House Bill 1 - As Introduced

46748	BIG WALNUT LSD	
	Property Value	Assessed Rate
Full Class 1 Value	2,956,455,943	
Full Class II Value	231,054,629	
Full PUPP Value	385,571,714	
Current Class I Assessed Value	1,034,759,580	35.0%
Current Class II Assessed Value	80,869,120	35.0%
Current PUPP Assessed Value	134,950,100	35.0%
HB1 Class I Assessed Value	931,283,622	31.5%
HB1 Class II Assessed Value	72,782,208	31.5%
HB1 PUPP Assessed Value	134,950,100	35.0%

Projections based on current bill language as of March 02, 2023

* A levy year of 9999 indicates Inside Millage.

** Increase to Class I Taxpayers is accounting for the reduction in the 10% rollback if the levy is eligible. This does not increase the revenue to the district.

2.5% Non Business Tax Credit is assumed to be net zero due to lack of available data to compute this change.

*Levy Year	Levy Name	Full Rate	Class I Effective Rate	Class II Effective Rate	Elligible for Rollbacks	HB1 Class I Millage Adjustment	HB1 Class II Millage Adjustment	HB1 PUPP Millage Adjustment	**Increase to Class I Taxpayers due to HB920 Adjustment	Gross Revenue Loss
9999	GENERAL FUND	4.60	4.600000	4.600000	Y	-	-	-	-	(513,189)
1976	CURRENT EXPENSE	13.90	8.956492	8.956492	Y	0.995166	0.995171	-	926,782	-
1985	CURRENT EXPENSE	10.00	6.443520	6.443520	Y	0.715947	0.715950	-	666,749	-
2004	BOND ($13,000,000)	1.19	1.190000	1.190000	Y	0.116556	0.116556	0.116556	108,546	(1)
2008	BOND ($30,000,000)	2.08	2.080000	2.080000	Y	0.203729	0.203729	0.203729	189,730	1
2015	SUBSTITUTE RC 5705.199	4.72	4.720000	4.720000	Y	0.462308	0.462308	0.462308	430,540	-
2017	BOND ($108,000,000)	4.43	4.430000	4.430000	N	0.433904	0.433904	0.433904	(54,311)	-
2017	PERMANENT IMPROVEMENT	1.25	0.985286	1.100788	N	0.109476	0.122313	-	-	-
	Total Projected Change due to HB1					3.037086	3.049931	1.216497	2,268,036	(513,189)

Sources:

Property Values pulled from ABS22SD - ODT

PUPP Values from SD1CY21 - ODT
Tax Rates from RATES22 - ODT

TRADITIONAL SCHOOL DISTRICT STATEWIDE TOTALS	1,713.20	1,902.55	377.66	635,340,902	(182,289,223)
		3,993.40			

ON THE MONEY

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Overview of House Bill 1 Income Tax and Property Tax Changes

The June 24th 2022 edition of *On The Money* provided an overview of changes to Ohio's state income tax from its inception in 1972 through the modifications made in June 2021 as part of the FY22-23 state budget bill. This edition of *On the Money* provides an overview of the main features of House Bill 1 (HB 1) which includes substantial changes to both Ohio's state income tax and to several provisions relating to Ohio's local property tax. The tax changes contained in HB 1 will have a profound impact not only on the state's taxpayers but also on the revenues of Ohio's schools and local governments.

1. Transformation to a Flat-Rate State Income Tax

HB 1 proposes an estimated $2 billion reduction in Ohio's state income tax. The income tax would be changed from the current graduated rate structure which has been in place since the income tax's inception in 1972 to a flat rate structure with a single rate of 2.75%.

The June 2022 issue of *On The Money* provides a detailed summary of the rates changes made to Ohio's income tax since 1972. Ohio expanded the number of rate brackets in the early years and increased rates from 1982-1984 before adding a new top rate bracket in 1993. Ohio then began a long series of income tax rate reductions in 2005. Table 1 shows Ohio income tax rates by income bracket in 1972, 1982, 1993 and 2019.

Table 1: Ohio State Income Tax Rates 1972, 1982, 1993, 2019

Original Taxable Income Range	1972-1981 Marginal Tax Rate	1982 Marginal Tax Rates	1993 Marginal Tax Rates	Taxable Income Range (these have been indexed for Inflation since 2012)	2019 Marginal Tax Rates	% Reduction 1993-2019
$0 - $5,000	0.5%	0.5%	0.743%	$0 - $10,850	**0.000%**	**100%**
$5,000 - $10,000	1.0%	1.0%	1.486%			
$10,000 - $15,000	2.0%	2.0%	2.972%	$10,851 - $16,300	**0.000%**	**100%**
$15,000 - $20,000	2.5%	2.5%	3.715%	$16,300 - $22,150	**0.000%**	**100%**
$20,000 - $40,000	3.0%	3.0%	4.457%	$22,151 - $25,000	**2.850%**	**-36.0%**
				$25,001 - $44,250	**2.850%**	**-36.0%**
$40,000 - $80,000	3.5%	3.5%	5.201%	$44,250 - $88,450	**3.326%**	**-36.0%**
$80,000 - $100,000		**4.0%**	5.943%	$88,450 - $110,650	**3.802%**	**-36.0%**
$100,000 - $200,000		**5.0%**	6.900%	$110,650 - $221,300	**4.413%**	**-36.0%**
Income > $200,000			**7.500%**	More than $221,300	**4.797%**	**-36.0%**

The data in Table 1 show that the income tax reductions made from 2005 through 2019 decreased rates by a cumulative "across the board" reduction of -36.0%. This means that when income taxes were reduced each of the rate brackets experienced the same percentage reduction in the marginal tax rate, with this cumulative reduction totaling minus 36.0%. This approach preserved the graduated nature of Ohio's income tax that had been in place since 1993 1993. In addition, by "zeroing out" income taxes for individuals at lower incomes (all these with an income below $22,50 in 2019, the lowest rate brackets received a 100% reduction in their Ohio income taxes. This changed actually improved the relative equity of Ohio's income tax by eliminating income taxes entirely for Ohio's lowest income persons.

This proportional approach to cutting Ohio's income tax (for those with incomes high enough that they still paid Ohio's income tax) came to an end in 2021, however. HB 110, the FY22-23 state budget bill, included an income tax reduction that was initially described as a 3% reduction in Ohio's income tax rates. However, HB 110 actually resulted in 3% reduction in tax rates for persons with an income between $25,001 and $110,650, a 9.6% reduction for persons with income between $110,651 and $221,300 and a 16.8% reduction in taxes for persons with incomes greater than $221,300.

While HB 110 made a modest move to flattening Ohio's state income tax by eliminating the top income bracket in individuals with incomes greater than $221,300, HB1 implements the flat completely at a rate of 2.75% for all persons with incomes greater than $26,050. Table 2 compares Ohio income tax rates in 2019, 2021 and under HJB 1.

