OHIO LEGISLATIVE SERVICE COMMISSION

Russ Keller

Fiscal Note & Local Impact Statement

Bill: S.B. 5 of the 132nd G.A.

Status: As Reported by Senate Finance

Sponsor: Sens. Hottinger and Eklund

Local Impact Statement Procedure Required: Yes

Subject: Increases the maximum income tax deduction allowed for contributions to a college savings plan or disability savings account; declares an emergency

State & Local Fiscal Highlights

	FY 2018	FY 2019	FUTURE YEARS
State General Revenue Fund			
Revenues	Loss up to $6.7 million	Loss up to $7.1 million	Annual losses likely to grow between 4% and 8%
Local Government and Public Library Funds (counties, municipalities, townships, and public libraries)			
Revenues	Loss up to $0.2 million	Loss up to $0.2 million	Annual losses likely to grow between 4% and 8%
School districts that levy an income tax			
Revenues	Loss up to $0.1 million	Loss up to $0.1 million	Annual losses likely to grow between 4% and 8%

Note: The state fiscal year is July 1 through June 30. For example, FY 2016 is July 1, 2015 – June 30, 2016.

- The bill decreases state personal income tax revenue beginning with tax year 2017 returns filed in FY 2018. The revenue loss is estimated to be $6.9 million in FY 2018 across all state funds; actual revenue losses would be dependent on contribution levels among taxpayers utilizing applicable savings plans.
- 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 the LGF and PLF are distributed to counties, municipalities, townships, and public libraries according to statutory formulas and decisions by county budget commissions.
- The reduction in Ohio taxable income under the bill would reduce school district income tax revenues to those districts that use Ohio taxable income as the basis for calculation of taxes owed. Taxpayers living in these school districts had approximately 7.7% of Ohio taxable income in tax year 2014. If tax returns from these areas claimed 7.7% of the marginal increase in this deduction, aggregate SDIT revenues would be reduced by $0.1 million per year.

Detailed Fiscal Analysis

S.B. 5 increases the maximum personal income tax (PIT) deduction allowed for contributions to a 529 college savings plan from $2,000 to $4,000 per year for each beneficiary. Current law permits Ohio taxpayers to deduct amounts used for tuition credit purchases and 529 college savings plan contributions to the extent such purchases or contributions are included in the contributor's federal adjusted gross income. The PIT deduction currently is limited to $2,000 per beneficiary per year for the taxpayer. The bill increases this annual limit to $4,000.

Similarly, continuing law authorizes a program under which a disabled individual or the individual's guardian or trustee may open an account with the Treasurer of State that is endowed with certain federal income tax and means-tested public assistance advantages. These accounts are referred to as "Achieve a Better Living Experience" (ABLE) savings accounts. Because ABLE account contribution limits are linked to the 529 college savings limitations, the deductions available to these taxpayers will also increase to $4,000 per year under the bill. These accounts were newly eligible for an Ohio tax deduction in tax year (TY) 2016, so LSC does not have any basis for estimating the revenue loss incurred by this bill for ABLE accounts.

S.B. 5 also creates the Joint Committee on Ohio College Affordability. The Committee is charged with studying and developing strategies to reduce the cost of attending college in Ohio. The Committee must hold its first meeting within 60 days after the bill's effective date, and may meet at the members' discretion thereafter. No later than one year after the effective date of the bill, the Committee must submit a report on its findings and recommendations to the Governor and General Assembly. The Committee ceases to exist after that date.

Fiscal effect

Privacy rules prevent LSC from acquiring detailed contribution information from the Ohio Tuition Trust Authority (OTTA), but summary data from OTTA show that increasing the deduction from $2,000 per beneficiary to $4,000 per beneficiary is likely to reduce GRF revenues by $6.7 million. The analysis includes a potential behavioral response from existing and future taxpayers as a result of the new incentive. OTTA statistics show that 13% of all Ohio-owned accounts made contributions between $1,991 and $2,010 during calendar year 2015. The accounts are assumed to be sensitive to tax policy, and LSC made a behavioral adjustment for these accounts as well as lesser adjustments for other accounts contributing above this threshold. The behavioral adjustments represent $1.6 million of the total estimated cost of $6.7 million. Because there is a lack of economic research for this area of state tax policy, these behavioral adjustments are unavoidably rough.

The number of Ohio-owned accounts with 529 college savings contributions grew by 7.0% per year, on average, from 2011 to 2015. Given the expanding scope of taxpayers claiming this deduction, it is plausible to expect the annual revenue loss incurred by this policy to grow between 4% and 8% per year in future years.

Continuing law permits qualifying contributions exceeding the current $2,000 per beneficiary limitation to be deducted on a taxpayer's future year's return until fully utilized. Neither LSC nor the Ohio Department of Taxation has data on the magnitude of contributions that have yet to be deducted. The income tax form does not capture this information for college savings plans or for Ohio ABLE accounts. Because S.B. 5 increases the annual deduction per beneficiary from $2,000 to $4,000, it is likely that taxpayers will utilize this increased deduction to claim contributions made in prior years. Given the absence of data, LSC does not have a reliable basis for estimating the amount of prior year contributions that will be claimed in the first year the threshold is increased. However, the initial surge in utilization should subside in subsequent years.

All PIT revenues are deposited into the GRF, and the Local Government Fund (LGF) and Public Library Fund (PLF) each receive 1.66% of GRF tax receipts. Increasing the PIT deduction for applicable savings plan contributions will reduce revenue to the LGF and PLF by a total of $0.2 million in CY 2018 and by similar amounts in future years.

School district income taxes (SDIT) are based on either Ohio taxable income of taxpayers residing in the school district or on the portion of that income that is earned income, generally limited to wages and self-employment income. School boards and voters of individual school districts choose whether to enact income taxes in their districts and which of these two tax bases to use. For school districts in which Ohio taxable income serves as the starting point for calculation of school district income taxes, increasing the PIT deduction for savings plan contributions will reduce school district income tax revenues. The local revenue reduction amount caused by S.B. 5 for each respective school district depends on the number (if any) of taxpayers living in that district who utilize the marginal increase in the PIT deduction. As of January 2017, 144 school districts levied an income tax from the "traditional" tax base rather than the earned income tax base. During FY 2016, these school districts raised $308.9 million through school district income taxes. Taxpayers living in school districts with the "traditional" tax base had approximately 7.7% of TY 2014 Ohio taxable income. If tax returns from these areas claimed 7.7% of the marginal increase in this PIT deduction, aggregate SDIT revenues would be reduced by $0.1 million per year.

S.B. 5 creates the Joint Committee on Ohio College Affordability and requires the Committee to submit a report on its findings and recommendations to the Governor and General Assembly. The bill does not address the potential compensation or reimbursement of expenditures for the Committee; the bill does not create an appropriation.

Emergency clause

The bill includes an emergency provision which makes its provisions effective as soon as signed into law.

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