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OHIO LEGISLATIVE SERVICE COMMISSION

Office of Research
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Office

H.B. 209
136th General Assembly

Fiscal Note & Local Impact Statement

[Click here for H.B. 209's Bill Analysis](#)

Version: As Introduced

Primary Sponsor: Rep. Lorenz

Local Impact Statement Procedure Required: Yes

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Highlights

- The bill exempts tips from state, municipal, and school district income taxes. This change is estimated to reduce state personal income tax revenues by \$46.7 million in FY 2027 and \$48.3 million in FY 2028 and reduce local income tax revenues by \$35.4 million in FY 2027 and \$36.7 million in FY 2028.

Detailed Analysis

The bill exempts tip income from state, municipal, and school district income taxes for taxable years ending on or after the bill's 90-day effective date. Under current law, tips are subject to state personal income tax (PIT), with tax rates varying by income bracket. Taxpayers with taxable income under \$26,050 owe no PIT, and those with taxable income above \$26,050 are subject to a 2.75% PIT rate in tax year (TY) 2026 and thereafter. Federal legislation, the One Big Beautiful Bill Act, authorized a federal deduction for tip income for TY 2025 through TY 2028, but this deduction does not affect Ohio taxable income.

Assuming the bill takes effect in TY 2026, it is estimated to reduce PIT revenues by \$46.7 million in TY 2026 and \$48.3 million in TY 2027. Since state-level data on tip income are limited, the analysis relies on national statistics, including the U.S. Census Bureau's Survey of Income and Program Participation (SIPP) and the Bureau of Labor Statistics' Occupational Employment and Wage Statistics. Based on these data, the total taxable income exempted under the bill is estimated at \$1.83 billion in TY 2026. Given the income characteristics of taxpayers with tipped income, the weighted PIT rate is estimated at 2.55%, resulting in PIT revenue losses of \$46.7 million in FY 2027, and \$48.3 million in FY 2028, with amounts increasing over time due to inflation. These revenue losses would be allocated between the GRF (98.25%) and the Local Government Fund (LGF, 1.75%).

The bill also exempts tip income from municipal and school district income taxes. Although municipal and school district income tax bases are not identical to the state PIT base, tips are included in all three tax bases under current law. The amount of taxable income subject to these local taxes would be smaller than the state PIT base, especially for school districts since only a portion of Ohio school districts levy an income tax. In addition, local taxing authorities set their own income tax rate (with voter approval), so the revenue impact of exempting tip income varies across local taxing authorities. Taking these factors into account, the bill's exemption is estimated to reduce local income tax revenues by \$35.4 million in FY 2027 and \$36.7 million in FY 2028.