Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: H.B. 358 of the 131st G.A.

Date: April 18, 2016

Status: As Introduced

Sponsor: Reps. Dever and Conditt

Local Impact Statement Procedure Required: Yes

Contents: To allow an income tax deduction for contributions to ABLE savings accounts

State Fiscal Highlights

- The bill allows an Ohio income tax deduction for contributions to a savings account related to the existing Achieve a Better Living Experience (ABLE) Program. The deduction would reduce the state personal income tax (PIT) base and revenue from the tax. Any revenue loss would depend on the number of taxpayers eligible to take the deduction and the value of such deductions.
- Data on current participation in the ABLE Program are not yet available, but plausible estimates of potential usage yield a revenue loss in the millions annually. Revenue losses would begin in FY 2017.
- Currently, all income tax receipts are deposited into the GRF. Each month, the Local Government Fund (LGF) and the Public Library Fund (PLF) receive 1.66% and 1.70% of total GRF tax revenue, respectively. Any revenue loss to the GRF would subsequently reduce distributions to the LGF and PLF.

Local Fiscal Highlights

- Currently, in each month the LGF and the PLF receive 1.66% and 1.70% of total GRF tax revenue, respectively. Thus, any revenue loss associated with the personal income tax deduction would also reduce distributions to the LGF and PLF. Reductions in LGF and PLF distributions would reduce allocations from these funds to various political subdivisions.

Detailed Fiscal Analysis

The bill would authorize an income tax deduction for contributions to a savings account related to the existing Achieve a Better Living Experience (ABLE) Program. The bill specifies that the deduction is limited to $2,000 per taxable year for each ABLE account beneficiary. The $2,000 annual limit per beneficiary applies to an individual taxpayer and married taxpayers, regardless of whether the taxpayer and the taxpayer's spouse file separately or jointly. The bill allows the taxpayer to carry forward and deduct any contributions over the annual limit in later taxable years until the contributions have been fully deducted. The deduction applies to taxable years beginning in or after the calendar year in which the bill is enacted.

The state ABLE Program was authorized in October 2015 under H.B. 155 of the 131st General Assembly. The state ABLE Program was established pursuant to federal law, the Achieving a Better Life Experience Act of 2014, enacted in December 2014. Currently, the state ABLE Program is administered by the Office of the Treasurer of State. Under the program, a designated beneficiary, or a trustee or guardian of a designated beneficiary who lacks the capacity to enter into an agreement, may apply and open an ABLE account to provide funding for the benefit of an eligible individual. According to the Treasurer of State's website,[1] eligible individuals may open an ABLE account by the summer of 2016.

Fiscal effect

The bill would reduce the Ohio personal income tax (PIT) base and thereby revenue from the tax. Any revenue loss would depend on the number of taxpayers eligible to take the deduction and the value of such deductions. LSC staff assume that the deduction would apply beginning in tax year 2016. Currently, PIT receipts are deposited into the GRF.

LSC staff could not find reliable data to estimate the number of taxpayers eligible to take the deduction related to contributions to ABLE accounts and the value of such deductions; this program is new, and data on contributions are not yet available. Based on the most recent data on students with disabilities collected by the federal Office of Special Education Programs (OSEP), in 2012 approximately 280,000 disabled students between ages 3 and 21 enrolled in schools in Ohio. It is not currently known for how many of these students ABLE accounts might be opened. Assuming 56,000 ABLE accounts (20% x 280,000) were established on behalf of the disabled children and on average each account receives $2,000 in annual contributions from eligible taxpayers, a total of $112 million (56,000 x $2,000) of such contributions may be deducted. Using an average state marginal income tax rate of 3% and the estimated contributions to ABLE accounts above, the estimated PIT revenue loss would be about $3.36 million. These

[1] http://www.tos.ohio.gov/Ohio_ABLE.

numbers are illustrative rather than a true estimate of the revenue loss. The most LSC staff can say is that the revenue loss could be in the millions. Assuming that the deduction can be claimed in tax year 2016, revenue losses would begin in FY 2017.

According to an official at the Department of Taxation, the bill would result in an estimated loss of state revenue in the hundreds of thousands of dollars annually beginning in FY 2017,[2] with the loss expected to increase steadily over the course of five to ten years to a likely maximum of about $1.5 million annually.

The majority of the loss would impact the GRF while the remaining loss would be shared by the Local Government Fund (LGF) and the Public Library Fund (PLF). Each month the LGF and PLF receive 1.66% and 1.70% of total GRF tax revenue, respectively. Thus, any revenue loss associated with the PIT deductions would also reduce allocations to the LGF and PLF. Moneys in the LGF are distributed to counties, municipalities, and townships while moneys in the PLF are distributed to libraries. Thus, reductions to these two funds would decrease allocations to such entities. If the revenue loss amounted to the $3.36 million outlined above, approximately $3.25 million would be borne by the GRF, about $56,000 would be borne by the LGF, and about $57,000 would be borne by the PLF.

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[2] ". . . the Office of the Treasurer is responsible for, and is currently working toward, implementing ABLE in Ohio by early 2016." http://www.tos.ohio.gov/Ohio_ABLE.