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Office of Research and Drafting

Legislative Budget Office

H.B. 451
135th General Assembly

Fiscal Note & Local Impact Statement

Click here for H.B. 451's Bill Analysis

Version: As Introduced

Primary Sponsors: Reps. Wiggam and King

Local Impact Statement Procedure Required: Yes

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Highlights

Department of Commerce

- The bill creates the Withholding Illegal Revenue Entering Drug Markets (WIRED) Fund under the Department of Commerce (COM) budget to be used in conjunction with the Department of Public Safety to provide grants to law enforcement agencies.
- The WIRED Fund, to be overseen by COM's Division of Financial Institutions, would consist of revenues derived from a 7% remittance fee imposed on licensed money transmitters for international money transfers from a customer in Ohio to a person outside the United States. The remittance fees would be paid to COM on a quarterly basis.
- Based on data provided to COM by the Nationwide Multistate Licensing System (NMLS) and data obtained from the Bureau of Economic Analysis (BEA), revenues derived from the 7% remittance fee could range between $105 million and $246 million annually.

Department of Public Safety

- The Department of Public Safety (DPS) will likely incur additional costs to administer a new grant program for law enforcement agencies, the magnitude of which will depend on the amount of money credited to the WIRED Fund, which supports the program. Minimal one-time costs will also be incurred to adopt rules in consultation with the Superintendent of Financial Institutions related to program guidelines and fund administration.

Taxation

- Authorizing a refundable tax credit against a taxpayer's aggregate state personal income tax (PIT) liability for the amount of remittance transfer fees that the taxpayer paid to a money transmitter would reduce PIT receipts between $105 million and $246 million annually. Such an estimate assumes all fees paid are refunded to taxpayers.

- The PIT is a GRF tax revenue source. In the initial year of the new tax policy, the GRF would bear 96.6% of the estimated revenue loss. In subsequent years, the GRF would receive reimbursement, as the bill requires the Director of Budget and Management to transfer money to the GRF from the WIRED Fund in an amount equal to tax credits claimed in the preceding fiscal year.
- Under continuing law, the Local Government Fund (LGF) and Public Library Fund (PLF) each receive transfers equal to 1.7% of GRF tax revenue, thus, they will each bear a portion of the PIT revenue losses, or approximately between $1.8 million and $4.2 million per year. Whereas the bill has a reimbursement mechanism for the GRF, no such provision applies to the LGF and PLF revenue losses.

Detailed Analysis

Overview

The bill imposes a fee on international transactions by money transmitters operating in Ohio. Specifically, the remittance transfer fee would be imposed on money transmissions from a customer in Ohio to a person outside the United States. The proceeds from the fee would be used to provide grants to law enforcement agencies to help them defray costs related to undocumented immigration, human trafficking, and drug trafficking. The Department of Commerce (COM), Department of Public Safety (DPS), and Department of Taxation (TAX) each have a role in the implementation of the bill. The fiscal impact to each agency is discussed in detail below.

Department of Commerce

The Division of Financial Institutions oversees state licensing of all money transmitters and would be responsible for collecting the 7% fee on money transmissions from a customer in Ohio to a person outside of the U.S. as required by the bill. Money transmitters would be responsible for submitting these fees to the Division of Financial Institutions quarterly. Although the bill makes the money transmitter responsible for paying this fee, if that cost is subsequently passed on to the customer making the international transaction, the customer may claim a refundable income tax credit. According to LBO's *2023 Occupational Licensing and Regulatory Boards Report*, there were 182 licensed money transmitters in Ohio. Note that banks, credit unions, savings and loan institutions, and savings banks are exempt from the license requirement and, therefore, would not be subject to the remittance transfer fee under the bill.

Fiscal effect

The bill creates the Withholding Illegal Revenue Entering Drug Markets (WIRED) Fund under the COM budget, where the remittance transfer fees would be deposited. COM and the DPS must use the money in the WIRED Fund to award grants to law enforcement agencies. The availability of these grants would depend on the revenue generated through the fee in the bill. LBO estimates this fee may generate between $105 million and $246 million (detailed under "**Estimated remittance transfer fees**" below). The Division of Financial Institutions will incur additional costs to administer the WIRED Fund, and, along with D, to establish guidelines for administering the grants issued from the fund.

Department of Public Safety grant program

The bill requires DPS to administer a grant program for law enforcement agencies to defray costs related to undocumented immigration, human trafficking, and drug trafficking. Funding for the program is derived from the WIRED Fund as described above.

