



Peter A. Cooper

Resolution Analysis
Legislative Service Commission

H.J.R. 10
123rd General Assembly
(As Introduced)

Reps. Mottley, Grendell, Logan, Haines, Hood

RESOLUTION SUMMARY

- Proposes a constitutional amendment to replace the current real property tax limitation system for residential and agricultural property with a system that limits the increase in the assessed value of each parcel of residential and agricultural property. The current tax limitation system is retained for commercial and industrial property.
- Prohibits increases in the assessed value of residential and agricultural property over time by more than the ratio of "inside" (unvoted) mills to total mills levied, except when the property is transferred or is no longer occupied by the owner.
- When a parcel is sold or the owner no longer occupies it, permits its assessed to be restored to a fraction of its fair market value, without limitation by the ratio of unvoted to voted mills.
- Further limits increases in assessed value for certain property commensurate with increases in district revenue attributable to property sales and changes in occupancy.
- Authorizes the legislature to provide further limits in assessed value for elderly and disabled homeowners.
- Permits school districts to levy income taxes on residents in conjunction with property taxes on commercial and industrial property.

CONTENT AND OPERATION

New property tax limitation system for residential, agricultural property

(Article XII, Section 2b)

The resolution proposes a constitutional amendment replacing the existing property tax limitation system with a new system that limits increases in revenue and in the assessed value of property. The proposed tax limitation system applies only to real property that is classified as residential or agricultural; currently, residential property consists of single-family residences and two-, three-, and four-unit residences. The existing tax reduction system would continue to apply to commercial and industrial property. (The existing system, often referred to as "H.B. 920," is explained at the end of this analysis.)

Under the proposed limitation system, tax increases on residential and agricultural property are limited through two mechanisms: (1) a limit on the growth in each parcel's assessed value (see "*Limit on assessed value*," below), and (2) a limit on total revenue growth (see "*Limits on revenue growth*," below). This is in contrast to the existing system, which does not affect a parcel's assessed value. Instead, the existing system limits the total amount of taxes charged against all parcels; each parcel's tax bill is then reduced by the same percentage by which the total amount of taxes exceeds the limit.¹

Limit on assessed value

(Article XII, Section 2b(B))

The resolution directly limits the increase in a parcel's assessed value. Currently, assessed value is simply a percentage of a parcel's "true value in money"--i.e., its fair market value. The percentage is 35% for all real property. Under the proposed amendment, each parcel's assessed value is to be based on its 1999 assessed value. If a parcel's true value increases after 1999, the parcel's assessed value may increase by only a fraction of what the increase would be under the current system. The fraction is determined by the ratio of the "inside" (unvoted) tax rate to the total tax rate levied on the parcel. For example, if the

¹ Under the existing system, tax bills are reduced only in the sense that the amount charged is less than it would be if there were no tax limitation; but the amount charged against an individual parcel in one year may still be more than was charged in the preceding year because of new levies "inside" (unvoted) millage--which is not subject to the limitation, or greater-than-average increase in the parcel's value.

unvoted tax rate is ten mills and the total tax rate is 40 mills, the millage ratio is 1/4, so the increase in the assessed value of a parcel would be only 1/4 of what it would be under current law. In effect, this permits overall revenue to grow in about the same proportion as it currently can from inside millage, which is not subject to limitation by H.B. 920.

Example. A \$100,000 parcel has an assessed value of \$35,000.² Under current law, if its true value increases by 20% to \$120,000, its assessed value increases proportionately, by 20% or \$7,000, to \$42,000.

Under the proposed amendment, if the ratio of inside millage to total millage is 1/4, the parcel's assessed value increases by only 1/4 of \$7,000, or \$1,750. Therefore, the parcel's assessed value would increase to only \$36,750, rather than \$42,000.

Change of ownership or occupancy. The proposed amendment's limit on increases in assessed value applies only as long as the property is held by the same owner and is occupied by the owner. Once a parcel changes hands or the owner no longer occupies the parcel, the assessed value is brought back up to a fixed percentage of its true value. For example, if the parcel in the example above were to be sold, or the owner rented it out, the assessed value would again become 35% of its true value--\$42,000. The tax rate would apply to the \$42,000 taxable value, but there would be no H.B. 920 reduction in the tax bill as there is currently, so taxes on the parcel likely would be higher than they would be under current law.

