OHIO LEGISLATIVE SERVICE COMMISSION

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Office of Research and Drafting

Legislative Budget Office

H.B. 357
134th General Assembly

Fiscal Note & Local Impact Statement

Click here for H.B. 357's Bill Analysis

Version: As Introduced

Primary Sponsors: Reps. Stephens and LaRe

Local Impact Statement Procedure Required: No

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Highlights

Fund	FY 2022	FY 2023	Future Years
State General Revenue Fund			
Expenditures	$2.2 million increase	$11.2 million increase	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 inflation-indexes the maximum amounts of property valuation not taxed with a homestead exemption. Local revenue losses from the homestead exemption are reimbursed from the state GRF.
- Additional GRF outlays to reimburse local governments for the rise in the exempted amount would cumulate year by year as the property value exempted with inflation-indexing grows. The amount of the additional outlays would depend on future inflation.

Detailed Analysis

The bill would index the value of property exempted from taxation for homeowners who qualify for the homestead exemption. The value exempted would rise based on changes in the U.S. gross domestic product (GDP) price index, starting in tax year (TY) 2021 for real property and TY 2022 for manufactured homes, both of which will be paid in 2022, with local government revenue losses reimbursed in that year. This index is used in current law to inflation adjust maximum incomes qualifying for the homestead exemption, for homeowners subject to an income test. Local government revenue losses are, and would continue to be, reimbursed from the GRF.

Brief history of the homestead exemption

Through TY 2013, all homeowners ages 65 and older were allowed to exempt from property taxes up to $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. Primary residences with taxable value of less than $8,750 are fully exempted from tax by a homestead exemption. Reductions apply to taxes only, and not to special assessments.

Beginning with homeowners who reached age 65 in 2014, new applicants for the homestead exemption were limited to those with Ohio adjusted gross income (OAGI) less than or equal to an amount set in codified law at $30,000 and adjusted each year for inflation, measured by increases in the GDP price index. Starting with TY 2020, modified adjusted gross income replaced OAGI as the measure of whether homeowners qualified for the homestead exemption. Modified adjusted gross income is OAGI with any business income deduction added back.

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. Beginning in TY 2020 (TY 2021 for manufactured homes), surviving spouses of first responders killed in the line of duty also qualified for up to a $50,000 exemption without regard to income.

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 788,000 in TY 2019 (2020 for manufactured homes). 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 homeowners vary widely around the state, depending on local tax rates. Average savings per homeowner have been fairly stable from year to year and were $495 for homestead exemptions reimbursed in 2020 ($504 for real property, $229 for manufactured homes). These averages include both those qualifying to exempt up to $25,000 market value and those qualifying to exempt up to $50,000. Nearly 99% of exemptions were for up to $25,000 in 2020.

Fiscal effects

Inflation-indexing the market value exempted from taxation starting in TY 2021 for real property and TY 2022 for manufactured homes would increase the average tax reduction from $495, here assumed to continue under current law, to an estimated $501 in 2022, $520 in 2023, and increasing amounts thereafter. The size of the increases would depend on inflation. GRF reimbursements are paid with a lag. Estimated reimbursements are increased by $2.2 million in FY 2022, $11.2 million in FY 2023, $23.3 million in FY 2024, $31.9 million in FY 2025, and larger amounts in later years.

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