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H.B. 186

136th General Assembly

Bill Analysis

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Version: As Passed by the House

Primary Sponsors: Reps. Hoops and D. Thomas

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SUMMARY

- Authorizes a property tax credit for the owners of property located in a school district on the 20-mill floor property tax floor, with the goal of limiting a district's total property tax revenue growth from the floor to the rate of inflation.
- Applies to all eligible property in the state beginning in tax year 2025.
- Authorizes payments to school districts located in counties that underwent a reappraisal or update in tax years 2023 and 2024 so that such districts are temporarily guaranteed to receive at least the same amount of property tax revenue they received in tax year 2024.
- Requires the first installment of those payments to be made from the Expanded Sales Tax Holiday Fund, which the bill appropriates, and cancels any expanded sales tax holiday scheduled to occur in August 2026.

DETAILED ANALYSIS

Tax credit for property in school districts on 20-mill floor

Background on 20-mill floor

Continuing property tax law applies a "tax reduction factor" to real property and manufactured and mobile homes valued and taxed like real property but subject to manufactured home taxes, with the goal of preventing property taxes from increasing at the same rate as property values. Basically, each year when property values increase, property tax collections are adjusted downward so that taxing districts receive the same amount of revenue they received in the previous year. These reductions are converted to an "effective tax rate." The tax reduction factor, under the Ohio Constitution, cannot apply to unvoted, or inside millage, or certain other types of operating levies, like emergency fixed-sum levies.[1]

There are some exceptions to the tax reduction factor – one of which is the 20-mill floor, which guarantees that a school district's effective tax rate for operating expense levies cannot fall below 20 mills. Instead, the tax reduction factor can only reduce a school district's operating levy collections to 20 mills – once that "floor" is reached in a school district, the reduction factor cannot reduce effective rates any further. Consequently, any growth in property tax values will produce a corresponding increase in taxes from those 20 mills. If property values increase 35% in a school district that is "on" the 20-mill floor, homeowners will generally see a larger tax increase than in other districts that are not on the 20-mill floor. The tax increase will very likely be less than 35%, since the tax reduction factor will still apply to other local tax levies (e.g., county and township levies), but since school district levies typically make up a majority of a homeowner's property taxes, the 20-mill floor could have a significant impact.

Under continuing law, a similar two-mill floor applies to joint vocational school districts (JVSDs).[2]

Property tax credit

The bill would authorize a property tax credit for property owners located in a school district or JVSD on the 20-mill or two-mill floor, respectively. The goal of the credit is to limit the increase in tax revenue that the district would receive as a result of the floor. If the floor would result in collections exceeding a specified inflation rate, each property owner is granted a credit so that the district's revenue from 20 mills (or two mills) does not exceed that rate.

The credit is re-calculated every three years, when a county undergoes a reappraisal or triennial update. A district's revenue growth from the 20-mill or two-mill floor in one of those years may not exceed the rate of inflation over the preceding three years. To measure inflation, the bill compares the district's tax collections from the floor to increases in the GDP deflator, a national measurement of inflation in the prices of all goods and services published by the United States Bureau of Economic Analysis.

Example

To illustrate the operation of the bill's credit, consider a local school district that is on the 20-mill floor. Of this 20-mill floor, there are **five mills** of inside millage, which cannot be reduced by the tax reduction factor, and **15 mills** of outside millage. Assume that the total taxable value of all property in the district in tax year 2025 is **$1 billion**. In 2026, due to a reappraisal, that total taxable value increases to **$1.5 billion**.

[1] Article XII, Section 2a, Ohio Constitution.

[2] For an in-depth discussion of the 20-mill and 2-mill floors, see the LSC Member's Brief entitled Property Tax Millage Floors for School Districts (PDF), available under the Publications tab on LSC's website, www.lsc.ohio.gov.

Under current law, the 20-mill floor ensures that the taxes collected for operating expenses would equal **$20 million** in 2025 (2% of $1 billion) – **$5 million** from inside millage and **$15 million** from voter-approved millage. In 2026, collections would normally increase to **$30 million** (2% of $1.5 billion).

The bill would limit this increase with respect to the district's voter-approved millage (i.e., the millage subject to both the tax reduction factor and 20-mill floor). Assume that, over the three years before the 2026 reappraisal, the inflation rate is **20%**. When compared to the previous year's tax collections, the bill would apply a collections limit for 2026 of **$25.5 million** ($7.5 million from inside millage (5 mills x $1.5 billion), plus $15 million increased by 20%).

The bill achieves this limit by calculating a tax credit amount for each property. A property's credit will be based upon a "tax credit factor," which equals one minus the result obtained by dividing the inflation-limited collections (**$25.5 million**) by the collections that would be received under the 20-mill floor (**$30 million**). In this case, the factor would be **0.15**.

To calculate each property's tax credit, the property's tax liability is multiplied by this credit factor. Assume that, without the reduction, a home with an appraised value of **$200,000** would have a property tax liability of **$1,400**. Under the bill, this property would receive a credit equal to **$210** ($1,400 x 0.15).