In the years following a sale or a change in occupancy, increases in the parcel's assessed value once again become limited by the millage ratio--i.e., by the ratio of unvoted mills to total mills.

The bill authorizes the legislature to place stricter limits on increases in the assessed value of parcels that have been transferred or that are no longer occupied by the owner, as long as the limits do not reduce the assessed value below what it would be if the parcel had never been transferred or the owner had never ceased to occupy the parcel.

Decreases in true value. If a parcel's true value decreases rather than increases, the parcel's assessed value is decreased by the same percentage. Thus, if a \$100,000 parcel decreases in value to \$80,000, the parcel's assessed value

² All of the examples in this analysis assume an assessment rate of 35%, which is the current assessment rate. The legislature could enact a different assessment rate, and the Tax Commissioner currently is authorized to fix a rate lower than 35%.

decreases from \$35,000 to \$28,000 (which is 35% of \$80,000). The millage ratio used to moderate increases in assessed value does not apply when a parcel's true value decreases.

Additions to existing property. If a parcel is improved (such as by adding an addition or constructing a new building), the parcel's assessed value increases in the same proportion as the improvement increases true value. Thus, if a \$100,000 building is built on a \$50,000 parcel of land, the assessed value of the parcel presumably increases from \$17,500 (35% of \$50,000) to \$52,500 (\$17,500 + [35% of \$100,000]). The millage ratio used to moderate increases in assessed value does not apply to increases in true value brought about by improvements added to a parcel.

Stricter limits for homesteads. The proposed amendment authorizes the legislature to place stricter limits on the growth in assessed value of homesteads that qualify for the current homestead exemption for elderly and disabled homeowners. The legislature may even provide for a freeze in the assessed value of such homesteads.

Limits on revenue growth

(Article XII, Section 2b(C))

In addition to limiting growth in assessed values, the proposed amendment also limits revenue growth. Although the proposed amendment's limits on assessed value restrains revenue growth to some extent, some growth would result from the increase in assessed value of all property, and some growth would result from increases in assessed value when property is sold or when a property owner ceases to occupy the property. The proposed amendment limits revenue growth on residential and agricultural real property by requiring the legislature to provide for reductions in assessable values sufficient to offset any revenue increases that are brought about when parcels are transferred or the owner no longer occupies the parcel. Revenue is allowed to increase as a result of new tax levies, new construction, or property being reclassified as residential or agricultural property.

Continuation of current effective tax rates

(Article XII, Section 2b(E))

Any property tax levy that is authorized to be levied in 1999 and any year after 1999, and that is subject to the current H.B. 920 tax limitation, must not be levied on residential and agricultural real property at a higher rate than its effective tax rate for 1999. (The effective tax rate is the rate that would have to be levied

against residential and agricultural property in order to produce the amount of revenue that is permitted under the H.B. 920 reduction. The effective rate is lower than the tax rate approved by voters, because the H.B. 920 revenue limitation prevents taxing districts from charging as much revenue as the voted tax rate would raise.)

Implementation

(Article XII, Section 2b(D))

The proposed amendment authorizes the legislature to pass laws to implement the constitutional amendment, including definitions for terms used in the amendment, and how to deal with jointly owned property, lots located next to residences, "and related matters."

Combined income and property taxes for school districts

(Article XII, Section 2c)

The proposed amendment expressly authorizes the legislature to permit school districts to levy, as a single measure, an income tax and a property tax that does not apply to residential and agricultural real property. The taxes must be approved by voters as a single ballot measure. The legislature can prescribe a method whereby the amount raised by the income tax approximates the amount that the property tax would raise from residential and agricultural property if the tax applied to that property.

Election; effective date

Passage of the joint resolution requires approval by 3/5ths of the membership of each house of the legislature. If it is passed, the election on the constitutional amendment proposed by the resolution would be held on November 2, 1999. If it is approved by a majority of voters casting ballots on the issue, the constitutional amendment would take effect January 1, 2000; the new tax limitation would not apply until 2000.

