Ohio Legislative Service Commission

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Office of Research and Drafting

Legislative Budget Office

H.B. 447

135th General Assembly

Bill Analysis

Version: As Introduced

Primary Sponsor: Rep. Loychik

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SUMMARY

Property tax homestead exemption

- Temporarily increases the amount of the property tax homestead exemption.
- Temporarily expands eligibility for the homestead exemption for the elderly and disabled.
- Reimburses school districts from the GRF for 50% of the tax losses from these temporary changes and other taxing authorities for 100% of their losses.
- Permanently expands the existing homestead exemption for disabled veterans.
- Creates a new homestead exemption for the surviving spouses and minor children of uniformed service members killed in the line of duty ("Gold Star families").
- Reimburses local taxing units for the reduction in tax revenue from the expanded disabled veterans exemption and new Gold Star family exemption in the same manner as other homestead exemptions.

School district 20-mill floor

- Phases-down the 20-mill property tax floor for school districts in a manner that ties increased collections from the floor to increases in the Consumer Price Index.

Property tax valuation of farmland

- Sets a minimum value of 10% for the capitalization rate used in the property tax formula for valuing farmland at its "current agricultural use value," or CAUV. (An increased capitalization rate results in lower CAUV values, other factors remaining equal.)

DETAILED ANALYSIS

The bill modifies various components of the state's Property Tax Law. Several of the bill's changes involve the homestead exemption, which reduces the property taxes of seniors, disabled veterans and other individuals, and certain widows and widowers. The bill's other changes affect the formula for valuing farmland for property tax purposes and the 20-mill floor that guarantees school districts a certain level of property tax revenue.

Homestead exemption expansion

The bill makes several changes to the homestead exemption, including (1) a temporary increase in the exemption amounts, (2) a temporary expansion of the standard exemption, (3) a permanent expansion of the exemption for disabled veterans, and (4) the creation of a new exemption for the surviving families of uniformed service members killed in the line of duty.

Background

Under continuing law, the standard homestead exemption is a property tax credit for the primary residence, or "homestead," of qualifying individuals. The credit essentially exempts a portion of the value of an eligible individual's homestead from taxation. The exemption amount for tax year 2023 is $26,200. This exemption amount is increased each year for inflation.

The exemption is available to individuals who are (a) at least 65 years of age or older, (b) permanently and totally disabled, or (c) at least 59 years old and the surviving spouse of a person who previously received the exemption. In addition, homeowners must have an Ohio modified adjusted gross income of $36,100 of less for tax year 2023. This income limit also increases each year for inflation. Homeowners who received the exemption before 2014 are not subject to the income limit.

Also under continuing law, an "enhanced" exemption is available for homes of military veterans who are totally disabled and their surviving spouses 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. No income limit applies to either enhanced exemption. For 2023, the enhanced exemption equals $52,300. Like the standard exemption, the enhanced exemption amount also increases for inflation each year.[1]

Temporary expansion

The bill temporarily increases the standard exemption and the enhanced exemption for surviving spouses of public safety officers for three years. The enhanced exemption for disabled veterans will increase for one year under the same scheme, but then will permanently expand, beginning in tax year 2024, as described below.

For individuals who already qualify for the standard exemption, the exemption will increase to $35,000 in 2023, from $26,200. For individuals who receive the enhanced exemption,

[1] R.C. 323.152 and 4503.065.

the benefit will increase from $52,300 to $65,000. Each of these amounts will further increase for inflation in the second two years of the three-year expansion period.

In addition, the bill extends the standard homestead exemption to individuals with a household income of up to $80,000 who would otherwise qualify for the existing exemption, were it not for the income limit. These homeowners will receive a lesser benefit based on their income tier. For the 2023 tax year, the tiers are as follows:

Income	Exemption amount
$36,101-$51,000	$26,250
$51,001-$66,000	$17,500
$66,001-$80,000	$8,750

As with the other exemption amounts, under both current law and the bill, these exemption amounts will increase for inflation in each of the two later years of the temporary expansion period. However, the income amounts, aside from the $36,101 threshold, will not increase for inflation during the latter two years.[2]