Table 2: Ohio Individual Income Tax Rates for 2019 and 2021/2022

Ohio Taxable Income 2021*	HB 166 Enacted 2019 Marginal Tax Rates	HB 110 Enacted Marginal Tax Rates 2021	HB 110 % Reduction vs HB 166 Rates	HB 1 Proposed Rates	HB 1 % Reduction vs. HB 110 Rates
$0 - $10,850	0.000%	0.000%			
$10,851 - $16,300	0.000%	0.000%			
$16,300 - $22,150	0.000%	0.000%			
$22,151 - $25,000	2.850%	0.000%	100%	0.00%**	
$25,001 - $44,250	2.850%	2.765%	3.0%	2.75%	-0.54%
$44,250 - $88,450	3.326%	3.226%	3.0%	2.75%	-14.8%
$88,450 - $110,650	3.802%	3.688%	3.0%	2.75%	-25.4%
$110,650 - $221,300	4.413%	3.990%	9.6%	2.75%	-31.1%
More than $221,300	4.797%	3.990%	16.8%	2.75%	-31.1%

* Note that the actual 2019 rate bracket income ranges were slightly different than those shown in Column 1 because inflation indexing was applied in 2020.

** 2.75% flat tax rate proposed in HB 1 actually will begin at an income level of $26,050 after indexing for inflation.

The figures in Table 2 show that the impact of incorporating a 2.75% flat rate income tax in Ohio is to give individuals earning more than $110,650 a 31.1% reduction in their marginal tax rate, individuals earning between $88,450 and $110,650 a 25.4% reduction, individuals earning between $44,250 and $88,450 a 14.8% reduction, and those earning above between $26,051 and $44,250 a reduction of just over ½ percent.

The percentage rate reductions shown for HB 1 in Table also provide some insight into the cost of moving to a flat rate income tax in Ohio. The estimated cost of the HB 110 rate reductions was just over $800 million annually. It is plain to see from looking at Table 2 that the reduction in income tax revenue will be more than double that amount as the percentage reductions in tax rates under HB 1 are much larger than those in HB 110. In this regard, the estimates of a $2 billion cost to move to a 2.75% flat rate income tax are entirely reasonable. The precise cost of the HB 1 income tax cut should be clarified once LSC releases the fiscal note on the bill in the next week or two.

One final implication of the Hb 1 change to the income tax cut is that the estimated $2 billion reduction in state income tax revenues will also mean that the Local Government Find (LGF) and Public Library Fund (PLF) will also bring a reduced amount of revenue. The LGF and PLF are long-standing revenue sharing programs which distribute state revenue to libraries, counties, townships cities and other local government units in Ohio. Governor DeWine's FY24-25 Executive Budget proposed increasing the LGF and PLF percentage rates to 1.7% of total state General Revenue Fund (GRF) tax revenues from their current statutory levels of 1.66. ***A reduction in GRF tax revenues of $2 billion would mean that both the LGF and PLF stand to lose $34 million in revenue annually.***

2. Changes to Ohio's Property Tax in HB 1

In addition to transforming Ohio's income tax from a graduated rate structure to a flat tax, HB 1 also makes a series of changes to Ohio's property tax. The LSC HB 1 Bill Analysis provides a basic description of the main features of the legislation as it impacts Ohio's property tax. The LSC summary can be found at:
https://www.legislature.ohio.gov/download?key=20450&format=pdf

While the main features of the property tax changes are relatively easy to explain, the ultimate impact is quite complicated in terms of the impact on both property taxpayers and on Ohio's schools and local governments. What follows below is an initial analysis of HB 1's property tax changes based on the information currently available.

A) Elimination of the 10% Rollback on Residential and Agricultural Property Taxes

HB 1 proposes the elimination of the property tax relief program commonly referred to as the "10% rollback" on residential and agricultural property. The 10% rollback, which was instituted in 1972 at the same time that the state income tax was created, means that the state pays to Ohio's schools and local governments 1/10th of the property taxes owed by residential and agricultural taxpayers. Inn 2022 the cost of the 10% rollback to the state was $1.221 billion with $805 million of the rollback total for taxes paid to K-12 school districts and JVSDs and the remaining $416 million split cross Ohio's municipalities, townships, counties, libraries and other local government agencies with levy authority,

including children's services, elderly services, development disability, and alcohol, drug and mental health agencies. The most likely reason for the state to eliminate the 10% rollback is that the $1.221 reduction in state expenditures will help fill the budget hole created by the $2 billion in foregone tax revenue created by the flattening of the state income tax. ***However, elimination of the 10% rollback will mean that local property taxpayers, instead of the state, will now pay these taxes.***

B. Reduction in the Assessment Percentage on Residential & Agricultural Property from 35% to 31.5%

In order to offset the automatic increase in every residential and agricultural taxpayer's property taxes by the amount of their now-eliminated 10% rollback, HB 1 next includes a provision which reduces the assessment percentage on residential agricultural property from 35% to 31.5% (a 10% decrease). In Ohio the taxable value also known as the "assessed value") of real property (land and buildings) is only 35% of the value placed on real property by each of the 88 county auditors. This percentage has been 35% since the early 1970s and applies to both residential and agricultural property (known as "Class I" property) as well as business and commercial property (known as "Class II property).

Reducing the assessment percentage from 35% to 31.5% on residential and agricultural property is intended to offset the elimination of the 10% rollback by reducing the amount of taxes owed by residential and agricultural taxpayers. This occurs because the taxable value of property is now lower so these taxpayers will owe less on all "fixed rate" property tax levies in place across the state. School operating and permanent improvement levies as well as operating and permanent improvement levies placed on the ballot by non-school local governments that were approved by the voters for a specific millage amount, are considered to be fixed rate levies. Bond levies and school emergency and substitute levies are referred to as "fixed sum" levies because voters approve a specific dollar amount rather than a specific tax rate for these levies.

Reducing the taxable value of residential and agricultural property by lowering the assessment percentage to 31.5% will reduce the amount of taxes owed on fixed rate levies because the millage rate in place is now multiplied by a lower property valuation than when the assessment rate was 35%. "Inside mills" (the 10 mills of "unvoted" property taxation delineated in Article XII Section 2 of the Ohio Constitution) also function as fixed rate levies. However, bond, emergency and substitute levies will have their millage rate automatically adjust upward in order to continue to raise the voted dollar amount despite the decrease in that taxable value of property.

The result is that schools and local governments with no bond or emergency levies stand to lose 10% of the property tax revenue from residential and agricultural property as result of the decrease in the assessment percentage. This will severely compromise their ability to continue to provide the same level of local services as they do currently. Local governments with a bond levy or schools with an emergency or bond levy will have that tax revenue remain constant, however, the taxpayers in these localities will experience a tax increase as a result.

C) Reduction in the Assessment Percentage on Business & Commercial Property from 35% to 31.5%

While the intention of HB 1 seems to be to reduce the assessment percentage to 31.5% on residential and agricultural property in an attempt to offset the automatic increase in property taxes, which is the consequence of eliminating the 10% rollback, the legislation will almost certainly also result in a similar decrease in the assessment percentage on business and commercial property. The reason for this is a series of legal cases in the 1960s established that the assessment percentage on real property had to be the same across the state. Prior to the 1960s court rulings, it was common practice for county auditors to establish the taxable value of business and commercial property at a higher rate (typically 40-50%) than for residential and agricultural property (which was typically at 30%). As result, in the mid-1970s the Ohio legislature set a uniform assessment rate of 35% for all real property across the state. This 35% rate remains in place today.

As a result, HB 1's lowering of the assessment percentage on residential and agricultural property to 31.5% also requires that the assessment percentage on business and commercial property also be lowered from 35% to 31.5%. This reduction in the assessment percentage on business and commercial property will work in the exact same way as for residential and agricultural property, with property taxes decreasing on fixed rate levies and property tax rates increasing on fixed sum levies. One significant difference, however, is that the 10% rollback on business and commercial property was eliminated in 2005 as part of HB 66, legislation (which also eliminated the business tangible personal property tax). As a result, HB 1's reduction in the assessment percentage on business and commercial property will result in a clear tax decrease for business taxpayers (and accompanying loss of revenue for schools and local governments).

