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OHIO LEGISLATIVE SERVICE COMMISSION

Office of Research
and Drafting

Legislative Budget
Office

S.B. 26
133rd General Assembly

Fiscal Note & Local Impact Statement

[Click here for S.B. 26's Bill Analysis](#)

Version: As Re-referred by House Rules and Reference

Primary Sponsor: Sen. Kunze

Local Impact Statement Procedure Required: No

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Highlights

Fund	FY 2020	FY 2021	Future Years
State General Revenue Fund			
Revenues	-\$0-	Loss between \$0.6 million and \$1.1 million	Annual loss between \$0.6 million and \$1.1 million
Local Government and Public Library funds (counties, municipalities, townships, and public libraries)			
Revenues	-\$0-	Loss between \$20,000 and \$40,000	Annual loss between \$20,000 and \$40,000
Expenditures	-\$0-	Decrease between \$20,000 and \$40,000	Decrease between \$20,000 and \$40,000 annually
School districts (school district income tax)			
Revenues	-\$0-	Loss between \$15,000 and \$35,000	Annual loss between \$15,000 and \$35,000

Note: The state or school district fiscal year runs from July 1 through June 30 and is designated by the calendar year in which it ends. For other local governments, the fiscal year is identical to the calendar year.

- Beginning with tax year 2020 returns filed in FY 2021, the bill reduces state income tax receipts for a deduction up to \$250 granted to eligible educators that incur unreimbursed expenses for professional development and classroom supplies.
- Under current law, the GRF would bear 96.62% of any revenue loss under the income tax beginning July 1, 2019, while the Local Government Fund and Public Library Fund would bear 1.68% and 1.7%, respectively, of any such revenue loss.
- 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. If the deduction authorized by S.B. 26 is claimed in proportional manner by taxpayers throughout Ohio, it would reduce school district income tax (SDIT) receipts between \$15,000 and \$35,000 per year.

Detailed Analysis

Summary of provisions with fiscal effects

The bill authorizes Ohio teachers to deduct up to \$250 of unreimbursed expenses incurred each year for professional development and classroom supplies. The federal tax code already authorizes a deduction up to \$250, so this bill exempts the next \$250 of expenses incurred by educators. The bill is effective beginning with tax year (TY) 2020, which corresponds with tax returns filed in FY 2021.

The IRS regards eligible educators as those teaching kindergarten through grade 12, as well as any instructor, counselor, principal, or aide working at least 900 hours a school year in a school that provides elementary or secondary education as determined under state law.

Qualified expenses are unreimbursed amounts the educator paid or incurred for participation in professional development courses, books, supplies, computer equipment (including related software and services), other equipment, and supplementary materials used in the classroom. For courses in health or physical education, the expenses for supplies must be for athletic supplies. This deduction is for expenses paid or incurred during the tax year rather than the academic school year.¹

If two eligible educators are married and file a joint return, they may both claim a deduction for the individual expenses, up to the \$250 limit in law, for a combined total of \$500 on their tax return.

Fiscal effect

The bill will be utilized by those individuals that annually incur more than \$250 in unreimbursed expenses for professional development and classroom supplies. The first \$250 may be deducted from federal adjusted gross income (FAGI), which serves as the starting point for determining Ohio taxable income. Any educator that incurs \$251 or more in qualifying expenses during the taxable year will be able to deduct these marginal expenses, up to \$250 (for those incurring at least \$500 in expenses), when filing their Ohio tax return.

¹ <https://www.irs.gov/taxtopics/tc458>.

Based on marginal tax rates in continuing law, S.B. 26 could reduce an individual educator's state tax liability by up to \$12 annually. However, the typical educator will save less than that amount because most teachers do not have income subject to the top marginal rate of 4.997%. For the most recent year for which data is available, TY 2016, IRS statistics show that 121,820 Ohio tax returns deducted educator expenses on their federal return. Depending on how many educators claim this personal income tax (PIT) benefit on their marginal education expenses (as well as the applicable tax rate), the bill could reduce PIT receipts between \$0.6 million and \$1.2 million per year.

Survey information from the National Center for Education Statistics (NCES) indicates that a substantial portion of Ohio educators will utilize the S.B. 26 deduction. In 2015, NCES surveyed teachers about their use of unreimbursed money on classroom supplies. Among school teachers surveyed, 44% spent less than \$250, 36% spent between \$250 and \$500, and 20% spent more than \$500.² The NCES survey did not ask about professional development expenditures, which are also permissible expenses that both the IRS and S.B. 26 allow taxpayers to deduct on their respective tax forms.

The GRF would bear 96.62% of any revenue loss under the income tax in FY 2021, while the Local Government Fund and Public Library Fund would bear 1.68% and 1.7%, respectively, of any such revenue loss. These two funds would lose a combined amount between \$20,000 and \$40,000 per year under S.B. 26. Under current law, the GRF would bear 96.68% of the revenue loss beginning July 1, 2021, with the other two funds each bearing 1.66%.

School district income taxes (SDITs) 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 SDITs, increasing the PIT deduction for eligible educator expenses will reduce SDIT revenues. Based on TY 2016 filings, approximately 10.4% of Ohio residents' income is sourced to one of these districts levying a traditional base SDIT. If the deduction authorized by S.B. 26 is claimed in proportional manner throughout Ohio, it would reduce SDIT receipts between \$15,000 and \$35,000 per year.

² <https://nces.ed.gov/pubs2018/2018097.pdf>.