period, TY 2013 to TY 2017. IRS statistics for Ohio-based taxpayers generally show the number of tax returns increasing every year, as evidenced by the blue line and its (mostly) positive annual percentage changes. Meanwhile, the number of taxpayers claiming the EITC on their federal return (refer to the red line) has steadily declined over this same duration.

[2] Under current law, the GRF share would revert to 96.68% of the revenue loss beginning July 1, 2021, and the LGF and PLF shares would each revert to 1.66%; these shares are specified in codified law.

Recent Trends in Ohio Taxpayers' IRS Filings and Federal EITC Claims



Nevertheless, the longer history of this federal tax credit demonstrates it is counter cyclical; the number of EITC claims declines during economic expansion but increases immediately after recessions. Although not illustrated by the above chart, claims rose from TY 2003 through TY 2011, albeit not completely under organic circumstances. Some of the growth in EITC claims beginning in TY 2009 was also attributable to an expanded federal eligibility policy authorized by the American Recovery and Reinvestment Act of 2009 (or "federal stimulus" bill). The PIT estimate generated for this fiscal note by LBO assumed continued economic expansion, but state revenue losses could exceed these enumerated amounts during another recession. Finally, the fiscal note assumes no new state or federal policy changes will materialize, other than annual inflation adjustments for the EITC.

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