OHIO LEGISLATIVE SERVICE COMMISSION

Russ Keller

Fiscal Note & Local Impact Statement

Bill: S.B. 35 of the 132nd G.A.

Status: As Introduced

Sponsor: Sen. Skindell

Local Impact Statement Procedure Required: Yes

Subject: Revise Ohio income tax to make earned income tax credit refundable

State and Local Fiscal Highlights

	FY 2017	FY 2018	FUTURE YEARS
State General Revenue Fund			
Revenues	- 0 -	Loss up to $205.5 million	Annual losses likely to grow between 2% and 3%
Local Government and Public Library Funds (Counties, municipalities, townships, and public libraries)			
Revenues	- 0 -	Loss up to $7.1 million	Annual losses likely to grow between 2% and 3%

Note: The state or school district fiscal year is July 1 through June 30. For example, FY 2016 is July 1, 2015 – June 30, 2016. For other local governments, the fiscal year is the calendar year.

- The bill decreases state personal income tax revenue beginning with tax year 2017 returns filed in FY 2018. The revenue loss is estimated at up to $212.6 million in FY 2018 across all state funds; actual revenue losses would be dependent on utilization rates among affected taxpayers as well as future federal policy decisions regarding the federal earned income tax credit.
- The state income tax revenue loss would be shared by the state General Revenue Fund (GRF, 96.68%), the Local Government Fund (LGF, 1.66%) and the Public Library Fund (PLF, 1.66%). Funds deposited into LGF and PLF are distributed to counties, municipalities, townships, and public libraries according to statutory formulas and decisions by county budget commissions.

Detailed Fiscal Analysis

S.B. 35 makes the Ohio earned income credit (EIC) refundable, rather than nonrefundable, and removes the credit's income restrictions, beginning with tax year (TY) 2017. Under current law, the state credit is nonrefundable, so it can result only in a reduction or elimination of a person's Ohio personal income tax (PIT) liability, not a refund. Generally, the Ohio EIC equals 10% of the value of the taxpayer's federal earned income tax credit (EITC), but the Revised Code effectively lowers this percentage for those with taxable income above $20,000.

The maximum likely cost of S.B. 35 can be estimated from IRS statistics[1] by multiplying the value of Ohio taxpayers' federal EITC by 10% and then subtracting the cost of the existing Ohio EIC. Aggregate federal EITC claimed by Ohio taxpayers in TY 2014, the most recent year available for IRS statistics, amounted to $2.34 billion. Based on trend growth observed in those statistics, aggregate federal EITC valuation will be $2.51 billion in TY 2017, of which 10% is $250.6 million. The Tax Expenditure Report, which is released in conjunction with the executive budget proposal, anticipates the existing Ohio EIC will reduce TY 2017 GRF receipts by $36.7 million, which corresponds to a $38.0 million revenue loss across all funds. The difference between $250.6 million and $38.0 million, $212.6 million, is the maximum likely revenue loss from S.B. 35 in TY 2017. This corresponds with a GRF revenue loss of $205.5 million in FY 2018 and the remaining $7.1 million loss would be borne by the LGF and the PLF in equal shares. The revenue loss to the state LGF would reduce receipts to counties, municipalities, and townships statewide, according to statutory formulas and decisions by county budget commissions. The revenue loss to the state PLF would reduce receipts primarily to public libraries statewide.

Should the EITC be expanded by future federal legislation, which has happened numerous times since its inception, the state revenue loss could increase by larger amounts, assuming the Ohio General Assembly continues to incorporate federal tax changes into the Revised Code.

SB0035IN.docx/th

[1] The IRS statistics pertain to Ohio residents. Conceivably, out-of-state taxpayers could benefit from the Ohio EIC if they meet certain conditions.