This credit amount would be re-calculated every three years, when the county undergoes a reappraisal or triennial update. If, in any of those years, the district's growth from the 20-mill floor is less than the revenue allowed under the inflation cap, properties in that district would not receive a tax credit for that reappraisal or update cycle.

Total credit computation

The bill requires separate tax credit calculations for two groups of property – "nonbusiness property," which includes residential and agricultural property, other than ponds and lakes, and "business property" which includes all other property, except for vacant property. Both calculations only take into account property that was taxable in the district for the most recent appraisal or triennial update, not new construction.

These classes are similar, but not identical, to the Class I (residential/agricultural) and Class II (other) property classifications used when applying the tax reduction factor. Under continuing law, the reduction factor and 20-mill floor adjustment are applied separately to Class I and Class II property. Consequently, a district may be on the 20-mill floor with respect to one class, but not the other. The bill uses slightly different categories because the Ohio Constitution specifies that property can only be divided into those two classifications for purposes of the tax reduction factor.[3]

The bill also takes into account any locally imposed reduction in a school district's levies – for example, if a school district were to voluntarily forgo revenue from a particular levy. Under the bill, the tax credit is calculated according to the bill's formula, but would be offset by the

[3] Ohio Constitution, Article XII, Section 2a.

revenue reduction, such that the actual credit applied to property would either be reduced or entirely eliminated.

Under the bill, separate credit amounts are also calculated for JVSDs, because of their separate two-mill floor.[4]

Application to all property in 2025

The bill applies to all eligible property in the state beginning in tax year 2025, in the case of real property, and tax year 2026, in the case of manufactured and mobile homes that are taxed like real property. For property that is located in a county that underwent a reappraisal or triennial update in tax years 2023 and 2024, the bill authorizes a credit that is calculated as if the bill had been in effect in those tax years. This temporary credit applies until the next year in which the county undergoes a reappraisal or update.

Under the bill, the entire credit for tax year 2025 will be applied on taxpayers' second-half tax bills. Generally, property taxes are paid in two installments, once in January or February and again in June or July. Because the bill will not take effect until after first-half tax bills are mailed for tax year 2025, taxpayers will receive the full credit against the second installment.[5]

Revenue guarantee for districts affected by temporary credit

The bill authorizes payments to school districts and JVSDs that are located in a county that underwent a reappraisal or triennial update in tax years 2023 and 2024 and that, due to the bill's temporary credit, would receive less property tax revenue in tax year 2025 than in tax year 2024. The revenue guarantee applies to tax year 2025, in the case of 2023 reappraisal or update counties, and to tax years 2025 and 2026, in the case of 2024 reappraisal and update counties.

Under the bill, the Tax Commissioner will calculate the difference between a district's real property tax revenue in tax year 2024 and its revenue in 2025 and, if applicable, 2026. For districts that have property in more than one county, the calculation is performed separately for the property in each county. If the district will receive less in 2025 or 2026, the Commissioner will certify the difference to the Director of Education and Workforce. The Director will pay the difference to each eligible district in August 2026 and, if applicable, August 2027.[6]

Transfer from Expanded Sales Tax Holiday Fund

The bill requires the Director of Budget and Management to transfer the amount necessary to make the August 2026 payments from the Expanded Sales Tax Holiday Fund.

Accordingly, the bill cancels any expanded sales tax holiday scheduled to occur in August 2026, and delays the certification of Expanded Sales Tax Holiday Fund revenue for purposes of scheduling an expanded sales tax holiday in 2027. Under continuing law, the state holds an expanded sales tax holiday if there is at least $60 million of surplus GRF revenue in the Expanded

[4] R.C. 319.301, 319.303, 323.08, 323.152, 323.155, 323.158, 4503.06, 4503.065, and 4503.0610.

[5] Sections 3 and 4.

[6] Section 5.

Sales Tax Holiday Fund at the end of the preceding fiscal year. The holiday is held in the following August and applies to most items priced under $500. Continuing law also provides that, if no expanded tax holiday is held, the state will still offer a three-day tax holiday for "back-to-school" items.[7]

Administration

Generally, the credit will be administered by county auditors. However, for tax year 2025, the bill requires the Tax Commissioner to compute the credits applicable to each district. In order to complete these calculations, the bill requires county auditors to certify the necessary property tax information to the Commissioner within 30 days after the bill's 90-day effective date.[8]

Credit designation

The bill requires that the credit be separately itemized on tax bills as the "Inflation Cap Credit."[9]

HISTORY

Action	Date
Introduced	03-19-25
Reported, H. Ways & Means	10-21-25
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Re-referred, H. Finance	10-21-25
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[7] R.C. 131.44, 5739.02(B)(55), and 5739.41, not in the bill; Sections 5 and 7.

[8] Section 5.

[9] R.C. 319.303(G).