Local government reimbursement

Under continuing law, the state fully reimburses local governments for their property tax revenue loss resulting from the homestead exemption. The bill modifies this reimbursement scheme by only reimbursing local, city, and exempted village school districts for 50% of their revenue loss from the bill's temporary expansion. All other local governments, including other schools like joint vocational and cooperative education school districts, will be fully reimbursed for their revenue loss. All local governments, including all school districts, will continue to be fully reimbursed for their revenue loss from the existing homestead exemptions.[3]

Temporary period and application procedures

Except in the case of the disabled veteran exemption described below, the temporary increases apply to tax years 2023, 2024, and 2025, in the case of real property, and tax years 2024, 2025, and 2026, in the case of homes subject to the manufactured home tax. The difference in application is a result of the fact that the manufactured home tax is payable on a current-year basis, whereas property tax is payable in arrears.

Since the bill would take effect after the standard deadline for receiving the homestead exemption in tax year 2023 or, in the case of manufactured homes, tax year 2024, the bill specifies that individuals can apply for the expanded exemption any time before the late application deadline for those tax years – December 31, 2024. Any amount that an individual

[2] R.C. 323.152(F), 323.153, 4503.065(G), and 4503.066.

[3] R.C. 323.156 and 4503.068; Section 4(B).

overpaid before their application is approved will be credited against the individual's future property taxes or refunded, in the same manner authorized in continuing homestead exemption law.

The bill specifies that, if a person already qualifies for the homestead exemption under existing law, that person is not required to submit a new application or update their existing status solely in order to receive the bill's increased benefit.[4]

Homestead exemption for disabled veterans

Under the bill, the homestead exemption for disabled veterans will increase from $52,300 to $65,000 in tax year 2023, as described above. However, in lieu of the increases in the second two years of the temporary expansion described above, the bill permanently expands the exemption beginning in tax year 2024.

Pursuant to this expansion, veterans who currently receive the exemption – those who are totally disabled – will receive a full property tax exemption of the veteran's homestead, not including an exemption from special assessments. In addition, certain veterans who are not totally disabled will become eligible for an exemption based primarily upon the veteran's disability rating.

Under current law, a veteran qualifies for the enhanced exemption if the veteran has one or more service-connected disabilities that have received either (1) a total disability rating (i.e., a disability rating of 100%) or (2) a total disability rating for compensation based on individual employability. Under the latter scenario, the U.S. Department of Veterans Affairs (VA) determines that a veteran is treated as if he or she has a 100% rated disability if (1) the veteran has at least one service-connected disability rated at 60% or higher, or two or more service-connected disabilities with at least one rated at 40% or higher and a combined rating of 70% or more and (2) the veteran cannot hold steady employment.

The bill provides a full exemption for veterans who meet these current requirements and further expands the exemption to apply to any veteran with a disability rated at 10% or greater. For the latter veterans, the exemption amounts are tiered based on the veteran's disability rating, age, or condition. For tax year 2024, the exemption amounts will equal the following:

Disability rating	Exemption amount
Totally disabled	Full exemption
Disability rating of at least 70%; age 65 or older with a disability rating of at least 10%; totally blind; or loss of the use of one or more limbs	$12,000

[4] R.C. 323.152 and 4503.065; Section 4(A).

Disability rating	Exemption amount
Disability rating of at least 50%, but less than 70%	$10,000
Disability rating of at least 30%, but less than 50%	$7,500
Disability rating of at least 10%, but less than 30%	$5,000

Similar to the existing exemption for disabled veterans, the Tax Commissioner must increase these exemption amounts each year for inflation.

Additionally, as under the current enhanced exemption, the bill's enhanced exemption for disabled veterans extends to the surviving spouse of the veteran, until the spouse dies or remarries. Also similar to the existing exemption, the bill does not require the veteran to meet an income test.[5]

Homestead exemption for Gold Star families

The bill also creates a new homestead exemption for the families of a uniformed service member killed in the line of duty, often referred to as "Gold Star" families. The exemption is available beginning in tax year 2024 to such service members' surviving spouses and minor children.

