Ohio Legislative Service Commission

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S.B. 190
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Fiscal Note & Local Impact Statement

Click here for S.B. 190's Bill Analysis

Version: As Introduced

Primary Sponsors: Sens. Blessing and Smith

Local Impact Statement Procedure Required: No

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Highlights

- The bill modifies various tax policies, including the personal income tax, property tax, sales tax, commercial activity tax, and severance tax. It also includes provisions affecting GRF expenditures, such as free school meals, the low- and moderate-income housing trust fund, and property tax rollbacks.
- For the tax policy provisions, total tax revenue on an all-funds basis is estimated to a $92 million gain in FY 2026 and range from a $110 million to $205 million loss in FY 2027. The bill's net impact on the GRF is estimated to decrease the fund balance by $122 million in FY 2026 and by between $408 million and $499 million in FY 2027. The lower GRF fund balance is partially due to a provision that increases the percentage of GRF tax revenue shared with the Local Government Fund and Public Library Fund.
- The bill increases net GRF expenditures by $18 million in FY 2026 and by $107 million in FY 2027. A portion of this total is to reimburse public and chartered nonpublic schools for the cost to make school breakfasts and lunches free for students who do not qualify for free or reduced-price meals, which is estimated to annually increase GRF expenditures by up to an estimated $297 million.

Detailed Analysis

The bill modifies various tax policies and provisions affecting GRF expenditures. The table below summarizes the fiscal impact of the provisions in the bill. This analysis assumes the bill's effective date is May 31, 2026.

Table 1. State Revenue and Spending Estimates (in millions) for S.B. 190 in FY 2026-FY 2027		
Provision	**FY 2026**	**FY 2027**
Earned Income Tax Credit: 30% nonrefundable or 9% refundable (12% refundable for taxpayers with dependent under age 3)	$0	($173-$231)
Authorize tax credit or rebate for certain homeowners, renters	$0	($907)
Exclude passive income from business income deduction (BID) and 3% flat tax on business income	$0	($50-$67)
Short-term rentals subject to the sales and use tax	$0	$1-$21
Repeal both versions of the sales tax holiday	$0	$24
Repeal the data center sales and use tax exemption	$0	$178
Repeal commercial activity tax exclusion for qualified distribution centers	$92	$404
Modify severance tax	$0	$393
Net revenue gain (or loss) of tax policies above	$92	($110-$205)
Net GRF revenue impact, 96% instead of 98.25%*	($104)	($301-$392)
Net LGF/PLF revenue impact, 4% instead of 1.75%*	$196	$188-$191
Low- and moderate-income housing trust fund	$18	N/A
Universal school breakfast and lunch	$0	$297
Repeal the 10% nonbusiness property tax rollback and increase the rollback for owner-occupied property from 2.5% to 12.5%	$0	($190)
Net increase (or decrease) in GRF expenditures	$18	$107
Net GRF gain (or loss)	($122)	($408-$499)

*The bill includes a provision to increase the share of state tax revenue allocated to the Local Government Fund (LGF) from 1.75% to 2.0% and Public Library Fund (PLF) from fixed amount of appropriation ($490 million in FY 2026 and $500 million in FY 2027) to 2.0%. Therefore, the GRF impact and the LGF/PLF impact both reflect this policy in tandem with the tax policies contained in S.B. 190.

Tax policy changes

The bill changes various tax policies, which are detailed in the following sections.

Earned Income Tax Credit modification

Under current law, the Ohio Earned Income Tax Credit (EITC) is equal to 30% of a taxpayer's federal EITC and is nonrefundable. Beginning in the taxable year ending on or after the effective date of the bill, which LBO assumes to be tax year (TY) 2026, the bill modifies the state EITC by allowing taxpayers to choose between: (1) the existing 30% nonrefundable credit, or (2) a refundable credit equal to 12% of the federal EITC (if the taxpayer has a dependent under age three) or 9% otherwise.

The introduction of this optional refundable credit is expected to increase PIT refunds issued in FY 2027 and thereafter. The actual fiscal impact will depend on the number of eligible claimants. Some workers may also respond to the incentive by adjusting their annual hours worked to maximize their refund. A conservative estimate using Ohio-specific EITC data from the Internal Revenue Service (IRS) suggests the bill's income tax provision would reduce annual state revenue by $173 million to $231 million.

