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OHIO LEGISLATIVE SERVICE COMMISSION

Office of Research
and Drafting

Legislative Budget
Office

H.B. 199
135th General Assembly

Fiscal Note & Local Impact Statement

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Version: As Introduced

Primary Sponsors: Reps. T. Young and Dean

Local Impact Statement Procedure Required: Yes

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Highlights

Fund	FY 2024	FY 2025	Future Years
State General Revenue Fund			
Revenues	\$0	Loss of \$734 million	Annual loss equal to 7% of income tax receipts
Expenditures	Increase of at least \$50,000	\$0	\$0
Local Government and Public Library funds (counties, municipalities, townships, and public libraries)			
Revenues	\$0	Loss of \$26 million	Annual losses in excess of \$26 million

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 modifies the joint filing credit beginning in tax year (TY) 2024, such that joint filers do not pay more income tax on their state return than they would if they filed separately. The bill creates a permanent revenue loss beginning in FY 2025 when tax returns are filed.
- The income tax revenue loss would be shared by the GRF (96.60% in FY 2025, 96.68% in subsequent years), the Local Government Fund, and the Public Library Fund (both receiving 1.70% in FY 2025, 1.66% in subsequent years).
- The Ohio Department of Taxation previously stated in 2018 that the agency's Information Services Division would incur \$50,000 in one-time costs to implement this policy.

Detailed Analysis

Beginning in tax year (TY) 2024 and years thereafter, the bill modifies the existing nonrefundable joint filing credit using a formula that ensures joint filers do not pay more combined tax on their joint return than they would if they filed separate returns. Ohio levies a progressive income tax on nonbusiness income, so a married couple filing a joint return could pay higher taxes on their combined income than if the two spouses were unmarried. Under current law, the joint filer credit partially offsets this higher tax liability.

Federal law allows married individuals to file joint or separate federal income tax returns. Under continuing Ohio law, a married couple must file a joint state income tax return if they file a joint federal income tax return for the taxable year, and separate returns if either spouse files a separate federal return for the taxable year.

The joint filer credit under current law is between 5% and 20% of tax liability (based on a sliding scale) before this credit and some others, and after certain other credits, up to \$650, and is available only if both taxpayers have Ohio adjusted gross income of at least \$500 for the year. The intent of the proposed credit is to enable married couples to claim the difference between the taxpayers' tax liability when filing jointly, prior to calculating the credit, and their combined tax liabilities if they filed separately. The credit would be nonrefundable.

Revenue effect

The bill would create a revenue loss under the income tax. Some taxpayers currently file jointly because that option yields a lower federal tax liability. These married couples might prefer to file separately in Ohio, but do not do so because the potential savings on their Ohio taxes is outweighed by the benefit of filing a joint federal tax return.

Ohio data from the 2020 American Community Survey (ACS) Public Use Microdata Sample, which is prepared by the U.S. Census Bureau, provides income amounts for each spouse in a household. The ACS also collects general information on the source of income, which enables end users to estimate whether the married couple would qualify for the joint filer credit under current law.

Based upon this methodology, the personal income tax (PIT) would lose \$760 million of revenue for TY 2024, of which the General Revenue Fund (GRF) share would be \$734 million in FY 2025. The law change would likely not impact PIT receipts from employer withholding, but it could reduce PIT receipts received from some taxpayers via quarterly estimated payments, and two such TY 2024 payments are due before the end of FY 2024. The vast majority of the TY 2024 fiscal effect will materialize in the form of larger taxpayer refunds and smaller amounts remitted during the tax filing season in the latter half of FY 2025.

The estimate is predicated on 100% of Ohio's 1.9 million married couples filing a joint return to claim the joint filing credit on their state tax return in the most financially advantageous way. If some of these married couples do not maximize their financial benefit, the revenue loss could be less. In future years, this annual loss would grow in a pattern similar to married couples' income growth.

The personal income tax revenue loss would be shared by the GRF (96.60% in FY 2025 and 96.68% in subsequent fiscal years), the Local Government Fund (LGF, 1.70% in FY 2025 and 1.66% in subsequent years) and the Public Library Fund (PLF, 1.70% in FY 2025 and 1.66% in

subsequent years). Funds deposited into the LGF and PLF are distributed to counties, municipalities, townships, and public libraries according to statutory formulas. The bill may reduce LGF and PLF revenues for FY 2025 by a total amount up to \$26 million.

Impact on agency expenditures

LSC contacted the Ohio Department of Taxation in 2018 for their assessment of an analogous bill on agency expenditures. The agency reported that its Information Services Division would incur \$50,000 in one-time costs to implement the policy specified in the bill.