For surviving spouses, the exemption amount equals $5,000. The exemption continues until the spouse dies or remarries. A $5,000 exemption is also available for homesteads owned by a surviving minor child. If there is more than one minor child who owns a homestead, the $5,000 exemption is divided equally amongst them. The exemption for minor children continues until the child turns 18, dies, or marries.

The new exemption extends to the surviving family of members of the uniformed services, which includes the branches of the armed forces along with the National Oceanic and Atmospheric Administration and the Public Health Service. Like the other enhanced exemptions, the Gold Star family exemption does not require the surviving spouse or minor child to earn below a certain income to qualify. The exemption does not apply to the surviving family of a dishonorably discharged uniformed service member.[6]

Application requirements

As with all current homestead exemptions, a surviving spouse or minor child must apply to the county auditor to qualify for the exemption. The applicant must include with this initial application a copy of the service member's U.S. Department of Defense form DD-1300 Report of

[5] R.C. 323.151, 323.152(A)(3), 323.153, 4503.064, 4503.065(B), and 4503.066.

[6] R.C. 323.151, 323.152(A)(4), 4503.064, and 4503.065(D).

Casualty or other federal documentation showing the service member was killed in the line of duty. After this initial application, no further application is needed to maintain the exemption, but the auditor must be notified if the homestead no longer qualifies for the bill's exemption. (This notification is required under continuing law to report ineligibility for all current homestead exemptions.)[7]

Reimbursement of local taxing units

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 expanded disabled veteran enhanced exemption and new Gold Star family enhanced homestead exemption. The reimbursement is paid from the GRF semiannually or annually.[8]

Reduction of school district 20-mill floor

Continuing property tax law applies a "tax reduction factor" to real property, 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.[9]

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 a majority of a homeowner's property taxes, the 20-mill floor will have a significant impact.

The bill

The bill would decrease each school district's 20-mill floor each year, with the goal that increased tax collections from the floor would not exceed increases in the Consumer Price Index (CPI) inflation rate. Although the bill includes a formula based on this premise, the effect of the bill is more complicated, as illustrated with the following example:

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[7] R.C. 323.153 and 4503.066.

[8] R.C. 323.156 and 4503.068.

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

Example

Consider a school district that is on the 20-mill floor. Of this 20-mill floor, there are **5 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 2024 is **$1 billion**. In 2025, due to a reappraisal, that total taxable value increases to **$1.5 billion.**

Under current law, the 20-mill floor ensures that the taxes collected for operating expenses would equal **$20 million** in 2024 (2% of $1 billion) − **$5 million** from inside millage and **$15 million** from voter-approved millage. In 2025, collections would increase to **$30 million** (2% of $1.5 billion).

The bill would limit this increase. Assume that, between 2024 and 2025, the CPI inflation rate is **5%**. When compared to the previous year's tax collections, the bill would apply a "collections limit" for 2025 of **$21 million** ($20 million increased by 5%). The bill then requires the calculation of a new floor millage that, when multiplied by $1.5 billion, would equal $21 million. That calculation results in a new floor millage of **14 mills** ($21 million/$1.5 billion).

However, this formula may not fully operate as intended, because of the effect of inside millage. In 2025, the taxes collected from inside millage must increase to **$7.5 million** (.5% of $1.5 billion), since the tax reduction factor cannot reduce inside millage. In addition, the tax reduction factor can only reduce the outside millage to **$15 million** – the amount collected in the previous year. Consequently, the total collections will be **$22.5 million**, which is greater than the rate of inflation. This correlates, effectively, to a floor of **15 mills.**

So, for 2025, the school district's floor millage would effectively be 15 mills. However, for the purposes of the following year, the bill's calculations will be based on the 14-mill floor calculated above.

