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Fiscal Note & Local Impact Statement

Bill: S.B. 122 of the 131st G.A. **Date**: May 20, 2016

Status: As Introduced **Sponsor**: Sen. Gentile

Local Impact Statement Procedure Required: No

Contents: Extends eligibility for the homestead exemption to elderly or disabled homeowners who did not receive the exemption for 2013 and have $30,000 or more in Ohio adjusted gross income

State Fiscal Highlights

STATE FUND	FY 2017	FY 2018	FUTURE YEARS
General Revenue Fund			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Increase of $41 million to $93 million	Increase of $98 million	Larger increases

Note: The state fiscal year is July 1 through June 30. For example, FY 2018 is July 1, 2017 – June 30, 2018.

- The bill eliminates a means test for the homestead exemption, imposed by Am. Sub. H.B. 59 of the 130th General Assembly for persons who turn age 65 or become totally and permanently disabled in 2014 or thereafter.
- Tax savings to homeowners would equal increased expenditures from the state GRF to reimburse units of local government.
- The cost to the state would be an estimated $41 million in FY 2017, $98 million in FY 2018, and continue rising in subsequent years.
- In addition, the bill makes elimination of the means test retroactive to tax year 2015, which would cost the state an additional $52 million on a one-time basis.

Local Fiscal Highlights

- No net revenue losses to school districts and other units of local government would result from the bill, as homestead exemption tax reductions are fully reimbursed by the state.

Detailed Fiscal Analysis

The bill eliminates the means test for the homestead exemption reduction of real property taxes, which was put in place by Am. Sub. H.B. 59 of the 130th General Assembly. The cost to the state would be an estimated $41 million in FY 2017 for tax year (TY) 2016, $98 million in FY 2018, and increasing amounts in subsequent years. Elimination of the means test as specified in the bill is retroactive to TY 2015, which would require refunds of overpayments estimated at $52 million. Payments of most taxes due for TY 2015 will be completed in June 2016.

H.B. 59 allowed new applicants to receive the homestead exemption only if they had Ohio adjusted gross income (OAGI) of $30,000 or less in the year prior to the tax year to which the homestead exemption applies. This income limit adjusts upward for inflation in future years, and rose to $30,500 for 2014 and $31,000 for 2015. The requirement that these persons reach age 65 or be older than that, or be totally and permanently disabled, in the year of the homestead exemption in order to qualify for it, was unchanged by H.B. 59. That act also provided that persons who received the homestead exemption tax reduction in tax year 2013 for the real property tax, or tax year 2014 for the manufactured home tax, before the reinstitution of means testing,[1] continue to be eligible for the exemption. Qualified persons who timely filed a late application for tax year 2013 (2014 for the manufactured home tax) also remain eligible. Thus the impact of the change in H.B. 59 has been on persons who turned age 65 in 2014 or thereafter, or who become totally and permanently disabled then.

The tax reduction provided by the homestead exemption is up to $25,000 of market value of an owner-occupied primary residence. A home with a market value of $25,000 or more on tax records, equivalent to $8,750 of taxable value at the 35% assessment rate for real property, would receive the full amount of the exemption. A home with a lower market value would receive a smaller exemption but one that would offset the full amount of taxes due. The value of the homestead exemption is calculated at the effective tax rate for the property.

The full amount of the homestead exemption, as well as the 10% and 2.5% rollbacks, is reimbursed to schools and other local government units by the state GRF. Thus the bill would increase state expenditures by the full amount of savings to taxpayers. Revenue to local governments would be unaffected by the bill, apart from a difference in the timing of payments (state reimbursements lag tax payments).

[1] This tax benefit previously was means tested in tax year 2006 and before.

