Ohio Legislative Service Commission

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Office of Research and Drafting

Legislative Budget Office

H.B. 645
135th General Assembly

Fiscal Note & Local Impact Statement

Click here for H.B. 645's Bill Analysis

Version: As Introduced

Primary Sponsors: Reps. Isaacsohn and Hall

Local Impact Statement Procedure Required: Yes

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Highlights

- The bill creates a refundable tax credit against the personal income tax (PIT), or an equivalent rebate, up to $1,000 per tax year, as adjusted for inflation in future years, for homeowners and renters meeting certain income, home value, and monthly rent limits.
- For the first claim year following the effective date of the bill, taxpayers must have total household resources, as defined by the bill, at or below $100,000 per taxable year. Home value and monthly rent limits, above which a taxpayer is ineligible for the credit, are established for tax year (TY) 2023 at $438,300 and $1,370, respectively, and track the most recent one-year data published in the American Community Survey (ACS).
- Total annual state revenue losses are expected to approach $894.8 million in the first year of eligibility, with $595.2 million attributed to homeowner claimants and $299.6 million to renters. The total cost of the credit is expected to rise at a rate generally matching inflation in the relative cost of housing in future years.
- LBO assumes an effective date of TY 2024, with a reduction in GRF receipts beginning in FY 2025. Revenue losses would be shared among the GRF (96.6% of the loss), the Local Government Fund (LGF, 1.7%), and the Public Library Fund (PLF, 1.7%).

Detailed Analysis

The bill authorizes a refundable tax credit against the personal income tax (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 for homeowners and renters with total household resources, as defined in the bill, at or below $60,000 per taxable year. For those with total household resources at or below $100,000, but above $60,000, per taxable year, a phaseout of the credit limit is imposed in increments of $200.

Credit or Rebate Limit in First Claim Year, by Household Resources	
Total Household Resources	**Credit or Rebate Limit**
$60,000 or less	$1,000
$60,001 to $70,000	$800
$70,001 to $80,000	$600
$80,001 to $90,000	$400
$90,001 to $100,000	$200

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). If this policy were in place for tax year (TY) 2023, only claimants with a home value or gross monthly rent less than or equal to $438,300 or $1,370, respectively, would be eligible for the credit. 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.

Subject to the credit limitation, the PIT credit value equals the amount a claimant's property taxes due on their homestead, or rent-equivalent taxes paid (defined as 15% of gross rent), exceeds 5% of the claimant's total household resources. LBO assumes the legislation would be effective for TY 2024 and affect state revenues beginning in FY 2025. Although the bill makes equivalent amounts available as a rebate to those that do not file a state tax return, this analysis assumes all such claims will occur through tax filings.

Total annual state revenue losses are expected to approach $894.8 million in the first year of eligibility, with $595.2 million attributed to homeowner claimants and $299.6 million to renters. The total cost of the credit is expected to rise at a rate generally matching inflation in the relative cost of housing in future years. Of the foregone PIT revenue, the GRF will bear 96.6% of the losses, with the remaining amounts evenly shared between the Local Government Fund (LGF, Fund 7069) and Public Library Fund (PLF, Fund 7065).

The 2022 American Community Survey,[1] compiled by the U.S. Census Bureau, was used to evaluate the state revenue losses from the proposed refundable tax credit. Estimated property

[1] U.S. Census Bureau's American Community Survey (ACS), 2022 data release.

taxes due among owner-occupied households, rent-equivalent taxes paid, and total household incomes[2] of residents were sourced from the ACS public use microdata sample for Ohio residents.

Comparable property tax circuit breaker policy

According to sponsor testimony of S.B. 271, an analogous introduced bill with a lower limit on household resources and no credit limit phaseout, the proposed policy is modeled after current law in Michigan, which employs a similar tax credit for homeowners and renters, largely equivalent to the proposed legislation: the Homestead Property Tax Credit.[3] The fiscal effect of that policy is comparable with the aforementioned estimate for Ohio. Michigan residents with total household resources at or below $67,300 for TY 2023, and a taxable home value of $154,400 or less for homeowners, generally qualify for at least a portion of the $1,700 credit maximum. The full tax benefit is typically only available to those with total household resources of $58,300 or less in TY 2023. The limits on total household resources and the percentage of taxes not refundable are reduced, however, for claimants age 65 or older.

The Michigan credit value is determined by the amount that property taxes levied exceed 3.2% of total household resources; since property taxes are not directly levied on renters, Michigan instead uses a metric to determine comparable property taxes paid by renters that equals 23% of annual rent paid.[4] The resulting excess amounts are then multiplied by 60%, the product of which is subject to the $1,700 limitation. This calculated value is then phased out in increments of 10% for every $1,000 of total household resources reported above $58,300. This final amount is then awarded as a state income tax credit.

The Tax Analysis Division at the Michigan Department of Treasury publishes its Executive Budget Appendix on Tax Credits, Deductions, and Exemptions[5] annually, as required in Michigan Compiled Laws – Act 72 of 1979.[6] This report details the forgone revenue to the state of Michigan from the implementation of each statutorily defined tax expenditure; exemptions and credits applied against the Michigan state individual income tax are included in this definition. The report for FY 2022-FY 2023 estimates the forgone revenue from Michigan's current Homestead Property Tax Credit in FY 2023 at $757.9 million. After adjusting for the population difference between Ohio and Michigan, the equivalent revenue loss to Ohio would be $889.9 million, which is roughly 0.5% less than the total anticipated revenue losses to Ohio from the implementation of the proposed legislation.[7]

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[2] Total household income, as reported in the 2022 ACS data for Ohio, was used as a measure of total household resources, as defined in the bill.

[3] Mich. Admin. Code R. 206.1-206.33.

[4] Michigan Department of Treasury: Homestead Property Tax Credit.

[5] Executive Budget Appendix on Tax Credits, Deductions, and Exemptions Fiscal Years 2022 and 2023, published by the Michigan Department of Treasury.

[6] Michigan Compiled Laws Section 1 of Public Act 72 of 1979.

[7] The current population of Ohio is roughly 17.4% greater than that of Michigan.