D) A Complication - the Role of House Bill 920

As if the preceding 2 pages of this article were not complicated enough, the impact of HB 1 is clouded by the presence of the property tax limitation commonly known in Ohio as HB 920. In 1976, after the setting of the 35% assessment percentage and following very rapid inflation in home prices, Ohio enacted HB 920, one of the most stringent property tax limitations in the country. The goal of HB 920 was to insulate homeowners from the effects of inflationary increases in their property taxes. The mechanism that HB 920 chose to implement to accomplish this goal was that of "tax reduction factors," which were reductions in voted property tax rates designed to adjust the tax rate downward when property increased in value after property reappraisal. The idea is that if property values are reappraised at 10% higher, the property tax rates on fixed rate levies (explained above) would be adjusted downward by just enough so that no additional revenue was generated from these levies. These adjusted tax rates are referred to as "effective millage rates." The HB 920 tax reduction factors are applied separately in each of Ohio's 4,000+ taxing districts. Furthermore, as a result of change made to the Ohio Constitution in 1980, the HB 920 tax reduction factors are applied separately to residential and agricultural property from business and commercial property.

For the purposes here, it is imperative to understand that while HB 920 was created in an environment of rapidly rising property values, the provisions of HB 920 also work in reverse. If property values after reappraisal are lower than they were previously then the HB 920 reduction factors will actually increase in order to ensure that property tax revenue from fixed rate levies does not decline.

The above discussion of the functioning of HB 920 is pertinent to the property tax provisions of HB 1 prompting the fundamentally important question:

> *Will the reduction in the assessment percentage from 35% to 31.5% automatically trigger HB 920 to adjust property tax rates upward in order to make sure that fixed rate levies generate the same amount of tax revenue at 31.5% as they did at 35%?*

From one perspective, the reduction in the assessment percentage is functionally similar to the reduction in property values that would occur if there was deflation and properties were reappraised at a value lower than they were earlier. (While property values are historically very stable and tend to move upward, the 2008-2009 recession did result in property value decreases.) From this perspective then HB 920 would automatically increase effective tax rates so that there was no revenue loss to schools and local governments. ***Thus, if HB 920 does apply, then residential and agricultural taxpayers would experience the very same increase in taxes (from the elimination of the 10% rollback) that the reduction in the assessment percentage to 31.5% was intended to prevent.*** In this case, business and commercial property taxpayers would also be in essentially the same position as they were prior to HB 1. The one exception is that the amount of revenue schools and local governments receive from inside millage will decrease as HB 920 cannot adjust inside millage upward.

The alternate perspective is that while the mathematical effect of lowering the assessment percentage is the exact same as if each county auditor reappraised property values 10% lower, the changing of the assessment percentage is a different thing than property reappraisal. If this perspective is taken, then the elimination of the 10% rollback and the reduction in the assessment percentage from 35% to 31.5% on both residential and agricultural as well as business and commercial property will have the effects outlined in sections 2, 3 and 4 above.

Once the implications are clear regarding whether or not the HB 920 reduction factor mechanism will be triggered by the reduction in the assessment percentage to 31.5%, the question becomes one of which of the two perspectives is correct?

Two lines of reasoning strongly suggest that the HB 920 tax reduction factors mechanism should in fact be triggered by HB 1's decrease in the Class 1 and Class assessment percentages to 31.5%.

First, the actual wording relating to the HB 920 property tax provisions that is contained in Article XII, Section 2a of the Ohio constitution indicates that the amount of taxes charged in the current year be set equal to the amount of taxes charged in the preceding year. The constitutional language does not make any mention of valuation, nor does it

allow for an alteration to adjust for taxes collected in the event the assessment percentage is changed. This wording appears to clearly articulate that the HB 920 mechanism should activate to adjust taxes upward to assure that taxes in the year when property is assessed at 31.5% be set equal to the taxes charged in the preceding year when property was assessed at 35%.

Secondly, Ohio's recent experience changing the Current Agricultural Use Valuation (CAUV) formula is also instructive. The CAUV formula provides an alternate method for establishing the market value of agricultural property. Since the market value of such property can be influenced by its potential value as a shopping mall or residential subdivision the CAUV formula provides a method for valuing the land based on its value in agricultural use. The CAUV formula was modified several years ago after a number of years of sharply rising CAUV values.

The new CAUV formula, which is being phased in over a six-year timeframe, has resulted in a year-by-year reduction in agricultural property values. While the CAUV formula calculations are made by the Ohio Department of Taxation every year, they are implemented in each county at the time they go through reappraisal or statistical update. The new CAUV values are included in the residential and agricultural property tax duplicate in each taxing district alongside any changes (up or down) that might be occurring with residential property values. Once the new total valuation is reached, the HB 920 tax reduction factors are then implemented, and property tax rates get adjusted up and down depending on the overall change in total residential and agricultural values in each taxing district.

The implications of the CAUV formula change on the HB 1 property tax changes should be evident. A policy change in how agricultural property values are established was incorporated within the framework of HB 920 just as if the changes had occurred through the reappraisal process. This would seem to establish a clear parallel for how a policy change such as reducing the assessment percentage would be handled as well.

Conclusions

The property tax changes proposed in HB 1 revolve around 3 main components:

- The elimination of the 10% rollback and with it the $1.221 billion in property tax payments currently made by the state to schools and local governments.
- The reduction in the assessment percentage on Class 1 and Class 2 real property from 35% to 31.5%
- The question of whether the reduction in the assessment percentage will trigger Hb 920 to increase tax rates in order to offset the potential decrease in tax revenue.

While the ultimate impact of eliminating the 10% rollback and lowering the assessment percentage from 35% to 31.5% depends on whether or not HB 920 will apply, ***there are only two possible outcomes;***

1) <u>HB 920 does not apply</u> and schools and local governments will lose local revenue for all inside millage and fixed rate levies, compromising their ability to provide local services, or

2) <u>HB 920 does apply</u> and property taxpayers will experience an increase in taxes that will be roughly the same as that which would have occurred as a result of the elimination of the 10% rollback and which the reduction in the assessment percentage is trying to forestall.

Furthermore, from the standpoint of libraries and the other local governments who benefit from the Local Government Fund, ***the potential loss of local tax revenue from HB 1 is further compounded by the loss of $34 million in PLF and LGF revenue*** due to the $2 billion reduction in state revenue deriving from the flattening of the state income tax.

SUMMARY OF LSC HB 1 FISCAL NOTE

The Ohio Legislative Service Commission (LSC) released their fiscal analysis of House Bill (HB) 1 earlier this week. This document begins with a summary of the main findings from LSC's analysis and continues with an explanation of how these findings were determined.

Summary of Main Implications of HB 1

State Income Tax Restructuring

- The conversion of Ohio's state graduated state income tax to a flat rate 2.75% income tax will reduce state tax revenues by $2.515 billion in FY24, by $1.792 billion in FY25, and by an increasing amount in FY26 and thereafter.
- The flattening of the income tax rate structure benefits the wealthiest persons in Ohio far more than it benefits lower income persons.