Tax credit or rebate for certain homeowners and renters

The bill authorizes a refundable tax credit against the PIT for property taxes or rent-equivalent taxes paid. For the first claim year following the effective date of the bill, the value of the credit is limited to $1,000 and may only be claimed by homeowners and renters with total household resources, as defined in the bill, at or below $60,000 per taxable year. In general, the definition of total household resources is more expansive than that of taxable income because it includes income sources exempt from the PIT. Home value and gross monthly rent limits, above which a taxpayer is ineligible for the credit, are also established in the bill and track the most recent one-year data published in the American Community Survey (ACS). In subsequent years, the Tax Commissioner must annually adjust the total household resources limit and tax credit limit for any increases in inflation. The home value and gross rent limits are adjusted to match the median home or gross rent value, respectively, in the county with the highest reported value for each, according to the most recent one-year ACS data published by the U.S. Census Bureau.

Assuming the bill takes effect in TY 2026, state revenue losses are projected to reach approximately $907 million in FY 2027, with future costs expected to rise in line with housing inflation. The PIT credit covers the amount by which a claimant's property taxes or rent-equivalent taxes (15% of gross rent) exceed 5% of their total household resources, subject to a credit limit. While the bill allows for rebates to nonfilers, this analysis assumes all claims will be processed through tax filings.

Exclude passive income from business income deduction

Under current law, the business income deduction (BID) applies to all business income, including passive business income. The bill modifies this by limiting the deduction to nonpassive business income only, allowing up to $250,000 (or $125,000 for married individuals filing separately) to be exempt from taxation. Passive business income, such as income from rental activities where the taxpayer does not materially participate, would instead be taxed as nonbusiness income.

This change is expected to decrease tax revenue between $50 million and $67 million in FY 2027. Additionally, passive business income that was previously taxable at a 3% flat rate will now be subject to the applicable marginal rate of 2.75% in TY 2026. As Ohio's tax form does not collect detailed data on individual income sources, the analysis relies on national statistics, including IRS data. Given that rental income is the primary contributor to passive business income, the estimation is based on the proportion of taxpayers with rental income, derived from these national statistics, for Ohio taxpayer returns.

Repeal sales tax holiday

The bill repeals both the original back-to-school sales tax holiday and the expanded version. This is expected to result in a $24 million gain in FY 2027, reflecting only the revenue impact of the back-to-school policy. The expanded sales tax holiday, dependent on a surplus GRF balance, is excluded from these estimates as no surplus is assumed. Nevertheless, the non-GRF fund dedicated to the expanded sales tax holiday (Fund 5AX1) has a balance of $587 million, as of July 22, 2025. However, the balance will certainly shrink because Ohio's 2025 expanded sales tax holiday will be held from Friday, August 1 until Thursday, August 14. Additionally, the bill requires transferring any remaining balance in Fund 5AX1 to the GRF and the abolishment of Fund 5AX1 after the transfer.

Ohio has held a back-to-school sales tax holiday since 2015. For three days during the first weekend in August, clothing items priced at $75 or less, school supplies priced at $20 or less, and school instructional materials priced at $20 or less are exempt from sales tax. In 2024, the tax holiday was expanded to ten days and covers nearly all tangible personal property priced up to $500, with exceptions for alcohol, tobacco, and marijuana.

Short-term rental taxation

Sales and use tax

The state currently imposes a 5.75% sales tax on all transactions involving lodging provided by hotels to transient guests. For sales tax purposes, a hotel is defined as an establishment offering sleeping accommodations in five or more rooms, regardless of whether the rooms are in separate structures. Consequently, short-term rental transactions are exempt from sales tax only if the establishment leases fewer than five rooms in total. Due to the private nature of data on short-term rentals in Ohio, LBO relied on publicly available county-level lodging tax data to estimate statewide revenue from short-term rental establishments with fewer than five rooms.

LBO estimates that if the bill extends the sales tax to all lodging, regardless of the number of rooms, state sales tax collections could increase by an additional $1 million to $21 million in FY 2027. Expanding the sales tax base would also boost local revenues for counties and transit authorities. Statewide, local revenue gains are estimated between $0.3 million and $5.5 million, although the exact impact will vary depending on local tax rates, the prevalence of short-term rentals, and the tax compliance of local hotels.

Lodging tax

Separately, the bill requires any subdivision currently levying a lodging tax or levying such a tax in the future to extend it to short-term rental properties. The bill requires any subdivision currently levying a lodging tax or levying such a tax in the future to extend it to short-term rental properties. The bill further requires that collection and remittance of the tax be made by the operator of the short-term rental platform, i.e., the business that operates the application or website that connects owners of short-term rental properties to transient guests. All subdivisions with existing lodging taxes must enact this extension by the first day of the first month beginning 30 days after the bill's 90-day effective date. LBO estimates that the extension of lodging taxes as required by the bill may increase local governments' lodging tax collections between $2 million to $33 million annually.