In 2026, and each year thereafter, this floor would be reduced again. (The reductions would be most pronounced in reappraisal and triennial update years.) Eventually, the floor would be reduced to zero, and the tax reduction factor would apply to all of the school district's levies other than its 5 mills of inside levies. This calculation would result in each school district having a different "floor." School districts with greater property growth would see their floor shrink faster, while school districts with less growth would see their floor shrink slower.[10]

Millage floor constitutional uniformity requirement

The bill's 20-mill floor CPI reduction mechanism, because it would result in a different millage floor for each school district, appears to conflict with the Ohio Constitution, which prescribes and limits how the tax reduction factor may be structured. The Ohio Constitution expressly allows the General Assembly to set millage floors for various types of taxing authorities, and it is pursuant to this authority that the General Assembly has enacted a 20-mill floor for school district operating millage. However, if the General Assembly decides to enact a floor for a type of taxing authority, then the Ohio Constitution requires the floor to be ". . . not less than a

[10] R.C. 319.301 and 3317.01; Section 3.

uniform per cent of the taxable value of the property in the district . . . ." Additionally, this section specifies that "Different, but *uniform percentage limitations*" may be established for different types of taxing authorities.[11]

This section provides clear constitutional authority for the General Assembly to build a mechanism similar to the 20-mill floor, which is actually a uniform percentage equal to 2% of taxable value, into the tax reduction factor. However, if the General Assembly decides to do that, the emphasized portion of that section, above, appears to require that the floor be a uniform percentage of taxable value, though different percentages may be used for different categories of taxing districts. (This is reflected in current law, which gives traditional school districts a 20-mill floor and joint vocational school districts a 2-mill floor.)

Because the bill's 20-mill floor CPI reduction mechanism will create a floor that is not based on a uniform percentage of taxable value in all school districts, it appears to be inconsistent with the manner in which a millage floor is authorized by the Ohio Constitution.

CAUV formula

The bill also modifies the formula for valuing farmland for property tax purposes, beginning in tax year 2024. The change requires the use of a minimum value for one component of that formula, known as the capitalization rate.

CAUV background

Under continuing law, farmland is valued at its current agricultural use value (CAUV) – i.e., its value considering only its use as agriculture. The Ohio Constitution specifically authorizes farmland to be valued at its CAUV, rather than its fair market value.[12] The CAUV formula, which is designed to carry out this constitutionally authorized valuation standard, typically results in a lower tax bill for farm owners because the land is often valued below its actual market value, particularly in areas where farmland is in demand for development purposes.

In the simplest terms possible, a farm's CAUV is based on its net income divided by a capitalization rate. A farm's net income is calculated by determining the farm's soil type, multiplying the average crop yields for that soil type by the average crop prices, and subtracting management and production costs. The net income is then divided by a capitalization rate, which is designed to simulate the farm's income-producing potential.

Capitalization rate

The CAUV formula's capitalization rate is intended to represent the rate of return a prudent investor would expect to earn from operating an Ohio farm considering only agricultural factors. Currently, the inputs used to calculate the capitalization rate include typical farm mortgage terms, average return on equity for investors, and average property tax rates.

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[11] Article XII, Section 2a(D), Ohio Constitution (emphasis added).

[12] Article II, Section 36, Ohio Constitution.

The bill requires that the capitalization rate cannot be less than 10%. Under current law, the capitalization rate equals the rate produced by the formula, with no upper or lower limits. For tax year 2023, the rate resulting from the formula equaled 8%. This rate is similar to that calculated in the several previous years, with rates ranging from 7.8% to 8% between 2017 and 2023.

Since a farm's CAUV is based on net income divided by the capitalization rate, if net income remains constant, the farm's CAUV – and, therefore, its tax liability – will decrease as the capitalization rate increases. For example, if a farm has a net income of $200 per acre, its CAUV using an 8% capitalization rate would be $2,500 per acre, whereas its CAUV using a 10% capitalization rate would be $2,000 per acre.[13] So, in essence, the bill results in the decreased valuation of CAUV land when compared to the capitalization rates used in recent years.

In general, a decrease in taxable CAUV land value will tend to shift tax liability to residential property and non-CAUV agricultural land through the operation of the tax reduction factor. This is because a separate tax reduction factor applies to residential and agricultural property (Class 1 property) and all other property (Class 2 property). Because the tax reduction factor is calculated by aggregating the increased valuation of property in that class and applying a uniform reduction to all property in that class, a reduction in CAUV land values would decrease the tax reduction factor for Class 1 property, which would effectively lessen the factor's effect on other Class 1 property.[14]

HISTORY

Action	Date
Introduced	03-12-24

ANHB0447IN-135/ts/ar

[13] R.C. 5715.01; Section 3.

[14] R.C. 319.301.