Changes to Ohio's Local Property Tax

- The elimination of the 10% rollback on residential and agricultural property taxes will save the state an estimated $1.309 billion annually.
- In order to attempt to avoid an immediate and automatic annual increase of $1.309 billion in property taxes paid by homeowners and farmers in 2024, HB 1 lowers the assessment percentage on residential and agricultural property from 35% to 31.5%. Because the Ohio constitution specifies that there must be uniformity in property assessment across the state, this also requires that the assessment percentage on business and commercial property also be lowered to 31.5%.
- However, because of various features of Ohio's property tax, the decrease in the assessment percentage does not effectively insulate residential and agricultural taxpayers from a significant tax increase. According to LSC's analysis, the following changes will occur as a result of HB 1:
  - **$538 million annual decrease in local tax revenues for schools and local governments**
  - **$929 million annual tax increase for residential and agricultural property taxpayers**
  - **$157 million annual tax decrease for business and commercial property taxpayers**

These findings are explained below.

Part I. Income Tax Restructuring and Rate Cut

HB 1 will convert the state income tax from its current graduate rate structure to a flat tax of 2.75%, effective in 2023.

HB 1 Tax Reductions Favor the Wealthiest Ohioans

The change to a flat tax will reduce the equity of Ohio's income tax as compared to the current graduated rate structure.

LSC's analysis indicates that the percentage reduction in the marginal tax rates will range from -0.54% to -31.1%. A complete list of the rate reductions for each tax bracket is shown in the table below:

2021 Ohio Taxable Income Tax Bracket	Current Marginal Income Tax Rates	HB 1 Proposed Tax Rate	HB 1 % Reduction vs. Current Rates
$0 - $25,000*	0.000%	0.000%	
$25,001 - $44,250	2.765%	2.75%	-0.54%
$44,250 - $88,450	3.226%	2.75%	-14.8%
$88,450 - $110,650	3.688%	2.75%	-25.4%
More than $110,650	3.990%	2.75%	-31.1%

* 2.75% flat tax rate proposed in HB 1 actually will begin at an income level of $26,050 after indexing for inflation.

State Revenue Impact of Income Tax Cut

LSC estimates that HB 1's changes to the state income tax will cause the state General Revenue Fund (GRF) tax revenue reductions detailed below. Note that the Public Library Fund (PLF) and Local Government Find (LGF) each receive 1.66% of state GRF tax revenues according to Ohio permanent law.

FY24: $1.734 billion reduction + $867 million one-time loss due to changes to Ohio withholding rates 2023 after bill passage = $2.601 billion

LGF & PLF payment reduction = -$86 million

Net FY24 GRF tax revenue reduction = $2.515 billion

FY25: $1.854 billion reduction

LGF & PLF payment reduction = -$62 million

Net FY25 GRF tax revenue reduction = $1.792 billion

FY26 and thereafter: More than $1.8 billion and escalating annually

Part II. Property Tax Changes

HB 1 makes two major changes to Ohio's property tax. The first is the elimination of the non-business tax credit, commonly known as the 10% rollback. The 10% rollback was created in 1971 at the same time the state income tax was created and means that the state pays 1/10th of property taxes for each residential and agricultural taxpayer. The second change is the reduction in the assessment percentage from 35% to 31.5% on both residential and agricultural real property (also known as "Class 1" property) and business and commercial real property (also known as "Class 2" property). The assessment percentage is the figure that is multiplied by the market value (the value that county auditors place on properties in Ohio) in order to compute the taxable (or "assessed") value. A house with market value of $200,000 has a taxable value of $70,000 (35% of $200,000).

Step 1: Elimination of the 10% Rollback

LSC estimates that rollback payments made by the state to schools and local governments will total $1.309 billion in tax year 2024. LSC does not provide a 2024 breakdown of rollback payments made to schools vs. other local governments in Ohio, however, tax year 2022 rollback data shows that schools comprised 65.9% of the rollback total and other local governments comprised 34.1%. These percentages suggest that the school share in 2024 of the $1.309 billion rollback total will be roughly $860 million while the local government share will be approximately $450 million. This results in the taxpayer assuming the responsibility for these payments that were previously made by the state. Taxpayers will be paying approximately 65.9% of that increase to schools and 34.1% of the increase to other local governments.

Eliminating the 10% rollback will save the state $1.309 billion annually. Due to the timing of property tax payments LSC states that half of that amount ($650 million) will accrue in FY25 and 100% ($1.3 billion) in savings will accrue to the state in FY26 and thereafter.

If there were no other changes made to the property tax, the elimination of the 10% rollback would mean that residential and agricultural taxpayers would experience a tax increase of $1.309 billion in tax year 2024 and each year thereafter, since they would be assuming responsibility for these payments.

Step 2: Reduction in Assessment Percentage

HB 1 also calls for the reduction of the assessment percentage on residential and agricultural property to be reduced from 35% to 31.5%. This is a 10% reduction in the assessment percentage (3.5 = 10% of 35) and is presumably designed to offset the immediate and automatic increase property taxes that result from of the elimination of the 10% rollback. LSC's analysis clarifies that HB 1's reduction in the assessment percentage from 35% to 31.5% will apply to both Class 1 (residential and agricultural) real property and also to Class 2 (business & commercial) real property. This is because the Ohio Constitution requires uniformity in the taxation of all real property across the state.

The reduction in the assessment percentage lowers the taxable value of all real property in Ohio. In the absence of other features of Ohio's property tax, the reduction in the assessment percentage would reduce residential and agricultural property taxes to roughly the level that they are currently (paying 100% of your taxes on 35% of your home's current value is roughly equivalent to paying 90% of your taxes on 31.5% of your home's current value). In addition, schools and local governments would also lose tax revenue because the reduction in the assessment percentage on business and commercial property lowers its taxable value and results in a lower amount of property taxes paid by businesses. However, with the application of HB 920, the lowering of the assessment percentage does not completely operate in this manner. This is discussed in more detail below.

Step 3: Inside Mills, and Fixed Sum Levies

The reality of Ohio's property tax is not as straightforward as the previous section makes it seem, however. Ohio schools and local governments can receive property tax revenue from three types of levies: 1) unvoted (or "Inside") millage; 2) voted "fixed rate" levies; and 3) bond and emergency "fixed sum" levies. Each of these types of levies are impacted differently when the assessment percentage is reduced from 35% to 31.5%.

Inside Millage – The Ohio Constitution provides for 10 mills of property tax millage that can be enacted without a vote of the populace in each of the 88 counties. These mills were allocated across schools, counties, municipalities, townships and other local taxing authorities nearly 100 years ago have been rarely changed since then. Schools typically receive 4-5 inside mills. ***Inside mills always remain the same and when the assessment percentage is reduced to 31.5% local tax revenues from inside millage will be reduced.***

Bond and Emergency Levies – Bond and school emergency levies are referred to as "fixed sum" levies because voters approve a dollar amount rather than a millage rate. As a result, the millage rate on these types of levies is adjusted every year as property values change so that the originally voted-upon dollar amount is generated.

