



# Ohio Legislative Service Commission

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## Fiscal Note & Local Impact Statement

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**Bill:** S.B. 18 of the 131st G.A.

**Date:** November 5, 2015

**Status:** As Introduced

**Sponsor:** Sen. Gentile

**Local Impact Statement Procedure Required:** Yes

**Contents:** To authorize a refundable income tax credit for employers that hire one or more qualified veterans or members of the National Guard or reserves

### State Fiscal Highlights

- Absent any federal legislation, this personal income tax credit could yield a GRF revenue loss up to \$3.1 million per year, but the actual amount could fluctuate depending on larger economic factors. If the federal work opportunity credit is reauthorized for tax year 2015 and beyond, the bill could reduce GRF receipts up to \$5.8 million per year.

### Local Fiscal Highlights

- The local government fund and public library fund receive a share of GRF tax revenue. Each fund would lose nominal amounts of receipts if the federal work opportunity credit is not reauthorized. If federal legislation reauthorizes the credit, both funds could each lose up to \$100,000 per year.

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### Detailed Fiscal Analysis

Beginning with tax year (TY) 2015, S.B. 18 authorizes a refundable personal income tax (PIT) credit for employers that employ one or more eligible employees. The two types of employees specified by the bill are (1) qualified veterans or (2) members of the National Guard or other reserve components of the armed forces of the United States. Because these two beneficiaries and their corresponding credit values have different circumstances, their fiscal effects are described separately.

#### Qualified veterans

S.B. 18 references "qualified veterans" as being one type of employee that fits the criteria for the employer's PIT credit. The bill defines this term to have the same meaning as found in section 51 of the Internal Revenue Code (IRC), which is explained below in Figure 1.

### Figure 1 – IRS guidance to qualified veterans under Work Opportunity Tax Credit

To be considered a veteran, the individual must:

- Have served on active duty (not including training) in the U.S. Armed Forces for more than 180 days or have been discharged or released from active duty for a service-connected disability, and
- Not have a period of active duty (not including training) of more than 90 days that ended during the 60-day period ending on the hiring date.

In addition to the above the veteran is considered qualified for purposes of the credit if he or she is certified as:

- A member of a family receiving assistance under the Supplemental Nutrition Assistance Program (SNAP) (food stamps) for at least a 3-month period ending during the 12-month period ending on the hiring date.
- Unemployed for a period or periods totaling at least 4 weeks (whether or not consecutive) but less than 6 months in the 1-year period ending on the hiring date.
- Unemployed for a period or periods totaling at least 6 months (whether or not consecutive) in the 1-year period ending on the hiring date.
- Entitled to compensation for a service-connected disability and hired not more than 1 year after being discharged or released from active duty in the U.S. Armed Forces.
- Entitled to compensation for a service-connected disability and unemployed for a period or periods totaling at least 6 months (whether or not consecutive) in the 1-year period ending on the hiring date.

Source: <https://www.irs.gov/Businesses/Small-Businesses-&Self-Employed/Work-Opportunity-Tax-Credit-Frequently-Asked-Questions-and-Answers>

For qualified veterans, S.B. 18 sets the value of the PIT credit equal to the value of the federal Work Opportunity Tax Credit (WOTC). The WOTC permits employers to claim a credit equal to a percentage of the newly hired veteran's first-year wages. However, this credit only applies to veterans that began work before January 1, 2015. Therefore, the value of the credit in TY 2015 would be limited to the first-year wages earned during 2015 by a veteran hired in late 2014.

The WOTC was first authorized in the Small Business Job Protection Act of 1996, and it has been repeatedly reauthorized. Most recently, the Tax Increase Prevention Act of 2014 extended the WOTC retroactively for 2014, but it did not include a provision for any future years. The absence of this federal credit would mean qualified veterans hired in 2015 and thereafter would not enable their employers to receive an Ohio PIT credit either. For this reason, this analysis assumes the provision has no state revenue impact in FY 2016 and thereafter.

If the federal government were to reauthorize the WOTC, many Ohio veterans may qualify based upon recent trends. The maximum value of the federal credit varies based on the circumstances of the veteran and his or her first-year wages. In the absence of detailed taxpayer information, this analysis assumes the mid-point, \$3,500, is representative of the entire population. Based on the wide range of qualified veterans in recent years (refer to Table 1), the federal credit would forgo between \$0.9 million and \$7.9 million per year if the federal credit was reauthorized.

The state revenue loss would not equal the federal revenue loss because the state credit is only applicable against the PIT. Generally, the only employers that pay the PIT are sole proprietorships, smaller employers operating as pass-through entities (e.g., partnerships, LLCs, and S corporations), and perhaps some trusts and estates. In the case of pass-through entities, the individual owners filing a PIT return would

receive the credit based on their share of the ownership of the entity. LSC is unsure how many veterans would receive qualifying wages from these small businesses, but that number could be anywhere from 10% to 35% of the total federal credit. This rough estimate suggests the annual state revenue loss would be \$90,000 to \$2.8 million if the federal credit were reauthorized. The GRF share of this PIT revenue loss would be 96.64% during this biennium; the remaining losses would be incurred by the local government fund (LGF) and public library fund (PLF).

<b>Table 1. Number of Qualified Veterans in Ohio, 2009-2014</b>						
<b>Year</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Qualified Veterans in Ohio	548	254	387	816	576	2,248

Source: Ohio Department of Job and Family Services, Office of Workforce Development

### **Members of the National Guard or other armed forces reserve**

S.B. 18 has a second eligibility component that exists independently of any federal tax provision. The bill authorizes employers to claim a credit up to \$2,400<sup>1</sup> for hiring the members of the National Guard or other reserve components of the armed forces of the United States. Based on 2014 statistics from the Ohio Adjutant General, the Ohio National Guard had 16,309 members, the Army Active Guard/Reserve had 795 members, and the Air Active Guard/Reserve had 431 members. In total, these 17,535 members are unlikely to be hired into new jobs every single year. Only a portion of these service members will join a new employer during a given year. Statistics from the U.S. Bureau of Labor Statistics suggest 21.8% of Americans between the ages of 25 and 44 have been with their current employer for 12 months or less. Therefore, it is not unreasonable to conclude that 3,822 (where  $3,822 = 17,535 * 21.8\%$ ) of the National Guard and Reserve service members are newly hired in a given year. By assuming that between 10% and 35% of the service personnel are hired by an employer paying the PIT, this \$2,400 refundable PIT credit could reduce state receipts by \$0.9 million to \$3.2 million per year. The GRF share of this PIT revenue loss would be 96.64% during this biennium; the remaining losses would be incurred by the LGF and PLF.

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<sup>1</sup> The actual value of the credit is based upon the "qualified first-year wages." Although not defined in the bill, the term is defined in IRC section 51 to mean "with respect to any individual, qualified wages attributable to service rendered during the 1-year period beginning with the day the individual begins work for the employer."