OHIO LEGISLATIVE SERVICE COMMISSION

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Office of Research and Drafting

Legislative Budget Office

S.B. 10
135th General Assembly

Fiscal Note & Local Impact Statement

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Version: As Passed by the House

Primary Sponsor: Sen. Blessing

Local Impact Statement Procedure Required: Yes

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Highlights

Fund	FY 2023	FY 2024	Future Years
State General Revenue Fund			
Revenues	$0	Loss of $4 million	Net loss totaling $66 million through FY 2033
Local Government and Public Library funds (counties, municipalities, townships, and public libraries)			
Revenues	$0	Loss of $140,000	Net loss totaling $2.3 million through FY 2033

Note: The fiscal year for the state, school districts, and certain other local governments 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 incorporates into Ohio income tax law changes made to the federal Internal Revenue Code (IRC) since February 17, 2022. Personal income tax (PIT) receipts will be affected beginning with tax year (TY) 2023, and the revenue effect will begin in FY 2024 when TY 2023 PIT returns are filed.
- The bill makes corrective amendments to H.B. 45 of the 134th General Assembly.
- The bill declares itself an emergency measure that will go into immediate effect.

Detailed Analysis

Conforming to federal income tax law

The bill incorporates into Ohio income tax law changes to the federal Internal Revenue Code (IRC) made since February 17, 2022, including those by two acts of U.S. Congress, the "Inflation Reduction Act of 2022" (IRA), and the "Consolidated Appropriations Act, 2023" (CAA 2023).

In general, Ohio tax law incorporates by reference parts of the IRC and other federal laws. Periodic amendments to federal law do not become part of Ohio law unless they are incorporated by an act of the General Assembly. Several provisions in IRA and CAA 2023 modified the definition of federal adjusted gross income (FAGI) and these actions materially affect the tax base for some Ohio taxpayers. FAGI is the starting point for determining Ohio adjusted gross income (FAGI with certain additions and deductions), Ohio taxable income, and other elements of the Ohio tax base.

The following are the most significant of the federal changes in the IRA affecting Ohio law:

- Extends limitations on excess business losses and excess farm losses from January 1, 2027, to January 1, 2029;
- Increases the current maximum deduction per square foot for energy efficient commercial buildings.

The most significant changes in the CAA 2023 affecting Ohio law involve the tax treatment of retirement distributions and contributions. Below are some examples of incorporated provisions:

- Increases the age of the required beginning date for mandatory retirement account distributions from 72 to 73 in 2023, and then to age 75 in 2033.
- Authorizes tax-free rollovers of up to $35,000 from 529 education savings plans to Roth individual retirement accounts.
- Authorizes up to $1,000 withdrawals from tax-preferred retirement plans for certain emergency expenses without triggering the standard 10% penalty. (This penalty increases a taxpayer's FAGI.)
- Requires automatic enrollment and yearly escalation of employee contributions into retirement plans started after December 29, 2022.

Fiscal effect

The Joint Committee on Taxation (JCT) separately estimated both federal bills' impact on federal tax revenues. Their projections served as the basis for estimating the overall income gains and losses attributable to the respective provisions. LBO staff assume Ohio taxpayers would claim 3.5% of this U.S. income total. Under this scenario, S.B. 10 would reduce FY 2024 personal income tax (PIT) receipts by more than $4 million, and over the following nine years, the net PIT revenue effect would be losses totaling $68 million. The GRF would bear 96.68% of any PIT revenue loss starting in FY 2024 under current law, while the Local Government Fund and Public Library Fund would each bear 1.66% of any such revenue loss.

Corrective amendments to H.B. 45

The bill makes three corrective amendments to provisions in H.B. 45 of the 134th General Assembly, which do not have a fiscal effect. One provision changes the name of DPF Fund 5CV3 line item 6006A6 from "Legal Services for Ukrainian Refugees" to "Legal Services for Ukrainian Arrivals." Another provision removes a requirement that performing arts organizations and cultural arts museums must undergo an annual, independent audit in order to qualify for a recently enacted temporary economic relief grant program administered by the Department of Development (DEV). H.B. 45 appropriated $50 million in FY 2023 for this purpose; this provision may affect which organizations receive a grant, but is not expected to affect the amount expended from Fund 5CV3 line item 1956E9, ARPA Arts Grant Program. Similarly, the third provision removes December 31, 2021, as the date by which an eligible household's rent and utility arrearages must have been incurred in order to qualify for assistance under the Emergency Rental Assistance Program administered by DEV. This federal funding is provided under Fund 5CV2 appropriation item 195559, Rent and Utility Assistance; H.B. 45 appropriated $161 million in FY 2023 for this purpose. This provision of the bill may affect amounts going to specific households under the program, but is not expected to affect overall expenditures from Fund 5CV2.

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