As a result, ***when the assessment percentage is reduced to 31.5% tax rates on bond and emergency levies will automatically increase so that the tax revenue collected by these levies remains the same.***

Step 4: HB 920

Voted "Fixed Rate" Levies -Operating and permanent levies for schools and local governments are known as "fixed rate" levies and are subject to the provisions of HB 920. HB 920 was implemented in 1976 in the aftermath of rapid increases in home values in the early 1970s. HB 920 creates "tax reduction factors" which reduce the effective rate of voted levies after real property increases in value. The purpose is to ensure that taxes on voted levies do not increase beyond their previous level after property reappraisal. In 1980, HB 920 was enshrined in the Ohio Constitution and real property was split into Class 1 (residential and agricultural property) and Class 2 (business and commercial property). The tax reduction factors are now applied separately to each class of real property.

HB 920 is pertinent to HB 1 because it also works in "reverse." When property values decrease (as was the case during and after the 2008/2009 recession) the HB 920 tax reduction factors will increase tax rates in order to preserve property tax revenue at the previous level. Thus, when the assessment percentage is reduced from 35% to 31.5%, HB 920 will adjust to increase effective tax rates and increase property taxes to their level when the assessment percentage was 35%.

The one exception to HB 920 increasing tax revenue to the previous level is that tax rates are not allowed to increase beyond their originally voted rate. The LSC memo makes clear that ***voted levies with an effective tax rate 90% of the voted millage or less will adjust upward to fully offset the reduction in the assessment percentage, while levies within 10% of the original voted rate will not be able to adjust fully and thus result in local tax revenue reductions.***

Part III. LSC Estimates of the Impact of HB 1 on Property Taxes

The LSC analysis provides estimates of how the elimination of the 10% rollback and the reduction in the assessment percentage from 35% to 31.5% will impact Ohio's schools & local governments, as well as residential & agricultural and business & commercial taxpayers. The main findings of the LSC analysis are:

A. Local Property Tax Revenue Loss

- Annual property tax revenue loss from **inside millage = -$365 million**
- Annual property tax revenue loss on **fixed rate levies that cannot adjust upward fully = -$172 million**
- **Annual total school and local government property tax revenue loss = -$365 million + -$172 million = -$537 million**
- The $537 million annual property tax revenue loss is comprised of a **-$298 million annual tax loss for schools and a -$239 million tax loss for other local governments**
- The $537 million annual property tax revenue loss is derived from **-$157 million tax reduction on business and commercial property and a -$380 million tax reduction on residential and agricultural taxpayers**

B. Residential and Agricultural Property Tax Increase

- **$929 million annual tax increase for residential and agricultural property taxpayers from bond and emergency levies and fixed rate levies which adjust upward$1.309 billion in annual savings to the state by eliminating the rollback on residential and agricultural property is comprised of a $929 million annual tax increase on Ohio homeowners and farmers and the -$380 million residential and agricultural taxpayer share of the -$537million annual tax reduction to Ohio schools and local governments**

The bottom line of the LSC analysis is that because of bond and emergency levies guaranteeing a fixed amount of revenue and fixed rate voted levies automatically adjusting upward due to HB 920, ***HB 1's attempt to lower the assessment percentage to 31.5% in order to insulate homeowners and farmers from a $1.309 billion tax increase resulting from the elimination of the rollback is not successful.***

Instead, residential and agricultural taxpayers will experience a $929 million annual increase in property taxes while schools and local governments will lose $380 million annually in local property taxes. In addition, schools and local governments will lose an additional $157 million annually in local taxes as a result of the decrease in the assessment percentage on business and commercial property. This results in a total annual property tax reduction of $538 million.

Part III. Additional Issues

GDP Deflator Applied to Assessment Percentage in Future Years

HB 1 also calls for the application of a GDP deflator to be applied to the assessment percentage on an annual basis beginning in 2025. LSC's analysis estimates that the GDP deflator reduction to the assessment percentage in future years will lower the assessment percentage to 27.9% by 2029. The footnote 3 on page 2 of the LSC Fiscal Note indicates that the GDP deflator – accurately described by LSC as a very broad index of nationwide prices, is also used to index state income tax exemption amounts and the homestead exemption income cutoff. While LSC does not say this, the link between the GDP deflator and home values is far more tenuous than the link between the GDP deflator and income levels. This is particularly true because property values vary substantially across the state, and property reappraisal occurs in different years in different counties.

Modification of 2.5% Owner-Occupied Home Rollback

In 2024, HB 1 will replace the current 2.5% owner-occupied home rollback with a flat $125 per taxpayer rollback. LSC's analysis indicates that the current 2.5% rollback costs the state $226 million in 2021, and they estimate an average rollback amount of $75 per home. Based on this figure, LSC estimates an average increase of $50 per home. Additionally, they project the aggregate cost to the state, caused by enlarging the owner-occupied home rollback, to range from $150 million to $180 million annually. Note that while the average owner-occupied rollback amount will increase under HB 1, homeowners in relatively high cost homes and/or high tax locales will receive a lower credit under HB 1 than they do currently.

Expansion of Homestead Exemption

Ohio's third and final property tax support program is known as the homestead exemption. The homestead exemption is geared primarily towards individuals 65 years and older and provides them a tax exemption on the first $25,000 of market value of their home. HB 1 proposes indexing the exemption amount for inflation and expanding the exemption amount to $50,000 for individuals who have been in their homes for more than 20 years. LSC tentatively estimates the increased cost to the state of these changes at an additional $28 million per year.

OHIO LEGISLATIVE SERVICE COMMISSION

Office of Research and Drafting

Legislative Budget Office

www.lsc.ohio.gov

H.B. 1

135th General Assembly

Fiscal Note & Local Impact Statement

Click here for H.B. 1's Bill Analysis

Version: As Introduced

Primary Sponsor: Rep. Mathews

Local Impact Statement Procedure Required: Yes

Phil Cummins, Senior Economist, and other LBO staff

Highlights

- The bill eliminates most state income tax brackets for nonbusiness income and imposes a marginal tax rate of 2.75% on income in excess of $26,050. The permanent tax cut would reduce all funds revenue by approximately $1,734 million in FY 2024, $1,854 million in FY 2025, and increasing amounts in future years.
- In addition, a one-time revenue loss is expected in FY 2024 resulting from revised employer withholding tables issued by the Tax Commissioner. LBO's preliminary estimate of this loss is $867 million, which would bring the all-funds revenue loss estimate to $2,601 million in FY 2024.
- The revenue losses will be shared by the state GRF (96.68%), the Local Government Fund (LGF, Fund 7069), and Public Library Fund (PLF, Fund 7065). The LGF and PLF each receive 1.66% of GRF tax revenue under codified law. Therefore, the revenue loss to the GRF is estimated to be $2,515 million in FY 2024 and $1,792 million in FY 2025 and the loss to both the LGF and PLF is estimated to be $43 million in FY 2024 and $31 million in FY 2025.
- The bill reduces the property tax assessment rate on real property from 35% to 31.5% in tax year (TY) 2024 and then indexes the assessment rate to inflation beginning the following year. This would result in revenue losses to school districts and local governments estimated at $538 million in FY 2025 and increasing amounts in future years.
- The bill's decreasing real property assessment rates generally are expected to increase state aid to school districts through the state foundation aid formula, offsetting local tax revenue losses to some degree beginning in FY 2026.

