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H.B. 1
135th General Assembly

Bill Analysis

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Version: As Introduced

Primary Sponsor: Rep. Mathews

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SUMMARY

Income tax

- Repeals the graduated income tax rates that apply to nonbusiness income (currently ranging from 2.765% to 3.99%), and instead levies a flat tax rate of $360.69 plus 2.75% on all income over $26,050.

Property taxes

- Authorizes the Tax Commissioner to extend any county's property tax reappraisal or triennial update period by one year starting in tax year 2024 through 2029.
- Decreases, from 35% to 31.5%, the percentage of real property's value that is subject to taxation.
- Indexes that 31.5% rate so that it decreases in proportion to the increase in inflation.
- Repeals the 10% tax rollback on nonbusiness property.
- Modifies the 2.5% homestead tax rollback to equal a flat $125 property tax credit for all owner-occupied homes.
- Establishes an enhanced homestead exemption for certain long-term homeowners who qualify for the general homestead exemption.
- Indexes, for all homestead exemptions, the amount of the exemption so that the exemption, and resulting tax savings, increases in proportion to the increase in inflation.

DETAILED ANALYSIS

Income tax nonbusiness rates

The bill modifies the income rates on nonbusiness income by repealing graduated rates that apply to that income and instead levying a flat tax on taxpayers with income over $26,050, beginning in 2023. Under current law, Ohio levies a tax on individual nonbusiness income that falls within four income tax brackets. The income ranges of each bracket are indexed for inflation, and the rates range from 2.765% to 3.99%.

The bill eliminates these brackets and instead imposes a single, flat rate of $360.69 plus 2.75% on all income above $26,050. Taxpayers with an income below $26,050, still indexed for inflation, are not subject to tax, as under current law.[1] The bill suspends the inflation adjustment on this $26,050 amount for 2023.[2]

Unchanged by the bill's rate modifications, a taxpayer may continue to deduct up to $250,000 in business income (or $125,000 for married taxpayers filing separately), and any business income in excess of that amount is subject to a flat 3% rate.[3]

Property tax modifications

The bill makes numerous changes to the process by which real property is valued and assessed for tax purposes. Under continuing law, county auditors conduct a reappraisal of all property in the county every six years, with an additional "triennial" update in the third year, which is done in conjunction with the Tax Commissioner. This reappraisal or update generally determines a property's fair market value for the next three years, i.e., the price for which the property would sell in a transaction between a willing buyer and seller. Agricultural property, in most circumstances, is valued according to its current agricultural use (CAUV). Yet, not all of a property's fair market value or CAUV is taxable. Under current law, a property's taxable value is 35% of its fair market value. The property's taxable value is then multiplied by the applicable tax rate. That result is then reduced by the H.B. 920 tax reduction factors and further reduced by any other reductions or credits to which the property is entitled, including the 10% nonbusiness and 2.5% homestead rollbacks and the homestead exemption. The bill's changes affect most stages of this process.

Reappraisal period extension

Currently, the number of counties subject to a reappraisal or triennial update in each year are different — ranging from 5 to 28 counties.[4] For tax years 2024 through 2029, the bill authorizes the Tax Commissioner to extend any county's reappraisal period by one year in order to regionalize and equalize the number of counties scheduled for a reappraisal or update in any given year.[5]

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[1] R.C. 5747.02.

[2] Section 5.

[3] R.C. 5747.01(A)(28), not in the bill, and 5747.02(A)(4).

[4] See the current Property Value Reappraisal and Update Schedule (PDF), which may be accessed by conducting a keyword "Reappraisal Schedule" search on the Department of Taxation's website: tax.ohio.gov.

[5] R.C. 5713.01 and 5715.24.

Assessment rate decrease, inflation adjustment

As discussed above, under current law, real property is taxed based on its taxable value which is 35% of its fair market value or CAUV. The bill reduces this assessment rate to 31.5%, beginning for the tax year that includes this provision's effective date. The bill also indexes it in future tax years so that the rate decreases in proportion to increases in the prices of all goods and services comprising the national gross domestic product (often referred to as the "GDP deflator").

The Tax Commissioner calculates this adjustment each year by multiplying the current year's assessment rate by the percentage increase in the GDP deflator over the preceding year and subtracting that result from the current assessment rate, rounded to the nearest 0.001%. In the case of deflation, the rate may increase, but cannot exceed 31.5%. The Commissioner must compute and publish the adjusted assessment rate on the Department of Taxation's website by August 31 of each year.[6] The bill's changes to the assessment rate calculation also apply to manufactured homes that are taxed as real property.[7]

Tax rollbacks

Current law authorizes several property tax credits, which are direct reductions of tax liability, as opposed to reductions in the taxable value of assessed property. Application of a credit reduces the tax owed after the tax liability is calculated. Most homeowners benefit from two credits affected by the bill.

