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Office of Research
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Legislative Budget
Office

H.B. 642
(with AM2370)
136th General Assembly

Fiscal Note & Local Impact Statement

[Click here for H.B. 642's Bill Analysis](#)

Version: As Introduced

Primary Sponsor: Rep. Demetriou

Local Impact Statement Procedure Required: Yes

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Highlights

- Removing the five-year limit on municipal income tax net operating loss (NOL) carryforwards would cause revenue loss of an indeterminate amount to municipalities that levy an income tax. Based on limited data, the revenue loss statewide may be roughly \$12 million per year.

Detailed Analysis

The bill removes the current five-year limit on municipal income tax net operating loss (NOL) carried forwards. Under current law, municipal income taxpayers with NOLs are allowed to deduct their NOLs in the taxable year the loss incurred and carryforward remaining NOLs for five consecutive tax years. This bill specifies that the change applies to any NOLs that were incurred in the four years before the bill's effective date and that are otherwise eligible to be carried to the taxable year in which the bill takes effect. Thus, any revenue loss associated with the change to NOLs may begin as early as tax year (TY) 2026. The bill also limits the amount of the municipal income tax NOL that may be deducted in each year to 80% of the taxpayer's taxable income. Under the bill, the amount of an NOL must be deducted from net profit to the extent necessary to reduce municipal taxable income, with any remaining unused portion of the net operating loss carried forward to the next succeeding taxable year or years until fully utilized.

Fiscal effect

The bill has no direct fiscal effect on the state. However, the removal of the five-year limit on municipal income tax NOL carryforwards would cause a revenue loss to municipalities that levy an income tax. Due to a lack of information related to municipal income tax, including the taxable income and the amount of net operating loss that can be deducted in future years, the revenue loss is indeterminate.

The municipal income tax base is primarily gross earnings of residents, nonresidents who work in the municipality, and corporations located in the municipality. Business income attributable to corporations and individuals represents just a fraction of the entire municipal income tax base. Based on a report published by the City of Columbus regarding total income tax collections in 2017 through 2024, about 15% of the tax base is attributable to business income reported by corporations and individuals.¹ In addition, historical statistics for U.S. corporations show that NOL deductions generally equal between 9% and 13% of corporations' taxable income. For this reason, LBO estimates that NOL deductions under the bill will reduce statewide municipal income tax receipts by roughly \$12 million per year, as compared to current law. The estimated losses may begin in TY 2026.

Based on data from the [LG-11: Municipal Income Tax - Tax Rates and Amounts Collected, by Municipality](#), posted on the Department of Taxation website, in calendar year (CY) 2024 municipalities collected nearly \$7.31 billion in municipal income tax revenue statewide. In CY 2024, 674 municipalities (248 cities and 426 villages) levied a municipal income tax with rates ranging between 0.10% and 3.00%. In CY 2024, the City of Columbus collected the largest municipal income tax revenue, with \$1.17 billion; followed by Cleveland, with \$518.1 million; and Cincinnati, with \$442.4 million.

¹ The percentage was calculated based on [City of Columbus's total income tax collections, 2017-2024](#).