Calculation of the fiscal effects

Most of the tax reductions from the homestead exemption are based on age rather than disability. Data from the U.S. Census Bureau's 2014 American Community Survey (ACS) show about 49,000 owner-occupied households in which income of the homeowner and spouse if present was greater than $30,500 and the homeowner, or the older of the husband or wife if both were present, was age 64 or 65 at the time the survey was conducted. The ACS surveys are conducted throughout the year, and some of those age 64 at the time of the survey would have turned 65 later in 2014. Income is as self-reported by survey respondents, and may not match OAGI of the homeowner and spouse if present. It excludes income of any other household residents. The ACS data show age at the time of the survey, not date of birth, so do not directly indicate numbers of households that became eligible for the homestead exemption during the year. The same survey shows about 55,000 households in which income was greater than $30,500 and the homeowner, or husband or wife, was age 63 at the time the survey was conducted, but neither was older. The corresponding number of households for age 62 is about 60,000, and for age 61 about 54,000, implying an upward trend to numbers of households qualifying for the exemption under the bill.

The ACS numbers for households with the owner or spouse if present reaching these ages in 2014 and with income of the homeowner and spouse exceeding $30,500 are adjusted downward for this Fiscal Note to account for mortality and migration, using projections of population by age group from the Development Services Agency. The resulting figures show an estimated approximately 153,000 households eligible for the enhanced homestead exemption in the bill in TY 2016 and 204,000 households in TY 2017. Numbers that qualify would continue rising in years after that.

In TY 2013, the average reduction in homeowners' taxes statewide as a result of the homestead exemption was $498. The amount realized by individual homeowners varied widely around the state, depending mostly on effective tax rates in various areas, and also on property values. From TY 2007, after means testing for the homestead exemption was eliminated, through TY 2013, the statewide average reduction in homeowners' taxes from the homestead exemption rose about $15 per year with increases in average effective tax rates. The average reduction in homeowners' taxes from the homestead exemption in TY 2016 is projected at $542, based on an extrapolation of the past trend, and rises to $557 in TY 2017.

Combining the estimated number of affected households, based on the 2014 ACS as adjusted, and estimated average tax reductions per household, about $83 million per year in tax savings would be realized for TY 2016 by qualifying households under the bill, rising to about $113 million for TY 2017, and rising further in subsequent years as additional households qualify for enhanced benefits based on age and income.

In addition, the As Introduced version of the bill states that amendment of the Revised Code sections providing for the homestead exemption applies to all property taxes charged and payable after January 1, 2015. Under Ohio's system of payment of real property taxes one year in arrears, taxes charged for 2015 are generally payable in 2016. Payment of 2015 real property taxes will have been completed for most homeowners before the bill could become law. The bill does not specify a mechanism for rebating homestead exemptions to homeowners who would become newly qualified for that year under the bill. The rebates would apply to an estimated 99,000 households and total about $52 million.

Timing of the effects

Real property tax payments generally are made in two equal installments in January and June, with the corresponding state reimbursements to local governments for the homestead exemption and the rollbacks mainly in April and May for the first of the two tax payments, and in September and October for the second payments. Consequently, half of the fiscal impact of the bill on TY 2016 payments would increase state expenditures in FY 2017, by an estimated $41 million, and the other half would increase FY 2018 expenditures, also by $41 million.

In TY 2017, many of the owner-occupants who benefitted from the bill in TY 2016 would continue to do so, likely at higher effective tax rates on average, and another group of owner-occupants would turn age 65 and newly qualify for the tax benefit reinstated by the bill. Half of the increase in state spending for this latter group would affect outlays in FY 2018 and half in FY 2019. Together with the full-year increase in FY 2018 state expenditures for the homeowners who were eligible in TY 2016, state spending resulting from the bill might increase in FY 2018 by about $98 million, $57 million more than the increase in FY 2017.

Addition in TY 2018 of another group of homeowners qualifying on the basis of age and income for the benefits in the bill would further increase state spending for reimbursements to local governments. The increase in state spending in FY 2019 would likely be around $155 million, $57 million more than the increase in FY 2018. With the passage of years, the rapid rise in the fiscal effects of the bill would damp down, as the homeowners who benefit from the bill initially would increasingly cease to be homeowners, and similarly for homeowners who first qualify for the benefits of the bill in subsequent tax years.

As noted above, if the bill is implemented retroactive to TY 2015, the additional cost to the state is estimated at $52 million. What form this increased expenditure would take is not addressed in the bill.

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