Bill Analysis

Mark Flanders *Legislative Service Commission*

H.B. 465

123rd General Assembly
(As Introduced)

Reps. Mottley, Willamowski, Hartnett, DePiero, D. Miller, Van Vyven, Jolivette, Allen, Trakas, Flannery, Krupinski

BILL SUMMARY

- During the phase-out period for the property tax on inventory, provides for payments each year to school districts in which the taxable value of tangible personal property listed for taxation is less than the taxable value of tangible personal property listed for taxation in the district in 2001, as adjusted for inflation.

CONTENT AND OPERATION

Background: elimination of property tax on inventory

Existing law phases out the tangible personal property tax on inventory, by gradually reducing the assessment rate used to determine its taxable value.[1] Currently, the assessment rate is 25%. During the period from 2002 to 2006, the rate is to be reduced by one percentage point each year if certain growth conditions are met concerning statewide collections of tangible personal property taxes. After 2006, the rate will be reduced by one percentage point each year until it equals zero. At that point, inventory will no longer be subject to property tax in Ohio.

Payments to school districts

(R.C. 5711.222)

The bill provides for annual payments during the inventory tax phase-out period to any school district (including a joint vocational or cooperative education district) that does not meet a benchmark for growth in tangible personal property taxable value. Specifically, for a district to be eligible for a payment in a year, the taxable value of all tangible personal property listed for taxation in the district that

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[1] *R.C. 5711.22, not in the bill.*

year on the general tax list of personal property must be less than the taxable value of all tangible personal property listed for taxation in the district on the general tax list in 2001, adjusted for inflation. The inflation adjustment is the greater of (1) 3% per year from July 1, 2001, through June 30 of the year in question or (2) the percentage increase in the consumer price index for that same period.[2]

The amount of a district's payment is the lesser of the following two amounts:

--The district's revenue loss due to the assessment rate phase-down (found by multiplying the district's personal property tax rate for current expenses by the excess of what the district's taxable value for inventory would be if it were still assessed at 25% over the district's taxable value for inventory in the current year), reduced by an amount found by multiplying the charge-off rate under the school funding formula (23 mills) by the excess of what the district's taxable value for inventory would be if it were still assessed at 25% over the district's taxable value for inventory in the current year;[3]

--The product found by multiplying the amount by which the district's personal property tax rate for current expenses exceeds the charge-off rate, by the amount by which the taxable value of all tangible personal property listed for taxation in the district in 2001 (adjusted for inflation) exceeds the district's taxable value for inventory in the current year.

But for "guarantee" districts (that is, those for which state aid payments are based on a percentage of aid in prior years) that qualify for the bill's payments, the payment each year is the lesser of the following two amounts:

--The district's revenue loss due to the assessment rate phase-down (found, as for nonguarantee districts, by multiplying the district's personal property tax rate for current expenses by the excess of what the district's taxable value for inventory would be if it were still assessed at 25% over the district's taxable value for inventory in the current year);

--The product found by multiplying the district's personal property tax rate for current expenses by the amount by which the taxable value of all tangible personal property listed for taxation in the district in 2001 (adjusted for inflation) exceeds the district's taxable value for inventory in the current year.

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[2] *The consumer price index used is that prepared by the Bureau of Labor Statistics of the United States Department of Labor (all urban consumers, all items).*

[3] *A school district's taxable value for inventory for 2002 is specified to be 44% of the taxable value of all tangible personal property listed in the district for 2002.*

Administration

The Tax Commissioner is required to perform all calculations needed to determine the payment amounts by August 31 each year, beginning in 2002 and ending in the year the inventory assessment rate is 1%. The Commissioner must certify the amount of each qualifying district's payment to the Director of Budget and Management, who is to make the payment from the state General Revenue Fund. The district must credit the payment to its general fund.

Tangible personal property adjustment to state school aid formula

(R.C. 3317.028)

Current law requires a school district's state aid to be recomputed if the Tax Commissioner determines that the taxable value of tangible personal property subject to taxation by the district has increased or decreased by at least 5%. The bill provides that the Commissioner is to exclude any decrease in taxable value resulting from the reduction in the assessment rate on inventory when making the determination.

HISTORY

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