The first credit, known as the 10% nonbusiness property rollback, reduces taxes owed on certain property tax levies by 10%. This credit applies generally to one-, two-, or three-family dwellings and nontimber agricultural land. The second credit, known as the 2.5% homestead rollback, reduces by an additional 2.5% such tax on owner-occupied dwellings that serve as a taxpayer's primary residence and up to one acre of land ("homestead"). The state currently reimburses local taxing authorities for the cost of both of these rollbacks from the GRF.[8] Currently, new and replacement levies approved at elections held on or after November 2013 are not included in computing either rollback.

The bill repeals the 10% nonbusiness property rollback.[9] The bill also modifies the 2.5% homestead rollback, replacing the percentage calculation with a flat $125 credit against the tax liability levied on a taxpayer's domicile and up to one acre of land. The flat homestead credit

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[6] R.C. 5715.01.

[7] R.C. 4503.06(D)(2)(b).

[8] R.C. 321.24(F); R.C. 323.156, not in the bill.

[9] R.C. 319.302, repealed, with conforming changes in R.C. 319.30, 319.301, 321.24, 323.08, 323.152, 323.155, 323.158, 718.83, 3354.24, 3354.25, 4503.065, 5703.021, 5703.80, 5709.92, 5709.93, 5715.19, 5715.30, 5747.03, and 5751.20.

cannot reduce a property's tax liability to less than zero.[10] The state will continue to reimburse local governments and schools for the cost of the flat credit.

The repeal and modification of the rollbacks begin to apply in tax year 2024 or, for the manufactured home tax, 2025.[11] The difference in application is due to the fact that the manufactured home tax is payable on a current-year basis, whereas real property tax is payable in arrears.

Homestead exemption

Another property tax credit that the bill modifies is a credit on the homestead of certain qualifying individuals. Under current law, this "homestead exemption" equals the taxes that would be charged on up to $25,000 of the fair market value of a home owned by a person who is 65 years of age or older, permanently and totally disabled, or at least 59 years old and the surviving spouse of an individual who previously received the exemption (referred to in this analysis as the "general homestead exemption"). The credit essentially exempts $25,000 of the value of a homestead from taxation.

Also under current law, special "enhanced" exemptions of $50,000 are available for the homesteads of military veterans who are totally disabled and their surviving spouses (referred to in this analysis as the "disabled veteran exemption") and for surviving spouses of peace officers, firefighters, or other emergency responders who die in the line of duty or by an injury or illness sustained in the line of duty (referred to in this analysis as the "public service officer exemption").

All three current homestead exemptions also apply to manufactured and mobile homes, regardless of whether they are taxed as real property or taxed under the manufactured home tax. They also apply to housing cooperatives, though the requirement for the individual to own the home does not apply in that context.

Homeowners who first receive the general homestead exemption for tax year 2014 or later (or tax year 2015 for homeowners who pay the manufactured home tax) must have an Ohio modified adjusted gross income of $34,600 or less, as computed for state income tax purposes (including all business income and excluding Social Security and disability benefits). Under continuing law, this income limit is increased each year to adjust for inflation. Homeowners who received the general homestead exemption before 2014 are not subject to the income limit, and no income limit applies to the disabled veteran exemption or public service officer exemption.

Long-term owner homestead exemption

The bill establishes a third enhanced homestead exemption of $50,000 for long-term homeowners. To qualify, a person must satisfy the criteria for the general homestead

[10] R.C. 323.152(B).

[11] Section 4.

exemption, including meeting the income limit, and also have continuously owned and occupied the homestead or manufactured home for 20 or more consecutive years. This enhanced exemption also extends to the homeowner's surviving spouse until the spouse remarries, provided the spouse meets the income limit for the general homestead exemption.[12] As with all current homestead exemptions, local taxing units are reimbursed by the state for the reduction in property tax revenue that results from the bill's enhanced homestead exemption. The reimbursement is paid from the GRF semiannually or annually.[13]

Inflation adjustment of exemption amount

The bill annually indexes the amount of all homestead exemptions, including the bill's new enhanced exemption, so that the exemption amounts – and therefore the tax savings – increase according to increases in the GDP deflator. The adjustments are made in the same manner as inflationary adjustments are made to the income limit for the general homestead exemption: by multiplying the current year's exemption amount by the percentage increase in the GDP deflator over the preceding year and adding that result to the current exemption amount, rounded to the nearest $100. An adjustment would not be made for any year the GDP deflator does not increase.

The Tax Commissioner must compute the adjustments and certify the resulting amounts to each county auditor by December 1 to be applied the following tax year, or, in the case of the manufactured home tax, the second ensuing tax year.[14] The bill's adjustment and certification requirements begin to apply in tax year 2024 or, for the manufactured home tax, 2025.[15]

Local government funding intent

The bill states that the General Assembly intends to appropriate funds in FY 2024 and FY 2025 to local governments impacted by the bill's tax changes.[16]

HISTORY

Action	Date
Introduced	02-15-23

ANHB0001IN-135/tl

[12] R.C. 323.152(A)(4), 323.153, 4503.065(F), and 4503.066.

[13] R.C. 323.156 and 4503.068, not in the bill.

[14] R.C. 323.152(A)(1)(d) and 4503.065(A)(2)(e).

[15] Section 4.

[16] Section 6.