- The bill eliminates the GRF reimbursement of the 10% rollback starting in TY 2024, which reduces GRF expenditures by an estimated $1,309 million per year. The GRF will realize about half a year of the savings in FY 2025 and the full annual amount continuing in subsequent years.
- The bill changes the rollback for owner-occupied residences from 2.5% of most taxes levied to $125 beginning in TY 2024. This may increase expenditures from the GRF to reimburse school districts and local governments for the rollback by $150 million to $180 million per year. About half of that cost ($75 million to $90 million) would be incurred in FY 2025.
- The bill provides an enhanced homestead exemption for long-time, low-income residents, which may increase expenditures from the GRF to reimburse school districts and local governments by an estimated $121 million per year. About half of that cost ($60 million) would be incurred in FY 2025.
- The bill indexes the amount exempted by the homestead exemption to inflation. This change, in conjunction with the changes in the assessment rate and the rollbacks, is estimated to increase the amount of the exemption and GRF reimbursements by about $28 million for TY 2024 and by similar amounts in years thereafter.
- The bill states that the legislature intends to appropriate funds to local governments affected by the bill, but does not specify details or include these appropriations.

Detailed Analysis

The bill reduces income tax rates and eliminates income tax brackets above the bottom taxable bracket. It reduces the real property tax assessment rate from 35% to 31.5%, ties future changes in the assessment rate to changes in the gross domestic product deflator, and makes other changes to property taxation. The bill states the legislature's intent to appropriate funds to reimburse resulting revenue losses of local governments in FY 2024 and FY 2025.

Income tax changes

The bill replaces, starting in tax year 2023, the current tax brackets for nonbusiness income (Ohio adjusted gross income less taxable business income and less exemptions, for individuals) with a single bracket in which tax before credits is charged. Nonbusiness income of $26,050 or less remains untaxed. The tax rate for nonbusiness income over $26,050 up to $46,100 is reduced by 0.5%, from 2.765% to 2.75%. For nonbusiness income over $46,100, marginal tax rates are reduced by 14.8% to 31.1%, depending on the bracket.

This change would reduce personal income tax (PIT) liability by an estimated $1,734 million in TY 2023 and $1,854 million in TY 2024. In addition, the Tax Commissioner would revise the employer withholding tax table to align withholding receipts with the corresponding PIT liability. Such an action would result in a one-time revenue loss during FY 2024 in addition to the TY 2023 PIT liability cut. LBO's preliminary estimate of this loss is $867 million, but the actual amount of the loss would depend on the Tax Commissioner, who maintains discretion over the design of the withholding tax table under R.C. 5747.06. The existing table has eight brackets, with marginal withholding rates up to 5.009%, which contrasts with the tax policy in the bill that essentially consolidates the progressive nonbusiness income tax into two brackets with a top marginal rate of 2.75%.[1]

Lower GRF tax revenue would reduce transfers to each of the LGF and PLF by an estimated $43 million and $31 million, respectively, in those years at the 1.66% rate for each in codified law. LGF revenues are transferred to counties, municipalities, townships, and some other local governments. PLF revenues are transferred to public libraries, with a small amount going to local governments. Amounts retained by the GRF are estimated to be reduced by $2,515 million and $1,792 million, respectively, in FY 2024 and FY 2025. All amounts would tend to rise in most future years.

As noted above, the bill states that the General Assembly intends to appropriate funds in FY 2024 and FY 2025 to local governments affected by the bill's changes. Whether this intent would extend to school districts, or to public libraries, is unclear, and the bill does not appropriate funds.

Potential indirect fiscal effects

Income tax rate reductions ranging up to 31.1% would likely have the indirect effect of increasing the income tax base. To the extent there is such an increase in the tax base, it would result in an increase in PIT revenue. LBO does not know of a reliable source for determining the magnitude of such indirect effects, though published academic research on the effect of cuts to federal (and state) income tax rates concludes that indirect effects are likely to be small relative to the direct effects.

Property tax changes

The bill makes various changes to law governing property taxation. It reduces the assessment rate for real property by 10% in tax year (TY) 2024, and ties future assessment rate changes to national price inflation. It eliminates the 10% reduction (rollback) in taxes due on some Class I real property, and changes the 2.5% rollback for owner-occupants to a fixed dollar amount. It gives the Tax Commissioner limited authority to change the years in which counties undergo valuation reappraisals or updates. It allows eligible long-term homeowners to claim the homestead exemption on up to $50,000 market value of their residences.

Reduction of assessment rate and elimination of 10% rollback

The bill reduces the real property assessment rate from 35% to 31.5% in TY 2024, a reduction of 10%, and ties future declines in the assessment rate to increases in the gross domestic product (GDP) deflator, a very broad index of nationwide prices.[2] The accompanying chart illustrates assessment rates that might result from the bill. The forecast for years after TY 2024 is based on the February 2023 prediction for annual changes in the GDP deflator from

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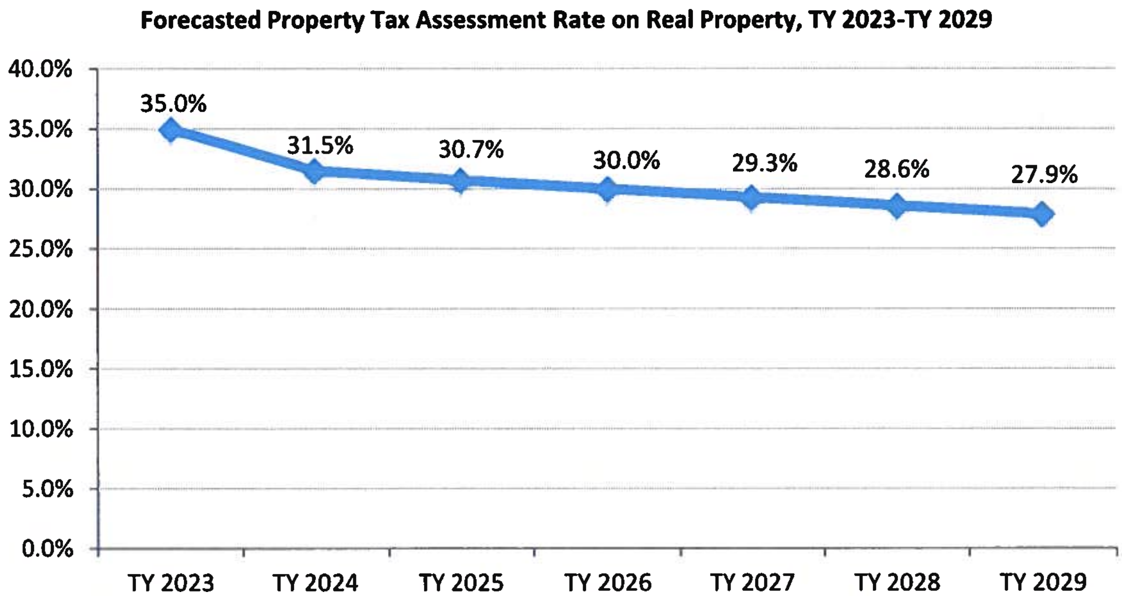
[1] LBO staff cannot reliably predict how the Tax Commissioner would alter employer withholding tables in response to a PIT change imposed by the bill. Our office inquired shortly after the bill was introduced, and we are awaiting a response. Please regard withholding estimates in this analysis as preliminary, until the Ohio Department of Taxation offers firm guidance.

[2] This measure of inflation is also used to adjust PIT personal and dependent exemption amounts and the homestead exemption.

forecasting firm IHS Markit. Real property taxes are paid a year in arrears, so the change in the assessment rate for TY 2024 would affect payments generally made in the first half of calendar year 2025. GRF reimbursements lag the tax payment dates, and about half of the effects on the GRF of the bill's changes would occur in FY 2025 with the balance in FY 2026.