Repeal sales and use tax exemption for data centers

The bill repeals the sales and use tax exemption for purchases made by data centers, effective the month following the bill's effective date. Assuming an effective date of May 31, 2026, the repeal would apply beginning in June 2026, with associated tax collections starting in July 2026. As a result, the estimated revenue gain of $178 million projected for FY 2027 represents a full year of impact. Since 2011, Ohio has exempted from the sales and use tax those purchases of data center equipment made by eligible data centers, including construction materials, computer equipment, cooling systems, and power infrastructure. To qualify as an eligible data center, a minimum investment of $100 million over a three-year period is required, along with an annual payroll of at least $1.5 million, and approval from the Ohio Tax Credit Authority.

Repeal commercial activity tax exclusion for qualified distribution centers

The bill repeals the commercial activity tax (CAT) exemption for purchases from qualified distribution centers, and the provision takes effect on January 1, 2026. As a result, it is expected to increase tax revenue by at least $92 million in FY 2026 and $404 million in FY 2027, with amounts growing with inflation in future years. Since the provision is set to take effect at the beginning of TY 2026, the revenue gain in FY 2026 will be partial (i.e., quarterly tax payments received on or before the May 10, 2026 due date).

In Ohio, since 2006, purchases from qualified distribution centers that are destined for out-of-state delivery are exempt from the CAT. To qualify as a qualified distribution center, a distribution center must have at least $500 million in cumulative costs from suppliers and ensure that more than 50% of its qualified property[1] is shipped out of state. The Department of Taxation estimates the total foregone revenue for qualified distribution center receipts to be $368 million in FY 2026 and $404 million in FY 2027.

Modify severance tax

Under current law, Ohio imposes a tax on any person who severs oil or natural gas from the ground or water. This severance tax is collected quarterly and is set at 10¢ per barrel of oil and 2.5¢ per MCF (1,000 cubic feet) of natural gas. In addition, a cost recovery assessment is collected separately and is set at 10¢ per barrel of oil and 0.5¢ per MCF of natural gas for all oil and gas wells except very small volume wells.

The bill modifies the severance tax structure for oil and gas, specifically replacing the current volume-based severance tax with a value-based tax for all wells, except for domestic wells, and it repeals the cost recovery assessment. The following table shows the tax bases and rates for each category of the gas and oil severance tax as modified by the bill. Additionally, the bill clarifies definitions for severance tax purposes, distinguishing "condensate" and "natural gas liquids" (NGLs) from oil and natural gas. Condensate refers to liquid hydrocarbons separated from oil during production, while NGLs, such as propane and ethane, are extracted from natural gas.

[1] Qualified property is tangible personal property that is sent to a qualified distribution center for further shipping (including storing and repackaging) to another location.

Table 2. Severance Tax Levied under S.B. 190		
Natural Resource	**Tax Base (Quarterly)**	**Tax Rate**
Oil	Barrels severed x average oil spot price	6.5%
Unprocessed Gas	MCF severed x average gas spot price	6.5%
Processed Gas	MCF collected after processing x average spot price	4.5%
Condensate	Barrels separated and collected x average condensate spot price	6.5%
NGLs	British thermal units (BTUs) separated and collected x average NGL spot price	4.5%

The bill applies the modified severance tax on and after the first day of the first calendar quarter beginning on or after the effective date of the bill, which LBO assumes to be May 31, 2026. Therefore, the new severance tax would begin July 1, 2026, and affect tax collections in three of the four quarterly payments due in FY 2027. This change is expected to increase tax revenue by $393 million in FY 2027, with the revenue directed to the GRF, assuming current trends in Ohio's gas and oil production and prices. Given that a significant portion of the oil produced in Ohio is condensate, it is assumed that the majority of the oil produced is condensate, which may result in estimated tax revenues being lower than actual revenues. For NGLs, the U.S. Energy Information Administration (EIA) provides monthly production data for Ohio, and future price estimates are based on EIA projections.

The bill repeals the cost recovery assessment on severed oil and gas, which LBO assumes that this will take effect with the quarterly payment due November 15, 2026. The repeal will reduce revenues to the Oil and Gas Fund (Fund 5180) and the Geological Mapping Fund (Fund 5110) by a combined amount of $9.9 million in FY 2027. Both funds are used by the Department of Natural Resources.