Existing tax limitation system ("H.B. 920")

(Article XII, Section 2a; R.C. section 319.301)

The Ohio Constitution currently authorizes the legislature to limit the amount of taxes that may be raised from each property tax levy. The constitutional authorization is necessary only because the chosen method for limiting property taxes treats some real property differently from other real property. Since the Ohio

Constitution has long required all real property to be taxed by "uniform rule," it was deemed necessary in 1980 to amend the Constitution to permit some property--residential and agricultural property--to be taxed differently from all other real property (primarily commercial and industrial). Prior to the constitutional amendment, a tax limitation system resembling the current one was in place, but it treated all real property in the same manner. This uniform treatment led to shifts in the tax burden, generally from commercial and industrial property to residential property, which apparently were considered unacceptable enough to inspire passage of the constitutional provision permitting real property to be classified into the two classes for the purpose of imposing different degrees of tax limitations on the different classes of property.

The current tax limitation system (often referred to as "H.B. 920" after the act that first implemented the system--before the 1980 constitutional amendment) generally prevents revenue from growing in response to growth in real property values resulting from reassessments and reappraisals. H.B. 920 operates by reducing the total amount of taxes charged against real property by each tax levy to the extent needed to raise the same amount of taxes raised by that levy in the preceding year. A reduction is computed separately for residential and agricultural property, and all other real property. (This is the reason for the 1980 constitutional amendment.) Thus, increases in property values in one class of property do not influence the taxes charged against the other class of property.

Revenue is permitted to increase if it is charged under a tax levy that does not require voter approval ("inside millage"). Revenue also may increase if new construction occurs, to the extent of the taxes charged on the new construction. Revenue also may increase if the levy is imposed pursuant to a municipal charter provision that exempts the levy from the H.B. 920 limitation. Finally, H.B. 920 does not apply at all to the taxes raised from tangible personal property (business machinery, equipment, inventory, furniture, etc., and public utility plant). Thus, to the extent that the value of tangible personal property in a taxing district grows over time, the taxing district receives revenue increases. But, since an item of tangible personal property generally does not appreciate in value, the growth in value (and, therefore, revenue) will be negligible, if at all, unless there is continual reinvestment or increases in inventory stocks in the taxing district.

The H.B. 920 limitation does not apply to levies that raise a specific number of dollars--notably debt levies and school district emergency levies--or to charter millage.

H.B. 920 does not directly affect the tax rate; it operates by limiting the amount of revenue that is charged for collection. This gives rise to the concept of an "effective tax rate," which is the hypothetical tax rate that would be needed to

raise the amount that is actually allowed to be raised under the H.B. 920 constraint. Generally, the effective tax rate is lower than the actual tax rate. There are two effective tax rates associated with each tax levy--one for residential/agricultural property, and one for the "other" class. Historically, the effective tax rate for residential/agricultural property has been less than the effective tax rate for the other class, because residential property tends to increase in value at a faster pace than commercial and industrial property, causing a proportionately greater reduction to be needed to restrain revenue growth.

H.B. 920 also does not guarantee that each individual property owner's tax bill will not increase. Some increase is likely to occur from inside millage or new levies. But even disregarding inside millage and new levies, an individual's tax bill will increase if the value of the property has increased by more than the average increase in value throughout the community. Conversely, if an individual's property value has not kept pace with the average property in the community, the individual's tax bill may even decrease. This is because the H.B. 920 reduction is proportionate to the percentage increase in all property values in the aggregate, and each parcel receives a tax reduction of this percentage, regardless of changes in the parcel's particular value. However, whether or not a particular parcel increases in value to the same degree as the "average" parcel, H.B. 920 ensures that taxes will not be as high as if there were no H.B. 920 limitation.

The "uniform rule"

Currently, the Ohio Constitution requires all real property to be assessed for taxation at a uniform percentage of its true value. This means that the value of each parcel of real property that is subject to taxation (the parcel's taxable value) is the same percentage of its true value. So, two parcels each having a true value of \$100,000 must have equal taxable values (under current law, the taxable value of each parcel would be \$35,000). Under the proposed amendment, these parcels very likely would not continue to have equal taxable values once one or the other changed hands, or once the owner of one or the other stopped occupying the parcel. Generally, the parcel that had the more frequent changes in ownership or occupancy would have a higher taxable value. Thus, the proposed amendment amends the uniformity requirement of the Ohio Constitution to permit parcels having equal true values to have different taxable values.

HISTORY

ACTION	DATE	JOURNAL ENTRY
Introduced	06-22-99	p. 902

HJR10-I.123/rss

