



# Ohio Legislative Service Commission

Russ Keller

## Fiscal Note & Local Impact Statement

**Bill:** S.B. 6 of the 131st G.A.

**Date:** May 14, 2015

**Status:** As Passed by the Senate

**Sponsor:** Sens. Jones and Eklund

**Local Impact Statement Procedure Required:** Yes

**Contents:** Increases the maximum income tax deduction allowed for contributions to a 529 college savings plan from \$2,000 to \$10,000 per year for each beneficiary; declares an emergency

### State Fiscal Highlights

| STATE FUND                  | FY 2016                                   | FY 2017                                   | FUTURE YEARS                                     |
|-----------------------------|---|---|--|
| <b>General Revenue Fund</b> |   |   |  |
| Revenues                    | Loss between \$9 million and \$12 million | Loss between \$9 million and \$12 million | Annual loss between \$9 million and \$12 million |
| Expenditures                | - 0 -                                     | - 0 -                                     | - 0 -  |

Note: The state fiscal year is July 1 through June 30. For example, FY 2016 is July 1, 2015 – June 30, 2016.

- Increasing the maximum income tax deduction for contributions to 529 college savings plans from \$2,000 per beneficiary to \$10,000 per beneficiary is likely to reduce GRF revenues by \$9 million to \$12 million per year. If the bill were enacted during calendar year (CY) 2015, the deduction would be effective for tax year 2015, thereby creating the first revenue loss in FY 2016.
- The bill establishes a Joint Committee on Ohio College Affordability, but does not establish a funding source for it. Any costs incurred would likely be minimal.

### Local Fiscal Highlights

| LOCAL GOVERNMENT   | FY 2015 | FY 2016                                      | FUTURE YEARS  |
|--|---------|--|---|
| <b>Counties, municipalities, townships, and public libraries (LGF and PLF)</b> |         |  |   |
| Revenues   | - 0 -   | Loss between \$0.3 million and \$0.4 million | Annual loss between \$0.3 million and \$0.4 million |
| Expenditures   | - 0 -   | - 0 -  | - 0 -   |
| <b>School Districts that levy a school district income tax (SDIT)</b>          |         |  |   |
| Revenues   | - 0 -   | Potential loss                               | Potential loss                                      |
| Expenditures   | - 0 -   | - 0 -  | - 0 -   |

Note: For most local governments, the fiscal year is the calendar year. The school district fiscal year is July 1 through June 30.

- All income tax revenues are deposited into the GRF, and the Local Government Fund (LGF) and Public Library Fund (PLF) each receive 1.66% of GRF receipts. Increasing the deduction for 529 savings plan contributions will reduce revenue to the LGF and PLF by \$0.3 million to \$0.4 million in CY 2016 and by similar amounts in future years.
  - 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. Taxpayers living in these school districts have approximately 8.5% of Ohio taxable income. If tax returns from these areas claimed 8.5% of the marginal increase in this deduction, aggregate SDIT revenues would be reduced by \$0.2 million per year.
- 

## Detailed Fiscal Analysis

S.B. 6 increases the maximum personal income tax (PIT) deduction allowed for contributions to a 529 college savings plan from \$2,000 to \$10,000 per year for each beneficiary. Current law permits Ohio taxpayers to deduct amounts used for tuition credit purchases and 529 college savings plan contributions to the extent such purchases or contributions are included in the contributor's federal adjusted gross income. The PIT deduction currently is limited to \$2,000 per beneficiary per year for the taxpayer. The bill increases this annual limit to \$10,000.

S.B. 6 also creates the Joint Committee on Ohio College Affordability. The Committee is charged with studying and developing strategies to reduce the cost of attending college in Ohio. The Committee must hold its first meeting within 60 days after the bill's effective date, and may meet at the members' discretion thereafter. No later than one year after the effective date of the bill, the Committee must submit a report on its findings and recommendations to the Governor and General Assembly. The Committee ceases to exist after that date.

### Fiscal effect

Privacy rules prevent LSC from acquiring detailed contribution information from the Ohio Tuition Trust Authority (OTTA), but summary data from OTTA show that increasing the deduction from \$2,000 per beneficiary to \$10,000 per beneficiary is likely to reduce GRF revenues by \$9 million to \$12 million per year. The analysis does not account for any potential behavioral responses from existing and future taxpayers to the new incentive. Though such responses are likely, LSC economists are unaware of research that would provide a reliable basis for estimating effects on revenue.

OTTA contribution information shows that over the past five years (2008-2012), between 43% and 52% (*percentage varies depending upon year being observed*) of Ohio beneficiary accounts receiving a contribution, received more than \$2,000. Essentially, these statistics suggest the median contribution amount per beneficiary is close to \$2,000,

but the median exceeded \$2,000 only in the most recent year of the five-year sample. Over the past five years (2008-2012), between 14% and 20% of Ohio beneficiary accounts receiving a contribution, received more than \$5,000, which implies that increasing the per beneficiary limitation beyond \$5,000 would affect fewer than one in five beneficiaries.

S.B. 6 creates the Joint Committee on Ohio College Affordability and requires the Committee to submit a report on its findings and recommendations to the Governor and General Assembly. The bill does not address the potential compensation or reimbursement of expenditures for the Committee; the bill does not create an appropriation.

All PIT revenues are deposited into the GRF, and the Local Government Fund (LGF) and Public Library Fund (PLF) each receive 1.66% of GRF receipts. Increasing the PIT deduction for 529 savings plan contributions will reduce revenue to the LGF and PLF by a total of \$0.3 million to \$0.4 million in CY 2016 and by similar amounts in future years.

School district income taxes (SDIT) 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 school district income taxes, increasing the PIT deduction for 529 savings plan contributions will reduce school district income tax revenues. LSC does not have an estimate of the amount of this reduction. As of January 2014, 146 school districts levied an income tax from the "traditional" tax base rather than the earned income tax base. During FY 2013, these school districts raised \$277.2 million through school district income taxes. The local revenue reduction amount caused by S.B. 6 for each respective school district depends on the number (if any) of taxpayers living in that district who utilize the marginal increase in the PIT deduction. Taxpayers living in school districts with the "traditional" tax base have approximately 8.5% of Ohio taxable income. If tax returns from these areas claimed 8.5% of the marginal increase in this PIT deduction, aggregate SDIT revenues would be reduced by \$0.2 million per year.

### **Emergency clause**

The bill includes an emergency provision which makes its provisions effective as soon as signed into law.