Local governments

The bill increases the allocation of GRF tax collections to the Local Government Fund (LGF) from 1.75% to 2.0%. Separately, it specifies that the Public Library Fund (PLF) also receive 2.0% of GRF tax revenue. The PLF no longer receives a portion of GRF tax receipts after the enactment of H.B. 96 of the 136th General Assembly. Instead, the PLF is subject to a fixed appropriation. Given that this provision takes effect on July 1, 2025, the GRF impact and the LGF/PLF impact shown in Table 1 reflects this policy in tandem with the other tax policies contained in the bill. As a result of these changes, the estimated net GRF revenue is expected to decrease by $104 million in FY 2026 and by between $301 million and $392 million in FY 2027. In contrast, the net LGF/PLF revenue is projected to increase by $196 million in FY 2026 and by $188 million to $191 million in FY 2027.

Excluding the effects of the other tax provisions in the bill, increasing the LGF share from 1.75% to 2.0% would raise LGF distributions by $75.8 million in FY 2026 and by $77.3 million in FY 2027. Similarly, replacing the fixed PLF appropriations ($490 million in FY 2026 and

$500 million in FY 2027) with a 2.0% share of GRF tax revenue would increase PLF distributions by $116.8 million in FY 2026 and by $118.5 million in FY 2027.

GRF expenditure changes

The bill introduces changes to GRF expenditures, detailed in the following sections.

Free school meals

Currently, public and nonpublic schools in Ohio provide free and reduced-price meals to students meeting income eligibility guidelines under the National School Lunch Program (NSLP) and School Breakfast Program (SBP), which are federal programs administered at the state level by the Department of Education and Workforce (DEW). Under the programs, DEW receives federal funds from the U.S. Department of Agriculture (USDA), which are combined with GRF funds that make reduced-price meals free, to reimburse schools for meals served to participating students. The bill, in general, requires public and chartered nonpublic schools to provide breakfast and lunch at no cost to students and the state to reimburse those schools to support the costs of that requirement. Effectively, the bill makes school meals free for public and chartered nonpublic school students who do not qualify for free or reduced-price meals.

Participation

DEW reports approximately 150.1 million lunches and 72.7 million breakfasts were served to public and chartered nonpublic school students, as defined by the bill, during the 2023-2024 school year (FY 2024). These numbers are substantially lower than in the 2021-2022 school year (FY 2022), the final year in which the federal government permitted schools to offer free breakfast and lunch to all students through national waivers intended to address disruptions in school operations and meal service during the COVID-19 pandemic. In FY 2022, DEW reported approximately 171.8 million school lunches and approximately 90.3 million school breakfasts served to public and chartered nonpublic school students. Under the bill, we assume that the number of meals served generally will return to FY 2022 levels given the bill accomplishes the same goal as the federal waivers did in FY 2022. However, we adjusted FY 2022 meals served by the percentage change in total enrollment across all public and chartered nonpublic schools between FY 2022 and projected FY 2025 levels, or an overall reduction of 0.6%, to account for changes in the overall student population. This results in an estimated 170.8 million lunches and 89.8 million breakfasts.

Share of FY 2024 meals by federal reimbursement category

For purposes of federal reimbursement, DEW reports that, in FY 2024, 58.5% of public and nonpublic school lunches and 72.3% of public and nonpublic school breakfasts were free meals, 5.4% of public and nonpublic school lunches and 5.0% of public and nonpublic school breakfasts were reduced-price meals, and the remaining 36.1% of public and nonpublic school lunches and 22.7% of public and nonpublic school breakfasts were paid meals. Overall, 63.0% of all public and nonpublic school meals were classified for federal reimbursement purposes as free meals, 5.3% were reduced-price meals, and 35.7% were paid meals in FY 2024. Table 3 provides a breakdown of the percentage of meals served by federal reimbursement category in FY 2024.

Table 3. Percentage of Public School Meals Served by Federal Reimbursement Category, FY 2024		
Category	Percent of Total Lunches	Percent of Total Breakfasts
Free	58.5%	72.3%
Reduced price	5.4%	5.0%
Paid	36.1%	22.7%
Total	**100.0%**	**100.0%**

FY 2025 reimbursement rates

The USDA reimburses schools participating in the NSLP and SBP for every meal served. Rates are highest for meals served to students eligible for free breakfast or lunch and slightly lower for meals served at reduced prices, while a minimum rate is paid for all other meals. Students eligible for free breakfast or lunch receive their meals at no cost to them, while reduced-price eligible students would pay a nominal amount DEW now covers. All other students pay the full price charged by the school for their meals, although the USDA's paid rate covers a small portion of this cost to the school.

