Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill:	S.B. 220 of the 131st G.A.	**Date**:	January 25, 2016
Status:	As Introduced	**Sponsor**:	Sen. Hottinger

Local Impact Statement Procedure Required: No

Contents: To authorize the Ohio Public Employees Deferred Compensation Board and local governments to establish designated Roth account features and other tax-deferred or nontax-deferred features permitted for government-deferred compensation plans

State Fiscal Highlights

- The bill may increase administrative costs for the Ohio Public Employees Deferred Compensation Board. Any such cost increase would be related to the administration of the new designated Roth account features and other tax-deferred or nontax-deferred features. Any such cost increase would be permissive and would not be paid out of the state treasury.
- The magnitude of any cost increase for the Board would depend on the number of participants.
- Potential increase in GRF revenue from the state income tax in the first year the bill takes effect, as some public employees may shift a portion of compensation from a tax-deferred plan to a Roth account. Likely reduction in GRF revenue from the tax in future fiscal years, due to lack of income tax revenue from distributions from Roth accounts. The magnitude of any such revenue shifting would depend on the number of participants and the amounts they contribute to a Roth account.

Local Fiscal Highlights

- The bill would increase administrative costs for the governing boards of certain local governments. Any such cost increase would be permissive, and would be related to the administration of the new designated Roth account features under deferred compensation programs.
- The magnitude of the increase would depend on the number of participants.

Detailed Fiscal Analysis

The bill allows the Ohio Public Employees Deferred Compensation Board and the governing boards of certain local governments to offer a program of deferred compensation that allows for designated Roth account features and other tax-deferred or nontax-deferred features to their employees. The bill requires state agencies and local government employers to withhold federal and state income taxes on behalf of their employees who contribute to a Roth account feature or other feature to which nontax-deferred contributions are made. Federal and state income taxes are not withheld when an employee contributes to a deferred compensation program with tax-deferred features.

Under the bill, the "governing board" of a county means the board of county commissioners. The bill specifies the "governing board" for several other types of political subdivisions.[1]

Fiscal effect

The bill may increase administrative costs for the Ohio Public Employees Deferred Compensation Board and the governing boards of certain local governments. Any such cost increase would be related to the administration of the new designated Roth account features under deferred compensation programs. Any increase would be permissive, and the magnitude of the increase would depend on the number of participants. In the case of the Ohio Public Employees Deferred Compensation Board, any such cost increase would not affect the state treasury.

The bill has potential implications for state income tax revenue. In general, contributions to deferred compensation plans that allow for tax-deferred features are exempt from federal and state income taxation until the funds are withdrawn. In contrast, contributions to a Roth account are not tax-deferred (contributions are on an "after-tax" basis), but earnings are not taxed if no money is distributed until at least five years after the first contribution.

The typical public employee currently has two options for the form in which much of their compensation is received, and would have three under the bill: take-home pay, a deferred compensation plan, and a Roth account. In a hypothetical initial year, a public employee would pay state income tax on take-home pay and on contributions to a Roth account, but would not pay income tax on a contribution to a deferred compensation plan. In the initial year, the bill would have an effect on state tax revenue only if the public employee chooses to direct money that would have gone to a

[1] For example, in the case of a park district, the governing board is the board of park commissioners; in the case of a conservancy district or a sanitary district, the district's board of directors; in the case of a regional water and sewer district, the district's board of trustees; in the case of a regional transit authority, the authority's board of trustees; etc.

deferred compensation plan to a Roth account; in that case there would be an increase in state income tax revenue for that initial year. When that employee finally retires and withdraws his or her Roth account, withdrawals will not be taxable.

Presumably the likeliest reason for an employee to choose the Roth account would be that the employee expects to reduce his or her lifetime tax burden by doing so. Thus, while there could be an increase in revenue from the state income tax in the near term, it would be a matter of timing, and would be accompanied by decreased future revenue. Assuming the average employee makes the choice most beneficial to him or her, the lifetime effect of the bill would be a decrease in state income tax revenue. The amount of revenue shifting would depend on the number of employees participating in Roth accounts and the amounts that they contribute to them.

Contributions to deferred compensation plans are generally subject to the municipal income tax for the year earned. Therefore, there will be no direct fiscal effect on municipal income tax.

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