The bill eliminates the 10% rollback for qualifying levies on residential and agricultural real property, and eliminates the corresponding GRF reimbursement for losses of school districts and local governments from that rollback. Qualifying levies are levies approved before September 29, 2013, and subsequent renewals of these levies. Levies that are not qualifying levies are not subject to rollbacks. Whether a levy is a qualifying levy or not does not alter revenues to taxing authorities, but only whether they are due in full from taxpayers or in part from the GRF to reimburse for reductions in the amounts due from taxpayers.

The lower assessment rate will reduce tax revenues of school districts and local governments from some levies and not from others.

- For inside millage, the 10 mills (1%) of taxes that taxing authorities may levy without seeking voter approval, the tax rate would remain unchanged and the lower assessment rate would reduce tax revenues by 10% for TY 2024.
- For levies to raise fixed sums of money, the tax rates at which the levies are assessed would rise by the amount needed to generate the required sums. The necessary upward rate adjustment would generally be by less than 10% since the taxes are imposed on public utility tangible personal property (PUTPP) as well as real property, and PUTPP valuations are not affected by the bill.
- For outside fixed-rate levies subject to tax reduction factors, the lower property valuations from the bill's reduction in the assessment rate would be offset or partly offset by higher effective tax rates, up to the voted millage. The calculations are done for

carryover property, taxed in the same valuation class in both the current and prior tax years. So for levies with effective rates that are 90% or less of the voted rate, the effective tax rate would adjust upward to fully offset the reduction in assessed value, resulting in no revenue loss. Tax rates on levies with effective rates equal to the voted rates could not adjust upward, and tax revenue from these levies would decline 10% for TY 2024. Tax rates on levies with effective rates between 90% and 100% of their voted rates would adjust upward to the voted rates, resulting in loss of tax revenue by less than 10%.

The 10% rollback in current law applies to residential and agricultural (Class I) real property only. Taxes on all other (Class II) real property are not subject to rollbacks or GRF reimbursements.

Taxes in TY 2024, when the bill's change to the real property assessment rate would go into effect, will depend on future valuations and on future levy enactments and expirations. What follows is an estimate based on extrapolating net taxes charged on Class I and Class II real property into the future at historical rates of change. Shares of net taxes charged in each of the categories identified above are estimated based on sums of millage rates in taxing districts statewide for TY 2022, the latest available. This estimation approach greatly simplifies the calculation, but at the cost of the precision that would result from multiplying the rates on the many property levies statewide times the respective taxable values and computing sums of the resulting products. The estimation technique employed here gives an order of magnitude approximation to the bill's effects.[3]

Net real property taxes charged in TY 2024 under current law are estimated at $20.0 billion, consisting of $15.4 billion on Class I property and $4.6 billion on Class II property.

- Inside millage accounted for 18.8% of the sum across taxing districts of levy millage applicable to Class I property in TY 2022 and 16.3% of the sum for Class II property. Using these percentages, net taxes charged for inside millage would be an estimated $3.7 billion (Class I $2.9 billion, Class II $0.8 billion) for TY 2024. A 10% tax revenue loss due to the assessment rate change totals an estimated $365 million.
- Fixed-sum levies estimated in the same way are 11.7% of Class I property millage and 10.1% for Class II. On an estimated net taxes charged for TY 2024 totaling $2.3 billion (Class I $1.8 billion, Class II $0.5 billion), no revenue loss would be incurred as a result of the assessment rate change.
- Fixed-rate levies subject to tax reduction factors accounted for the majority of net taxes charged. Many – an estimated $11.6 billion (Class I $9.5 billion, Class II $2.1 billion) – are

[3] An alternative calculation performed just for school districts and joint vocational school districts, using both tax rates and property values, indicates that schools would have lost $191 million in property tax revenue for TY 2022 if H.B. 1 had been in effect for that year. Adjusted for estimated growth in property values from 2022 to 2024, this would be equivalent to about $204 million in the year that the bill's property tax provisions would go into effect. Based on this estimate, the $298 million loss estimated using the simpler approach described above could be considered an upper bound on the revenue loss for TY 2024. Time constraints did not permit replicating this alternative approach for other types of local governments.

levied at 90% of voted millage or less, so could fully adjust to offset a 10% reduction in assessed value in TY 2024. An estimated $2.0 billion (Class I $0.9 billion, Class II $1.1 billion) are levied at rates between 90% and 100% of gross millage, and for $0.6 billion (Class I $0.4 billion, Class II $0.2 billion) the effective tax rate equals the voted rate. The revenue loss on fixed-rate levies from the bill's 10% reduction in the assessment rate in TY 2024 is estimated at $172 million.

Total net real property tax revenue losses for TY 2024, generally payable in FY 2025, are estimated at $538 million.[4] Tax revenue losses are estimated at $298 million for schools and $239 million for other local governments. In TY 2025 and thereafter, assessment rates would adjust downward further with changes in the GDP deflator, resulting in additional losses in FY 2026 and subsequent years.

Most levies (85.0% of Class I millage in TY 2022) are qualifying levies. The share in TY 2024 under current law may be smaller, with passage of new levies and expiration of older ones. At the 85.0% share, Class I rollbacks for the nonbusiness credit and associated GRF reimbursements would total about $1,309 million for TY 2024. The bill would eliminate these rollbacks and GRF reimbursements. School district and local government revenue losses would generally occur in the first half of calendar year 2025. About half of the first-year GRF reimbursement would have taken place in FY 2025 with the balance in FY 2026, along with half of the next year's GRF reimbursement.

Property owners would gain from the tax reductions resulting from the lower assessment rate but lose from the loss of the rollback for the nonbusiness credit. The latter would affect Class I real property only. Net taxes charged to owners of residential and agricultural real property would increase an estimated $929 million. Net taxes charged to owners of Class II real property would decrease an estimated $157 million.

Effects of lower property tax assessment rates on school funding

The bill's decreasing real property assessment rates generally would be expected to increase state aid through the state foundation aid formula, the largest source of state support for the operating costs of school districts and joint vocational school districts. This increase will partially offset the loss in local tax revenue resulting from the bill beginning in FY 2026. The magnitude of the increase will depend on future valuations and the parameters of the school funding formula that will be in use in the future.[5]

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[4] Components do not sum to totals shown due to rounding.

[5] Under H.B. 110 of the 134th General Assembly, the current state foundation aid formula is effective through FY 2023. Current law requires the General Assembly to determine the calculations for FY 2024 and succeeding years. The current, as well as previous, formulas have used taxable property values as a factor in the determination of the state and local shares of total foundation funding, so that lower taxable property value results in lower local shares and higher state shares.

Change in rollback for owner-occupied residences

The bill replaces the 2.5% rollback for owner-occupied property with a $125 rollback. The state would continue to reimburse from the GRF the revenue loss of the local taxing unit due to the rollback.

Not all homeowners eligible for this rollback appear to claim it. State reimbursements in 2021 for the owner occupancy credit totaled about $226 million.[6] Statewide taxes paid on owner-occupied housing in 2021 totaled $10.3 billion, based on an American Community Survey (ACS) query. If we assume that the self-reported $10.3 billion in taxes was total actual payments by homeowners, net of rollbacks, the pre-rollback total of amounts on which the 2.5% rollbacks would have been figured is $11.5 billion, implying $244 million in 2.5% rollbacks on qualifying levies.