Table 4 shows the highest base USDA reimbursement rates under the NSLP and SBP for each federal reimbursement category for the 2024-2025 school year. The USDA pays the highest lunch reimbursement rates to schools that serve more than 60% of lunches free or at reduced price and the highest ("severe need") breakfast reimbursement rates to schools that serve 40% or more lunches free or at reduced price. This analysis assumes that all schools will meet the thresholds to qualify for the highest rates, as nearly 64% of school lunches statewide were served free or at reduced price in FY 2024. Also, the lunch rates include a 9¢ payment for meeting certain nutritional and meal pattern performance requirements; according to data published by the USDA, most if not all Ohio schools follow the requirements necessary to receive the performance payment.

Table 4. FY 2025 Base Federal Reimbursement Rates with Performance Payment		
Category	Lunch (60% or more served free or at reduced price)	Breakfast (severe need)
Free	$4.54	$2.84
Reduced price	$4.14	$2.54
Paid	53¢	39¢

Calculation of total estimated cost

Under the bill, school districts, other public schools, and chartered nonpublic schools will still receive federal reimbursements under the NSLP and SBP based on the number of meals served in each federal reimbursement category, as they will continue to certify students for free, reduced-price, or paid meals in accordance with federal requirements. Under current law enacted in H.B. 33, the state already reimburses districts and schools for the difference between the free and reduced-price rates to make reduced-price meals free. Therefore, the new cost to the state will be for reimbursements to public and chartered nonpublic schools for the difference between the free meal rate and the paid rate to make full-price meals free. In FY 2025, this amounts to $4.01 per lunch and up to $2.45 per breakfast (the difference for nonsevere need schools is lower, at $1.98). Based on the 36.1% of public and nonpublic school lunches and 22.7% of public and nonpublic school breakfasts reimbursed at the paid rate in FY 2024, the state will cover the cost of approximately 61.7 million additional lunches and 20.3 million additional breakfasts.

We estimate the annual cost to make paid meals free for public and chartered nonpublic school students under the bill is up to $297.2 million, based on adjusted FY 2022 meal counts, the FY 2024 share of meals reimbursed at the federal paid rates, and the highest base FY 2025 reimbursement rates (see Table 5). Making paid lunches free will cost an estimated $247.3 million each year and making paid breakfasts free will cost up to an estimated $49.9 million each year. Actual costs may differ from the estimate depending on a number of factors, including the share of breakfasts qualifying for the nonsevere need rate, enrollment, federal reimbursement rates, student participation in school meal programs under the bill's free meal policy, and expanded participation in the CEP due to the lower eligibility threshold that begins with the current 2024-2025 school year.

Table 5. Estimated Annual Cost of Free School Meals Provisions of S.B. 190

Category	Rate Difference (paid by state)	Estimated Meals (in millions)	Estimated Cost (in millions)
Lunches – paid to free	$4.01	61.7	$247.3
Breakfasts – paid to free	$2.45	20.3	$49.9
Total – breakfast and lunch		**82.0**	**$297.2**

Low- and moderate-income housing trust fund

The bill requires a transfer from the GRF to the Ohio Housing Trust Fund (Fund 6460) for an amount that equals the difference between FY 2025 revenue credited to the fund and the FY 2025 appropriation for DPF item 195638, Low- and Moderate-Income Housing Programs. As a result, the impact of this modification would be limited to an estimated GRF loss of $18 million in FY 2026, based on the actual revenues for FY 2025 and the $65 million appropriation for item 195638.

The Ohio Housing Trust Fund provides funding to nonprofit organizations, public housing authorities, private developers and lenders, local governments, and consortia of eligible applicants that are interested in increasing affordable housing opportunities, expanding housing services, and improving housing conditions for low- and moderate-income residents in Ohio.

Modify property tax rollbacks

The bill repeals the 10% nonbusiness property tax rollback and increases the owner occupancy rollback from 2.5% to 12.5%. This change is expected to reduce GRF expenditures by $190 million in FY 2027 and $386 million in FY 2028, and the amounts will likely grow in future years at the pace of inflation. Based on the growth rate of tax rollbacks over the past six years, the reduction in GRF expenditures from repealing the 10% nonbusiness rollback would be $1.47 billion in TY 2026. Given the change in the owner-occupancy rollback from 2.5% to 12.5%, the additional GRF expenditures would be $1.09 billion in TY 2026. Both rollbacks are credits against a property owner's tax bill that are reimbursed by GRF items 200903, Property Tax Reimbursement – Education, and 110908, Property Tax Reimbursement – Local Government.

The provision applies to tax years ending on or after the effective date of the bill. LBO assumes that TY 2026 would be the first year under this new policy, and taxes for that year paid in calendar year 2027. Reimbursements occur semiannually, and the GRF reimbursements span two different fiscal years. Therefore, the GRF expenditures in FY 2027 would reflect 50% of this annual tax policy and FY 2028 marks the first full fiscal year in which GRF expenditures reflect the property tax change.

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