Fiscal effect

DPS will also incur minimal one-time costs to adopt rules in consultation with the Superintendent of Financial Institutions that establish guidelines for the grant program and for administering the WIRED Fund. DPS will also experience ongoing costs to administer the new grant program. The magnitude of the number and size of the grants that will be made to law enforcement agencies annually will depend on the amount of money credited to the WIRED Fund. As reported by the Attorney General's Office, there are around 950 law enforcement agencies in the state, with more than 600 being municipal police departments.

Taxation

The bill authorizes a refundable tax credit against a taxpayer's aggregate state personal income tax (PIT) liability for the amount of remittance transfer fees that the taxpayer paid to a licensed money transmitter when transferring money to a person outside of the United States. The amount of credit that may be claimed is up to $2,000 per taxable year, including any credit amounts apportioned or allocated to the taxpayer by a pass-through entity (PTE). The credit applies only to remittance transfer fees paid for transactions in which the taxpayer is the customer of a licensee or authorized delegate.

The bill allows the Tax Commissioner to require the taxpayer to furnish proof of payment of remittance transfer fees as a condition of obtaining the credit authorized under the bill. The bill requires the Tax Commissioner, on or before July 30 of each year, to certify to the Superintendent of the Division of Financial Institutions and the Director of the Office of Budget and Management (OBM) the amount of tax credits claimed in the preceding fiscal year. Within 15 days after receipt of the certification, the OBM Director must transfer money equal to the certified amount to the GRF from the newly created WIRED Fund.

The remittance transfer fee applies to transactions on and after the first day of the first month that begins after the bill's effective date and the credit applies to taxable years ending on or after the bill's effective date. Potentially, the fee could begin in calendar year 2025 and taxpayers will claim the credit for tax year 2025 returns filed in the latter months of FY 2026. Under these assumptions, transfers from the WIRED Fund to the GRF will begin in FY 2027.

Fiscal effect

The refundable tax credit provision would reduce PIT receipts by roughly between $105 million and $246 million annually. The estimates are based on assumptions and data sources described in the following paragraphs. The PIT is a GRF tax revenue source. In the initial year of the new tax policy, the GRF would bear 96.6% of the estimated revenue loss. In subsequent years, the GRF would receive funding to offset the PIT losses occurring in the preceding year.

Under continuing law, the Local Government Fund (LGF) and Public Library Fund (PLF) each receive transfers equal to 1.7% of GRF tax revenue, thus, they will each bear a portion of the PIT revenue losses, or approximately between $1.8 million and $4.2 million per year.

Whereas the bill has a reimbursement mechanism for the GRF, no such provision applies to the LGF and PLF revenue losses. Any reduction to the LGF would reduce allocations to counties, municipalities, townships, and other local government entities. Any reductions to the PLF would decrease allocations to public libraries.

Estimated remittance transfer fees

According to data from the Nationwide Multistate Licensing System (NMLS), received from COM's Division of Financial Institutions, between calendar year (CY) 2018 and CY 2021 the average amount of international wire transfers that originated from Ohio was $5.14 billion per year. Of the total volume of international wire transfers, about 68.4% were made through money transmitters.

In addition, according to the U.S. Bureau of Economic Analysis (BEA), Table 5.1. U.S. International Transactions in Secondary Income, in 2023 approximately $62.23 billion in personal transfers (i.e., remittances) and other private transfer payments were made by both foreign-born and domestic-born U.S. residents.[1] Based on U.S. Census Bureau, 2022 American Community Survey 1-Year Estimates, approximately 3.5% of the U.S. population resided in Ohio. To estimate the amount of annual transfers that would have been made by Ohioans, the percentage of Ohio's population to the nation is multiplied by the amount of BEA's total transfers, yielding roughly $2.19 billion (i.e., $62.23 billion x 3.52% = $2.19 billion).

By using the two data sources, the 7% fee on remittance transfers made through money transmitters would roughly raise between $105 million and $246 million in fee revenue (i.e., where [$2.19 billion x 68.4% x 7% = $105 million] and [$5.14 billion x 68.4% x 7% = $246 million] constitutes the range). The estimated PIT revenue losses as a result of the refundable tax credit would likely equal the same amounts, roughly between $105 million and $246 million annually. However, the bill caps the annual tax credit at $2,000 per year, so it is possible that taxpayers who transfer more than $28,571 annually will not claim a tax credit equal to their remittance transfer fees paid. Nevertheless, the PIT revenue estimate assumes all fees paid are refunded to taxpayers.

Actual PIT revenue losses may be lower or higher than the estimates, depending on the actual remittance transfer fee collections and the number of taxpayers claiming the credit in each tax year.

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[1] The total amount consists of (1) about $60.74 billion in remittances (i.e., cash or in-kind transfers) made by foreign-born residents in the U.S. to households abroad and (2) $1.49 billion in other private transfer payments made by U.S.-born residents to U.S. citizens abroad.