OHIO LEGISLATIVE SERVICE COMMISSION

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Office of Research and Drafting

Legislative Budget Office

H.B. 125
135th General Assembly

Fiscal Note & Local Impact Statement

Click here for H.B. 125's Bill Analysis

Version: As Passed by the House

Primary Sponsors: Reps. Mathews and Santucci

Local Impact Statement Procedure Required: Yes

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Highlights

Fund	FY 2025	FY 2026	Future Years
State General Revenue Fund			
Revenues	Loss up to $14.8 million	Loss up to $7.9 million	Annual losses compound with inflation
Local Government and Public Library funds (counties, municipalities, townships, and public libraries)			
Revenues	Loss up to $520,000	Loss up to $280,000	Annual losses compound with inflation

Note: The fiscal year for the state, school districts, and certain other local governments 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 increases the existing personal income tax (PIT) deduction for tuition savings plans and STABLE accounts by doubling the amount that may be claimed by married taxpayers filing joint returns and annually adjusting the deduction limit for all taxpayers. The bill is effective in tax year (TY) 2023, and it will reduce PIT revenues beginning in FY 2025. Since taxpayers can claim the deduction retroactively by filing amended tax returns, the PIT revenue loss in FY 2025 will be higher than in subsequent years.

Detailed Analysis

Existing law grants a personal income tax (PIT) deduction (up to $4,000 per beneficiary) for taxpayers who contribute to a 529 tuition savings plan or a STABLE[1] account. The bill raises the PIT deduction limit for joint filers from $4,000 per beneficiary to $8,000 per beneficiary beginning in tax year (TY) 2023. The bill also indexes these contribution limits for inflation, based on increases in the national gross domestic product (GDP) deflator, beginning in TY 2024.

Fiscal effect

Contributions to Ohio 529 Plans and State Income Tax Deductions		
Tax Year	Contributions	Income Tax Deduction
2018	$813,411,775	$540,325,040
2019	$854,632,448	$546,674,464
2020	$868,368,484	$569,868,243
2021	$1,066,226,238	$606,398,751
2022	$942,639,375	$595,961,796

Source: Ohio Tuition Trust Authority; Ohio Department of Taxation

S.B. 33 of the 134th General Assembly expanded the existing state income tax deduction to include contributions made to out-of-state tuition savings programs. The change was effective beginning January 1, 2023, so taxpayer data in response to this policy change is not yet available. Based on evidence from other states, the S.B. 33 expansion could increase the PIT deduction by 50% in TY 2023, to about $950 million.

The provisions in H.B. 125 could further increase the tax deduction by another $216 million in TY 2023, to about $1.17 billion. By assuming a 3.5% marginal income tax rate would apply to the excluded income (on average), the state revenue loss would be nearly $7.6 million (where $216 million is multiplied by 3.5%) for TY 2023 income tax returns that are amended and filed in FY 2025.

The annual inflation adjustment could increase the tax deduction to $238 million in TY 2024 and $251 million in TY 2025. Applying a 3.25% marginal income tax rate (due to PIT rates being lowered in TY 2024) to these amounts suggests a revenue loss of $7.7 million in FY 2025, and $8.2 million in FY 2026. Note that the bill is effective in TY 2023, so PIT revenue losses in FY 2025 could be up to $15.3 million, assuming all taxpayers claim the deduction for TY 2023 by filing amended returns in FY 2025. Under codified law, the GRF would bear 96.6% of any PIT revenue loss, while the Local Government Fund (LGF) and Public Library Fund (PLF) would each bear 1.7%.

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[1] Ohio STABLE accounts allow individuals with disabilities to save and invest money without losing eligibility for certain public benefits programs. Approximately 2,000 tax returns claimed this deduction in TY 2022.