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OHIO LEGISLATIVE SERVICE COMMISSION

Office of Research and Drafting

Legislative Budget Office

H.B. 290
135th General Assembly

Fiscal Note & Local Impact Statement

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Version: As Introduced

Primary Sponsors: Reps. Weinstein and McNally

Local Impact Statement Procedure Required: Yes

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Highlights

- The bill would authorize a refundable state income tax credit for lower income families with minor children.
- Losses of revenue available for GRF spending might range to more than $700 million but are quite uncertain.
- Reductions in distributions through the Local Government Fund (LGF, Fund 7069) and the Public Library Fund (PLF, Fund 7065) to units of local government and libraries might approach or exceed $14 million from each fund.

Detailed Analysis

Description of the bill's tax credit

The bill would let qualifying taxpayers deduct credits for children under the age of 18 who are their dependents. To the extent the credits exceed taxes otherwise due, the excess would be refunded to the taxpayers. For a taxpayer to qualify for the credit, the taxpayer must have a dependent who is less than 18 years old, and the taxpayer's federal adjusted gross income (FAGI) must be $85,000 or less. The credit equals $1,000 for each dependent less than six years of age, and $500 for dependents ages six through 17. Between FAGI of $65,000 and $85,000, the credit phases out at the rate of one-twentieth for each $1,000 of FAGI.

The bill would go into effect for tax years ending on or after its effective date. Tax year (TY) 2025 returns will be filed in FY 2026, which is the earliest year revenue losses will occur.

Calculations of fiscal effects

The bill's fiscal effects are estimated using summary Ohio individual income tax return data for TY 2022. From total exemptions claimed and joint filer data, the number of dependents claimed can be figured at about 2.7 million, of whom 1.4 million were claimed by taxpayers with FAGI of $85,000 or less.

Taxpayers may claim exemptions for dependents of various ages who meet the requirements to be claimed. LBO did not find data on the ages of persons claimed as dependents. However, the Internal Revenue Service (IRS) does publish national data classifying exemptions for dependents into four categories: children at home (88% of total dependent exemptions), children away from home (0.4%), parents (4%), and others (8%). The latest such data found are for TY 2017. For purposes of this fiscal note, children at home are assumed to be age 17 or younger, and children away from home are assumed to be older, though clearly these assumptions would not be correct in numerous cases. Parents who are dependents would never qualify a taxpayer for the bill's benefits, but some in the "other dependents" category might, as the bill only specifies that a child must be the taxpayer's dependent. A grandchild who is a dependent of the taxpayer, for example, might qualify the taxpayer for the bill's benefits. In the calculations that follow, dependents in the "other dependents" category are excluded.

For various FAGI ranges from under $5,000 to $75,000-$100,000, children at home accounted for 82% to 90% of exemptions for dependents. These percentages were used to reduce the total estimated number of dependents shown by the TY 2022 summary Ohio income tax data, as an approximation to the numbers of dependents whose ages would qualify taxpayers for the bill's benefits. The estimated number is about 1.3 million. On the assumption that about one-third of these dependents are ages zero through five, and about two-thirds are ages six through 17, the estimated number of dependents is multiplied by $666.67 to derive an estimate of the cost of the bill. A further downward adjustment is made for returns with FAGI between $65,000 and $85,000, to account for the phase-out in the bill.

With these adjustments, the total of estimated refundable credits is about $809 million. A reduction of income tax revenue of this amount would reduce distributions to each of the Local Government Fund (LGF, Fund 7069) and the Public Library Fund (PLF, Fund 7065), at 1.7% apiece, by about $14 million each. Money available to the GRF would be reduced about $782 million. Because of the various uncertainties regarding numbers of qualifying dependents, these estimates may be well off the mark. But clearly the cost of the bill would range into the hundreds of millions of dollars.

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