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OHIO LEGISLATIVE SERVICE COMMISSION

Office of Research and Drafting

Legislative Budget Office

H.B. 623
133rd General Assembly

Fiscal Note & Local Impact Statement

Click here for H.B. 623's Bill Analysis

Version: As Introduced

Primary Sponsor: Rep. Cross

Local Impact Statement Procedure Required: Yes

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Highlights

Fund	FY 2021	FY 2022	Future Years
State General Revenue Fund			
Revenues	Loss of $53 million	Loss of $55 million	$0
Expenditures	$0	$0	$0
Local Government and Public Library funds (counties, municipalities, townships, and public libraries)			
Revenues	Loss of $2 million	Loss of $2 million	$0
Expenditures	$0	$0	$0

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.

- The bill would let state income taxpayers deduct all out-of-pocket dental expenses in computing taxes due for tax years 2020 and 2021, resulting in an estimated revenue loss of $55 million in FY 2021 and $57 million in FY 2022. The deduction would end after two years.
- The revenue loss to the Local Government Fund (LGF, Fund 7069) and Public Library Fund (PLF, Fund 7065) would total about $2 million in each year. The rest of the loss would be borne by the GRF.

Detailed Analysis

The bill would allow a taxpayer, in computing state income taxes due for tax years 2020 and 2021, to deduct the amount the taxpayer paid during the year for dental services for the taxpayer, spouse, and dependents. The deduction would be subtracted from federal adjusted gross income (FAGI) in determining Ohio adjusted gross income. To qualify to be deducted, the amount could not have been otherwise deducted or excluded in computing federal adjusted gross income, nor could it have been compensated by insurance. As used in the bill, "dental services" is defined broadly to include diagnostic, preventive, restorative, emergency, palliative, or cosmetic treatment of the teeth or associated structures of the oral cavity provided by a licensed dentist or dental hygienist. The deduction would end in 2022.

Current law on deducting dental expenses

Federal and Ohio income tax laws allow out-of-pocket medical expenses, including noncosmetic dental expenses, to be deducted to the extent that they exceed 7.5% of the taxpayer's federal adjusted gross income. The limit, 7.5% of FAGI, is compared with the total of all qualifying unreimbursed medical, dental, and vision care expenditures in determining whether any can be deducted under current law. Consequently, some dental care expenses may currently be part of the total that qualifies a taxpayer for this deduction even if the dental care expenses alone are less than, even much less than, the limit. The bill would expand this deduction, for the 2020 and 2021 tax years only, to include dental expenses not currently deductible because of the 7.5% limitation, and to include cosmetic procedures.

In the calculations that follow, dental expenses that are part of total unreimbursed medical, dental, and vision in excess of 7.5% of taxpayers' FAGI, qualifying them to deduct the excess, are ignored. The amount of such dental care expenses appears difficult to quantify and likely small relative to total dental care costs and to all medical payments resulting in total outlays in excess of the limit. All dental care costs are here assumed to reduce taxable income during the two years that the bill's provisions would be in effect.

Calculation of estimated revenue losses

Total spending on dental services is reported by the National Center for Health Statistics (NCHS) at $129.1 billion nationwide in 2017.[1] LBO has not identified comparable data for Ohio. The amount of such spending has been trending upward for decades, and is here assumed to grow about 4.2% per year in 2018, 2019, and 2021, in line with growth rates in recent years. Because of the recession in 2020, spending on dental services is assumed unchanged this year. Data from the U.S. Bureau of Economic Analysis indicate that growth of consumer spending on dental services tends to slow in recession years. Consumer spending on dental care was about unchanged in recession trough year 2009 from the year before, but did not decline from one year to the next during the period 1946-2018. Nevertheless, because of the COVID-19

[1] The National Center for Health Statistics is part of the Centers for Disease Control and Prevention in the U.S. Department of Health and Human Services. The data cited are at https://www.cdc.gov/nchs/hus/contents2018.htm#Table_044.

pandemic, the assumption that total spending on dental care in 2020 will equal that in 2019 is a source of considerable uncertainty in this fiscal analysis.

NCHS also reports the portion of total spending from various sources including out-of-pocket payments. Decades ago, virtually all dental care expenses were paid out of pocket. In recent years, the share of out-of-pocket expenses in total spending has been little changed from year to year; it was 41.1% in 2017.

Ohio's share of out-of-pocket dental service spending is estimated at $2.05 billion in 2020 and $2.14 billion in 2021. These amounts are figured based on the above national numbers and Ohio's estimated share of the U.S. population, 3.6% in 2019. Use of this percentage is consistent with assumptions that Ohioans tend on average to use dental services at about the same rate as persons in other parts of the country, and to pay a similar share out of pocket.

The revenue loss from allowing deductions for income taxpayers of all incomes is estimated at $55 million in tax year 2020 and $57 million in tax year 2021. These revenue loss estimates are the product of the above estimated Ohio amounts of out-of-pocket spending on dental care times 2.7%. This percentage is the estimated weighted average of taxes owed on marginal changes in taxable incomes, with weights proportional to numbers of personal deductions. The tax year 2020 revenue loss would mainly affect state revenues in FY 2021, when taxpayers pay final settlements or receive refunds for that tax year. The tax year 2021 revenue loss would mainly affect state revenues in FY 2022.

Under revenue sharing in Ohio, the Local Government Fund (LGF) and Public Library Fund (PLF) distribute a portion of GRF tax revenues to counties, municipalities, townships, and public libraries. The LGF receives 1.68% of GRF tax revenues in FY 2020 and FY 2021, under a provision of H.B. 166 of the 133rd General Assembly, and 1.66% of GRF tax revenues in codified law.[2] The PLF receives 1.70% in FY 2020 and FY 2021, and 1.66% in codified law. The estimated revenue losses from the bill would reduce the total of these distributions by up to about $2 million per year. The remaining portion of the estimated revenue loss, $53 million in FY 2021 and $55 million in FY 2022, reduces money available to the GRF.

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[2] Under current law, the codified law percentage for the LGF and PLF will apply beginning in FY 2022.