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S.B. 362
133rd General Assembly

Fiscal Note & Local Impact Statement

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Version: As Passed by the Senate

Primary Sponsor: Sen. Peterson

Local Impact Statement Procedure Required: Yes

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Highlights

- Increasing the limit for an existing nonrefundable tax credit under the domestic and foreign insurance taxes would decrease insurance tax revenue. The amount of such revenue loss would depend on the level of credit-eligible investments in a rural business growth fund and credits issued by the Development Services Agency (DSA).
- The bill increases the maximum amount of tax credit certificates that DSA may approve from $45 million to up to $90 million over the life of the tax credit program.
- The majority of insurance tax receipts are deposited in the GRF, except for a 0.75% surtax on the premiums attributable to fire insurance, which is deposited in the Fire Marshal Fund (Fund 5460).
- The GRF would bear most of any revenue loss beginning not earlier than FY 2024. The revenue loss in that year would not exceed $11.25 million, due to continuing provisions of law that govern the timing of claiming the credits.
- Any reduction in GRF tax receipts would reduce the amount distributed to the Local Government Fund (LGF, 1.66%) and Public Library Fund (PLF, 1.66%). This in turn would reduce distributions from the LGF and PLF to counties, municipalities, townships, and public libraries. The reduced amounts to the LGF and PLF would total up to $1.4 million, spread out over four or more years.

Detailed Analysis

The bill authorizes a new limit for the existing nonrefundable tax credit against domestic and foreign insurance taxes for companies that make credit-eligible investments in a rural business growth fund. If the amount of the credit for a single taxpayer in a taxable year exceeds

the tax due for that year, the excess may be carried forward for up to four years or until fully used. The bill increases the maximum amount of tax credit certificates that the Development Services Agency (DSA) may approve to up to $90 million over the life of the nonrefundable tax credit program. Under existing law, DSA may approve up to $45 million in such tax credits.

Under continuing law,[1] the tax credit would equal an insurance company's credit-eligible capital contribution, as deemed by DSA, and may be claimed gradually under a schedule with up to one-fourth of the total value claimed in each of the taxable years containing the third, fourth, fifth, and sixth anniversaries of when the contribution, or investment, was made. No credit can be claimed in the first two years. Credits claimed by taxpayers may be subject to recapture under certain conditions.

Fiscal effect

Assuming DSA awards the entire new amount of tax credits allowable under the bill, the potential revenue loss may be up to $11.25 million the first taxable year credits may be claimed, equal to one-fourth of the difference between $90 million and $45 million. But the annual revenue loss in subsequent years may be higher than that, depending on credit carryover and taxpayer liabilities. If the amount of credit for a taxable year exceeds the tax due for that year, the excess may be carried forward for not more than four ensuing taxable years.

The majority of insurance tax receipts are deposited into the GRF, which received about 95% of total foreign and domestic insurance tax receipts in FY 2015 through FY 2020. The remaining 5% of total foreign and domestic insurance tax receipts was deposited in the Fire Marshal Fund (Fund 5460).[2] Additionally, under codified law, a portion of GRF tax receipts is allocated to the Local Government Fund (LGF, 1.66%) and the Public Library Fund (PLF, 1.66%).

Due to the time lag between an investment and the claiming of a credit, revenue losses would begin no earlier than FY 2024. The GRF would bear 96.68% of the estimated revenue loss, which would be up to about $10.9 million in the first year. The estimated (combined) revenue loss to the LGF and PLF is up to about $0.4 million per year. Assuming 5% of tax credits were to be claimed against the fire insurance surtax, and if the eligible tax credit cap of $90 million under the bill were reached, the associated lost tax revenue to Fund 5460 would be approximately $0.6 million per year; any revenue loss to that fund would reduce revenue losses to the GRF, LGF, and PLF by a (combined) equivalent amount.

Under continuing law, DSA administrative costs would be offset by a $5,000 application fee charged to any companies that apply to DSA for a rural business growth fund tax credit authorization. Revenue from the fee is deposited into the Tax Incentives Operating Fund, used by DSA.

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[1] These timing provisions are in section 122.152 of the Revised Code, which is not in the bill.

[2] A 0.75% surtax on the premiums attributable to fire insurance is allocated to Fund 5460. During FY 2015 through FY 2020, approximately 5.2% of the insurance tax receipts were deposited into that fund, which is used by the Department of Commerce.