The number of owner-occupied housing units in 2021 statewide was 3.2 million, as shown by the ACS query. Of this total number, if the number of those actually claiming the credit was proportional to the ratio of credits claimed, $226 million, to credits estimated to be potentially available, $244 million, about 3.0 million households would have claimed the credit. This implies that on average the 2.5% rollbacks amounted to $75 per unit.

The bill's provision for a $125 rollback per homestead amounts to a $50 increase on average per homestead. If we assume that this rollback will be claimed for 3.0 million homesteads, the reimbursement cost to the GRF would rise by about $150 million. Alternatively, for the full 3.2 million households, a $125 owner-occupied rollback would lower taxes by $406 million, $180 million more than in 2021. This range, $150 million to $180 million, represents savings for homeowners and increased cost to the GRF. About half of the GRF reimbursement would occur in FY 2025 and the rest in FY 2026. The full yearly amount of additional GRF reimbursement would continue in FY 2026 and thereafter.

As with other property tax changes in the bill, this change would go into effect for TY 2024 for real property and TY 2025 for manufactured homes, both payable in FY 2025.

Changes in assessment year

The bill allows the Tax Commissioner to delay reappraisal or update in any county by a year during the period 2024-2029 only. This flexibility may help in evening out the reappraisal and update workload on firms that specialize in this type of work, thus assisting counties in completing required assessments of valuations. In 2023, 41 counties are scheduled for reappraisal or update, including two of the state's largest counties. In 2024 and 2025, 24 and 23 counties are scheduled, respectively.

Market valuations of property tend to rise in most years, so delaying reappraisal or update in a county will tend to lower tax revenues. A delayed schedule would be a permanent change, effectively locking in lower revenues in the year from which the reappraisal or update was shifted and every three years thereafter, continuing indefinitely. Part of this shortfall would tend to be offset in the next two years. So this change is not without cost, though the magnitude of the cost of changes will depend on decisions made by the Tax Commissioner in implementing the change.

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[6] Department of Taxation Table PD-1 for calendar year 2021, issued March 9, 2022.

Enhancements to homestead exemption

Inflation indexation

The bill indexes for inflation the true (or market) value of property excluded from taxation by the homestead exemption. In current law, the value of property excluded from taxation is stated as $25,000 of the true (or market) value of the property, which is multiplied by the assessment rate and the effective tax rate to determine the amount of the tax exemption.[7] For disabled veterans and survivors of first responders in current law, and for long-time residents under the bill, the value of property excluded from taxation is $50,000 of true value. The bill adjusts both of these amounts for inflation.

The inflation measure used, the GDP deflator, is the same index used for adjusting the assessment rate. Thus the rise in the true value of property subject to the homestead exemption will be approximately offset by the decline in the assessment rate in years after TY 2024, holding the taxable value exempted little changed from year to year, in years after TY 2024.[8] True value exempted from taxation by the homestead exemption in TY 2024 will be $25,800 if the GDP deflator rises 3.2% in 2023.[9] The decline in the assessment percentage would reduce the maximum taxable value exempted in TY 2024 by the homestead exemption for most homeowners to $8,127, a 7.1% decline.

Changes made by the bill would also alter tax rates multiplied by exempted taxable values to determine the amount of each homestead exemption. As discussed above, inside millage rates would be unchanged in TY 2024 by the bill's change in the assessment rate. Fixed-sum levy rates would adjust upward enough to raise the same amount of money, when multiplied by the sum of real property values, reduced 10% by the assessment rate change, and of PUTPP values, unchanged by the bill. Effective rates on fixed-rate levies would adjust upward by varying amounts to or toward voted millage rates. A precise assessment of the appropriate change in the rate would be a complex calculation. The upward adjustment in the rate is here estimated at 8.2%.

A decline in taxable value of 7.1% and a rise in the effective millage rate of 8.2%, coupled with the net effect of the increase in the owner-occupied credit from $75 on average to $125 and the elimination of the 10% rollback, imply an increase in the total amount of the homestead exemption. The total amount of the exemption has been declining for years, as persons who qualified a decade ago when eligibility was not subject to an income test cease to be homeowners. State reimbursements in 2021 for the homestead exemption totaled about

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[7] A further adjustment is also made to take account of the rollbacks.

[8] The changes are not exactly offsetting because calculation of the taxable value exempted as specified in R.C. 323.152(A)(1)(d)(iii) is equivalent to the product of one plus the GDP deflator percent change, times the previous year's exempted amount, while the assessment percentage as specified in R.C. 5715.01(B) is equivalent to the product of one minus the GDP deflator percent change, times the previous year's assessment percentage. For positive changes in the GDP deflator, this formulation gives rise to very gradual declines in taxable value exempted, measured in nominal dollars. Inflation of 3% per year, for example, implies declines in taxable value exempted of about 0.1% per year.

[9] This is the February 2023 prediction of forecasting firm IHS Markit, services of which are used by LBO.

$364 million.[10] By 2024, the amount is projected to decline to $325 million, based on recent rates of decline. The inflation indexation provisions of the bill along with the increase in the average effective millage rate and the change in the 10% and owner-occupied rollbacks are predicted to increase the homestead exemption by about $28 million in TY 2024. Due to the considerable uncertainties in the components of this forecast, it should be viewed as only a rough approximation. Half of the GRF reimbursement would take place in FY 2025, and half would take place in FY 2026.

Long-time residents

The bill provides an enhanced homestead exemption to homeowners who (1) are age 65 or older, disabled, or the surviving spouse age 59 to 64 of a person who applied and qualified for the exemption; (2) have income not more than a threshold amount adjusted each year for inflation, which was $34,600 for 2022; and (3) have continuously owned and occupied the homestead for 20 or more years. The enhanced exemption is on up to $50,000 market value of the homestead, which would be adjusted upward for inflation. So an owner-occupant satisfying the requirements, other than the new 20-year residency requirement, for a homestead exemption on up to $25,000 market value, adjusted for inflation, of a homestead could qualify for up to twice as large an exemption upon reaching 20 years residency in the home. A surviving spouse of a person who applied and qualified for the reduction would also qualify.

Most owner-occupied residences of persons age 65 or older are the homes of persons who have lived in the same residence for 20 years or more, as indicated by an ACS query. In 2021, 65% of owner-occupied residences of persons age 65 or older had been the homes of those persons for 20 years or more. On average, these long-time residents paid somewhat lower taxes. They accounted in 2021 for 62% of property taxes paid by all persons in that age group.

Limiting the exemption to homeowners with low incomes as well as 20 years of residency in the same home reduces the share of owner-occupied residences further, to 23% of owner-occupied households of homeowners age 65 and older, about 260,000 households. These homeowners would save an estimated $121 million in taxes, which would be reimbursed from the GRF.

Property Tax Administration Fund changes

The bill eliminates a credit to the Property Tax Administration Fund (Fund 5V80) of up to 0.25% of the amount by which taxes charged against real property were reduced under R.C. 319.302, repealed by the bill. This section provides for the 10% rollback. The 0.25% credit to the fund was suspended in FY 2022 by a provision of H.B. 110 of the 134th General Assembly. The provision would raise up to about $3 million per year. Department of Taxation costs to administer the 10% rollback, paid in part from this fund, will be reduced by the rollback's elimination by the bill.

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[10] Department of Taxation Table PD-1 for calendar year 2021, issued March 9, 2022.