OHIO LEGISLATIVE SERVICE COMMISSION

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Office of Research and Drafting

Legislative Budget Office

H.B. 207
134th General Assembly

Fiscal Note & Local Impact Statement

Click here for H.B. 207's Bill Analysis

Version: As Introduced

Primary Sponsor: Rep. Troy

Local Impact Statement Procedure Required: No

Philip A. Cummins, Senior Economist

Highlights

Fund	FY 2022	FY 2023	Future Years
State General Revenue Fund			
Expenditures	Increase of $51.5 million	Increase of $106.5 million	Increasing amounts

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 would increase the maximum income threshold to apply for the homestead property tax exemption in 2021 from $34,200 to $37,500, increase property value exempted from up to $25,000 to up to $31,200, and index property value exempted for inflation.
- Revenue losses would be fully reimbursed from the GRF. The cost to the GRF is estimated at $51.5 million in FY 2022, $106.5 million in FY 2023, $114 million in FY 2024, and higher amounts in future years.

Detailed Analysis

H.B. 207 would make three changes to the homestead exemption under the property tax. The bill would (1) increase the income amount at or below which a homeowner could apply for the homestead exemption in 2021 from $34,200 to $37,500, (2) increase the property value tax exempted in that year from up to $25,000 to up to $31,200, and (3) index the property value exempted for inflation. The maximum income to qualify for the exemption, adjusted for inflation in current law, would continue to be inflation-adjusted under the bill.

The changes would go into effect in tax year (TY) 2021 for real property and in TY 2022 for manufactured homes. Real property taxes are paid a year in arrears; property taxes on manufactured homes are paid in the year of the tax, so the change would reduce payments both of real property taxes and of taxes on manufactured homes in 2022. Revenue losses of school districts and other units of local government as a result of the homestead exemption are reimbursed from the GRF, which would continue under the bill.

Brief history of the homestead exemption

Through TY 2013, all homeowners ages 65 and older were allowed to exempt from property taxes $25,000 of market value of their primary residences, equivalent to $8,750 of taxable value at Ohio's 35% assessment rate. Permanently and totally disabled homeowners, and qualifying surviving spouses of deceased homeowners, could also receive the homestead tax exemption. Most qualify based on age.

Beginning with homeowners who reached age 65 in 2014, new applicants for the homestead exemption were limited to those with Ohio adjusted gross income less than or equal to an amount set in codified law at $30,000 and adjusted each year for inflation. Homeowners who received a homestead exemption reduction for TY 2013 (2014 for manufactured homes) continued to qualify regardless of income. Qualifying totally disabled military veterans are also exempt from the income test, on up to $50,000 market value of their primary residences. Starting with TY 2020, modified adjusted gross income replaced Ohio adjusted gross income as the measure of whether homeowners qualified for the homestead exemption. Modified adjusted gross income is Ohio adjusted gross income with any business income deduction added back.

About 930,000 primary residences, real property and manufactured homes, qualified for the homestead exemption in TY 2013. Each year since then, the number of qualifying homeowners has declined, to about 814,000 in TY 2018, latest available data. This decline appears to be the net result of declines each year in numbers of homeowners who qualified for the exemption in 2013 and continue to qualify, partly offset by increases in newly qualified homeowners. The net declines under current law are expected to continue.

Tax savings for each homeowner vary widely around the state, depending on local tax rates. Average savings per homeowner have been fairly stable from year to year and were $490 for TY 2018.

Analysis of the bill's effects

Increasing the income for eligibility from $34,200 to $37,500 for TY 2021 would add an estimated 22,000 (3%) to homeowners qualifying for the exemption. Thereafter, the decline in numbers of homestead exemptions would resume, as older persons cease to be homeowners. The decline would be only partly offset by increases in the number of newly qualifying homeowners, to an estimated 24,000 for TY 2022 and 27,000 for TY 2023.

Increasing the market value exempted from $25,000 to $31,200 for TY 2021 would increase the average tax reduction from $490 under current law to an estimated $609 with the bill. Thereafter, indexing the exempted market value for inflation would result in an increase in the average tax reduction to an estimated $620 for TY 2022 and $632 in TY 2023.

Combining these changes implies an estimated increase in the revenue loss from the homestead exemption of $103 million for TY 2021,[1] $110 million for TY 2022, and $118 million for TY 2023. These revenue losses to school districts and other units of local government are fully reimbursed, with a time lag, from the GRF. The estimated cost of the bill draft to the GRF is $51.5 million in FY 2022, $106.5 million in FY 2023, $114 million in FY 2024, and higher amounts in subsequent years.[2]

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[1] The number eligible for the exemption, after adding the 22,000 newly eligible under the bill, is estimated at 773,000 in that year. This assumes a continuation of the decline in the number claiming the exemption since TY 2013.

[2] Analysis of effects of the bill draft was carried out using data on incomes and home values for Ohio homeowners from the U.S. Census Bureau's 2019 American Community Survey (ACS), historical data on the homestead exemption from the Department of Taxation, and an inflation prediction from forecasting firm IHS Markit.