OHIO LEGISLATIVE SERVICE COMMISSION

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Office of Research and Drafting

Legislative Budget Office

**H.B. 439**
**133rd General Assembly**

# Fiscal Note & Local Impact Statement

Click here for H.B. 439's Bill Analysis

**Version:** As Introduced

**Primary Sponsor:** Rep. Stephens

**Local Impact Statement Procedure Required:** No

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## Highlights

| Fund | FY 2022 | FY 2023 | Future Years |
|---|---|---|---|
| **State General Revenue Fund** | | | |
| Revenues | $0 | $0 | $0 |
| Expenditures | $4 million increase | $12 million increase | Larger increases |

Note: The state or school district fiscal year 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 adjusts the homestead exemption amount upward for inflation. The homestead exemption reduces the amount of property tax due on eligible properties.
- School districts and other units of local government would be reimbursed for resulting revenue losses from the state GRF.

## Detailed Analysis

The bill would adjust for inflation the $25,000 homestead exemption and the $50,000 homestead exemption for disabled veterans. The state reimburses local governments from the GRF for revenue that would otherwise be lost because of the homestead exemption. Hence the state bears the cost of the exemption, apart from timing differences. The inflation adjustment would be made based on the percent change in the price index for the national gross domestic product (GDP deflator), except that no adjustment would be made if the GDP deflator declines.

The homestead exemption in current law allows most qualifying homeowners an exemption from property taxes on up to $25,000 of the market value of a primary residence.[1] The dollar value of each exemption depends also on the overall tax rate on the property. Because tax rates have tended historically to go up over time, the amount of the average exemption also tends to rise.

Most homeowners who qualify for the homestead exemption do so on the basis of age (65 years or older). About 10% qualify because they are totally and permanently disabled. A surviving spouse of a deceased taxpayer who previously applied and qualified for the exemption also qualifies if he or she was at least 59 years old when the deceased taxpayer died. About 2% qualify on this basis. Homeowners who met one of these criteria after 2013 for real property or 2014 for manufactured homes must also have incomes at or below a threshold in order to qualify. The threshold, adjusted annually for inflation, is $33,600 for 2020. Most homestead exemptions are for real property rather than manufactured homes.

A disabled veteran, who received a total disability rating or a total disability rating for compensation based on individual unemployability for a service-connected disability or combination of service-connected disabilities, and who owns a primary residence, qualifies for a homestead exemption on up to $50,000 market value of a primary residence. No income test is required in order to qualify. Fewer than 1% of those who qualify for the homestead exemption do so on this basis.

The calculation specified in the bill calls for the Tax Commissioner each September to figure the percentage change in the GDP deflator in the previous calendar year, multiply that percentage by the true value threshold (the amount exempted) for the current tax year, add the resulting product to the true value threshold for the current tax year, and round the resulting sum to the nearest $100. This amount is to be conveyed to county auditors no later than December 1, and would apply to the following tax year for real property, and to the second ensuing tax year for manufactured homes. Taxes are paid a year in arrears for real property, and in the tax year for manufactured homes. This specification of the calculation procedure and its timing apparently implies that the bill, if enacted in this year's first half, would first affect the homestead exemption for real property in tax year (TY) 2021 and for manufactured homes in TY 2022, both payable in 2022. This timing was assumed in calculating numbers shown in the "**Highlights**" table, notwithstanding the bill's statement in Section 3 that its amendment of the homestead exemption applies to TY 2020 for real property, and to TY 2021 for manufactured homes.

In calendar year 2018, the state distributed about $414 million in real property and manufactured home property tax relief for the homestead exemption.[2] This amount is used as the starting point for the calculations that follow. LBO contracts with a forecasting service, IHS Economics, that predicts a 1.8% increase in the GDP price index from 2018 to 2019, a 2.0% increase from 2019 to 2020, and somewhat more rapid inflation in ensuing years. This inflation

[1] The value exempted cannot exceed the total value of the primary residence. True or market value of $25,000 is equivalent to $8,750 of taxable value at the state's 35% assessment rate for real property.

[2] Department of Taxation Tables PD-1 and PD-2, latest published.

forecast implies a $500 increase in the homestead exemption amount to $25,500 for TY 2021 on real property, another $500 increase to $26,000 for TY 2022, and larger increases thereafter.

Corresponding annual increases in reimbursement costs paid from the GRF are about $7 million in calendar year 2022, $16 million in 2023, $26 million in 2024, and larger amounts in subsequent years. State reimbursements to units of local government are paid following tax settlements, resulting in the pattern of payments shown on a fiscal year basis in the "**Highlights**" table.

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