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Office of Research and Drafting

Legislative Budget Office

S.B. 206

133rd General Assembly

Fiscal Note & Local Impact Statement

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Version: As Introduced

Primary Sponsor: Sen. Schaffer

Local Impact Statement Procedure Required: Yes

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Highlights

The bill requires Columbus, Cleveland, Cincinnati, Toledo, Akron, and Dayton to grant tax credits or refunds to nonresidents for taxes paid to their city of employment. Potential revenue losses to those municipalities may total up to $190 million annually.

Detailed Analysis

The bill requires municipal corporations with annual income tax collections of $100 million or more in any calendar year after 2009 to grant an income tax credit to nonresidents. Based on data on municipal income tax revenue in 2010 from the tax department, the bill applies to Columbus ($651 million), Cleveland ($310 million), Cincinnati ($303 million), Toledo ($145 million), Akron ($120 million), and Dayton ($101 million). In essence, it returns a portion of income taxes collected by the municipalities above to residents of neighboring cities, villages, and townships.[1] Each nonresident's credit equals whichever of the following yields the greater credit: (1) 10% of the nonresident's tax liability or (2) the nonresident's tax liability in excess of 2% of the nonresident's taxable income. If the credit results in an overpayment, the taxpayer may elect to have the overpayment refunded or applied to the next year's tax liability. The credit requirement begins to apply in a municipal corporation in 2019 or in the first year after 2019 in which annual collections from all taxpayers (individuals and others) exceed $100 million. Once the credit requirement applies, it continues to apply even if collections fall below that threshold in a later year. The percentage of

[1] Some of the nonresidents might be residents of other states, especially in the cases of Cincinnati and Toledo.

nonresidents working in Ohio municipalities varies greatly, and most municipalities do not track or do not have the ability to track nonresident employees.

Since 2010, the economic expansion increased collections so that income tax receipts in 2017 (the latest available) rose to the following amounts: Columbus ($855 million), Cleveland ($444 million), Cincinnati ($374 million), Toledo ($176 million), Akron ($140 million), and Dayton ($122 million). These municipalities collected about 39% of all municipal tax collections that year. Regarding tax rates, Columbus, Cleveland, and Dayton each have a municipal income tax rate of 2.5%. A tax rate of 2.25% applies to municipal taxable income in Toledo and Akron. Cincinnati's rate is 2.10%. Thus, rates in excess of 2% as established by the bill would be, respectively, 0.5%, 0.25%, and 0.10%.

Fiscal impact

Prior LBO research provided that the share of income taxes paid by nonresidents was 53% in Columbus[2] and 48% in Akron. Officials in Cincinnati, Toledo, and Dayton previously stated that those municipalities did not specifically track that information, so this fiscal note assumes their nonresident share to be 50%. Income taxes paid to Cleveland by nonresidents is also unknown, so LBO assumes it to be 70%. Based on the criteria described in the bill, the combined potential revenue loss to the six municipalities would have been up to $180 million in 2017. If income taxes grew 2.5% each year in 2018 and 2019, the size of the revenue loss would increase to up to $190 million, if the bill is effective January 1, 2020, and credits or refunds are provided with tax returns filed by April 15, 2020. To the extent the nonresident share of taxes paid would be higher than assumed in this fiscal note, the potential revenue loss from the bill would also be higher. Income taxes are paid by individuals and businesses. However, the bill's credit or refund provision applies only to taxes paid by individuals. The estimate above was adjusted for potential credits or refunds provided to individuals who may pay municipal income taxes through their pass-through enterprises.[3] Note that potential revenue losses may grow in the future due to rate increases or continued economic growth. For example, if the city of Dublin, which received about $83 million in 2017 (the next largest revenue after Dayton), increased its tax rate from 2.0% to 2.5%, its income tax collections would exceed the $100 million threshold in the bill.

To implement the bill, the six municipalities are likely to incur additional costs for tax administration to establish a nonresident income tax tracking system, as taxpayers may move in or out of those cities. (Within a single calendar year, a taxpayer may be both resident and nonresident.) Those additional costs are undetermined. Generally, for persons who work in one municipal corporation, live in another, and are taxed by both, it is likely that at least some part of their tax liability to the municipal corporation where they live will be offset, since most municipal corporations grant a credit against their own income tax for at least some part of the income taxes their residents pay to another municipal corporation. Neighboring municipalities

[2] Columbus' Economic Advisory Committee Report and Recommendations, March 2009.

[3] Primarily S-corporations, partnerships, and sole proprietors. Income taxes paid by C-corporations are not considered for credit or refund.

that provide a partial or full credit to their residents for taxes paid elsewhere are likely to experience a reduction in those costs.

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