Peter A. Cooper Legislative Service Commission

Sub. S.B. 6

123rd General Assembly
(As Reported by H. Ways & Means)

Sens. **Armbruster, Johnson, DiDonato, Drake, Blessing, Brady, Carnes, Cupp, Fingerhut, Hottinger, Latell, Latta, Nein, Oelslager, Spada, Watts, White, Kearns, Wachtmann, Schafrath, Herington, Gardner**

Reps. **Householder, Mottley, Jolivette, Jerse, Barnes, Britton, Hollister, Perry, Distel, Grendell, Netzley, Austria, Hood, Callender**

BILL SUMMARY

- Increases the income brackets used to determine eligibility for the homestead exemption and the manufactured or mobile home exemption.
- Indexes the income brackets and the maximum tax reduction levels to increases in general price inflation.
- Allows a person who qualifies for the homestead exemption or the manufactured or mobile home exemption on the basis of age, but who previously qualified on the basis of a disability before turning 65, to continue deducting the amount they previously deducted as disability benefits.

CONTENT AND OPERATION

Homestead exemption income eligibility

(secs. 323.152(A) and 4503.065(B))

The homestead exemption is available to limited-income homeowners who are 65 years of age or older or permanently and totally disabled. Surviving spouses of persons who received the homestead exemption at the time of death also qualify for it, provided the surviving spouse is between ages 59 and 65 when the deceased spouse dies. A similar exemption is available under the manufactured home tax for limited-income owners of manufactured and mobile homes who satisfy the same criteria. Both exemptions are granted in the form of a reduction in taxes on the homestead or manufactured or mobile home.[1]

The exemptions are computed by determining the "reduction in taxable value" that applies to the homestead or manufactured or mobile home. (In the case of the manufactured home exemption, the reduction is in "assessable value.") The reduction in taxable value is prescribed in a statutory table and depends upon the "total income" of the eligible homeowner and his or her spouse. The local tax rate is then multiplied by the reduction in taxable value to arrive at the amount of the reduction in taxes. The property tax revenue foregone by local taxing authorities because of the exemption is reimbursed by the state.

Currently, the reduction in taxes afforded an eligible taxpayer by the homestead and manufactured or mobile home exemptions equals the amount obtained by multiplying the tax rate by the reduction in taxable value shown in the following table:

Current law

If total income is	Reduce taxable value by the lesser of
$10,800 or less	$5,000 or 75%
$10,801 to $15,800	$3,000 or 60%
$15,801 to $20,800	$1,000 or 25%
More than $20,800	-0-

[1] *Manufactured homes and mobile homes are taxed like real property if they become permanently affixed to land in Ohio on or after January 1, 2000, or if they are permanently affixed before that date and the owners choose to have them taxed as real property. Owners have to surrender their certificates of title in order for their home to be taxed as real property.*

Increased total income criteria

The bill proposes increasing the income brackets as follows:

Proposal

If total income is	Reduce taxable value by the lesser of
$11,900 or less	$5,000 or 75%
$11,901 to $17,500	$3,000 or 60%
$17,501 to $23,000	$1,000 or 25%
More than $23,000	-0-

The bill's increase of the income brackets first applies to real property taxes paid for 1999 (generally reflected in tax bills due in 2000) and to manufactured home taxes payable in 2000.

Indexing of income limits, maximum taxable value reductions

(secs. 323.152(A)(3) and 4503.065(B)(2); Section 3)

In addition to making the increase in the income brackets, the bill provides for automatic increases in the income amounts and the corresponding taxable value reductions to account for price inflation. The adjustments would be made annually to track increases in the Gross Domestic Product Deflator, a broad gauge of general price inflation. Specifically the Tax Commissioner must determine the annual percentage increase (if any) in the price deflator for the period running from July 1 of the preceding calendar year to June 30 of the current calendar year, and increase the income limits and taxable value limits by that percentage. The adjusted amounts must be rounded to the nearest multiple of $100. The Tax Commissioner must certify the adjustments to each county auditor by December 1 each year. The adjusted limits apply to the following tax year in the case of real property, and to the second following year in the case of manufactured or mobile homes.

The bill specifies that indexing of the income limits will affect the income brackets beginning in 2000 (real property) and 2001 (manufactured homes), and indexing of the maximum taxable value amounts will affect the tax reductions beginning in 2002 (real property) and 2003 (manufactured homes).

Neutralizing income effects of converting benefits from disability to retirement

(secs. 323.151(C) and 4503.064(B))

Income determination; retirement and disability benefits

Eligibility for the homestead exemption is determined by the "total income" of the owner and the owner's spouse. "Total income" is federal adjusted gross income with certain items of income added or deducted. Among the items added are pension or other retirement benefits that are not included in federal adjusted gross income (including Social Security and Railroad Retirement benefits). Among the items deducted are disability benefits that are included in federal adjusted gross income: up to $5,200 of disability benefits are deducted, unless they are paid by the Veterans Administration or armed forces on account of an injury or disability, in which case the entire amount of benefits is deducted.

The bill addresses situations in which persons who previously qualified for the homestead exemption on the basis of being disabled have reached the age when they qualify on the basis of age, and a change in the way their benefits are characterized affects their eligibility for the exemption. Since disability benefits are deducted at least in part in determining eligibility for the exemption, whereas retirement benefits are fully included, a person who receives disability payments one year and retirement benefits the next year may have to report an increase in total income. The increase in total income may decrease the amount of the homestead tax reduction, or may even cause the person's income to exceed the income limit and thereby disqualify the person for any tax reduction. Thus, a change in how a person's income is characterized, from disability to retirement, may result in a change in the person's tax reduction, regardless of any change in the amount of income they receive.

The bill prevents such a change in the characterization of a person's benefits from affecting the person's eligibility for the homestead exemption. Under the bill, for persons who once qualified for the homestead exemption on the basis of disability and who subsequently qualify on the basis of age, the manner in which total income is computed will be modified so that they can deduct an amount equal to the amount of disability benefits they deducted just prior to the time when they began qualifying for the exemption on the basis of age.

Specifically, if a person received disability benefits in the last year he or she qualified for the exemption on the basis of disability, and those benefits were not included in adjusted gross income, the person would subtract the amount of all disability benefits received in that year (but only to the extent of the current year's total income, and to the extent that the benefits have not been deducted as disability benefits in the current year). If the person's disability benefits were included in adjusted gross income in the last year they qualified on the basis of age, the person would subtract the amount of those benefits that were subtracted in that year (but only to the extent of the current year's total income, and to the extent that the benefits have not been deducted as disability benefits in the current year).

The bill's change in how such a person's income is computed applies to homestead taxes charged for 1999 (payable in 2000), and to manufactured home taxes charged for 2000.

HISTORY

ACTION	DATE	JOURNAL ENTRY	
Introduced	01-20-99	p.	26
Reported, S. Ways & Means	03-04-99	p.	160
Passed Senate (33-0)	03-10-99	pp.	185-186
Reported, H. Ways & Means	04-27-99	pp.	471-472

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