



## **H.B. 311**

124th General Assembly  
(As Introduced)

Reps. **Olman, Jolivette, Husted, Webster, Reidelbach, Lendrum, Setzer, Collier, Sullivan, Britton, Allen**

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### **BILL SUMMARY**

- Changes the way in which property tax rates are expressed in law and in ballot propositions, from mills per dollar of value to percentage of value.
- Applies real property tax rates to 100% of the appraised fair market value of property, rather than a percentage thereof (currently 35%).
- Reduces existing tax rates on real property proportionately to offset the resulting increase in the taxable real property base.

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### **CONTENT AND OPERATION**

#### **Expression of property tax rates**

(secs. 133.18, 319.33, 345.03, 511.28, 511.34, 513.13, 1545.21, 3317.01, 3317.021, 3318.06, 3318.061, 3318.361, 4582.024, 4582.26, 5705.02, 5705.03, 5705.192, 5705.194, 5705.196, 5705.213, 5705.215, 5705.218, 5705.25, 5748.03, 5748.04, and 5748.08)

Currently, property tax rates are expressed in units of "mills per dollar of taxable value," or, less precisely, in "mills." A mill is one-tenth of one cent, so there are 1,000 mills to each dollar. Thus, a tax rate of eight mills per dollar of taxable value represents a tax of eight-tenths of one cent per dollar of value, or 0.8%; an overall tax rate of 50 mills per dollar is equivalent to 5%.

The bill changes the way in which property tax rates are expressed. Instead of mills per dollar of taxable value, tax rates are to be expressed as a percentage of taxable value. The change is made to various references in the Revised Code, and must appear in notices of property tax elections and ballot propositions. The changes begin to apply in 2003.

### **Taxable value of real property**

(secs. 5713.01 and 5715.01)

Currently, property is taxed on a percentage of its "true value in money." Generally, true value in money is fair market value as appraised for tax purposes. In the case of real property, the Tax Commissioner has the authority to fix the percentage, but cannot fix it above 35%. (Sec. 5715.01.) In actuality, the percentage has remained at 35% for years. In the case of tangible personal property, several percentages are fixed by law for the various classes of property, ranging from 88% to 25%.<sup>1</sup> The percentage is often referred to as the assessment percentage or assessment rate. The "taxable value" of property equals its true value in money multiplied by the appropriate assessment percentage. The various assessment percentages serve the purpose of distributing the property tax burden among the various classes of property while maintaining a uniform tax rate levied on all classes of property.

The bill changes the assessment percentage for real property. The percentage is increased from a maximum of 35% to 100%, meaning that the taxable value of real property is equated with its true value in money. The Tax Commissioner will no longer have the authority to fix the assessment percentage. The bill does not change the assessment percentages of tangible personal property. The change begins to apply in 2003.

### **Compensating change in tax rates**

(secs. 133.18, 319.31, 345.03, 511.28, 511.34, 513.13, 1545.21, 3317.021, 3318.06, 3318.061, 3318.361, 4582.024, 4582.26, 5705.02, 5705.03, 5705.192, 5705.196, 5705.213, 5705.215, 5705.218, 5705.25, 5748.02, 5748.03, 5748.04, and 5748.08)

With no compensating change in tax rates, an increase in the assessment percentage of real property would increase tax bills proportionately and shift more of the total property tax burden toward real property and away from tangible personal property. The increase in real property taxes would be by a factor of about 2.857.<sup>2</sup> To preclude such a tax increase and the resulting tax burden shift, the bill limits existing tax rates on real property to 35% of the existing rate. Thus, an eight-mill levy (0.8%) would be limited to no more than 2.8 mills (0.28%); an

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<sup>1</sup> *The assessment percentage for business inventory, currently 25%, will begin to decline in 2002 by one percentage point per year.*

<sup>2</sup> *This is because the new taxable value--100% of true value--would be 2.857 times greater than the current taxable value, which is 35% of true value.*

overall tax rate of 50 mills (5.0%) could not exceed 17.5 mills (1.75%). The rate limitation applies to existing levies (i.e., those originally levied before 2003) and to any levy renewing or replacing an existing tax. The limitation does not apply to levies that raise a fixed sum of money each year (e.g., debt levies and school district emergency levies) because the rate of such a levy changes every year. But the rate of a fixed-sum levy that applies to real property will be reduced in comparison to the rate applying to tangible personal property in order to prevent tax burden shifting under such levies. (See sec. 5705.02(C).)

With respect to any tax levied after 2002 (regardless of when it was first levied), the bill prevents tax burden shifts by establishing a fixed ratio between the rate that may be imposed on real property and the rate that may be imposed on tangible personal property: the rate imposed on real property must equal 35% of the rate imposed on tangible personal property. Thus, each property tax levy will have two rates--one on real property and one on tangible personal property. Ballot propositions and election notices would have to indicate both rates, rather than the single rate that applies to all property under current law. (See sec. 5705.02(D).)

### **Tax rate limitations**

Existing law limits the property tax rate that may be levied by all subdivisions collectively without voter approval (the ten-mill limitation) and limits the amount that some subdivisions may levy even with voter approval. These limitations are expressed as mills per dollar of taxable value. Since the bill establishes that each tax levy consists of two different tax rates--one for real property and one for tangible personal property--the bill changes these tax rate limitations to preserve the existing tax burden distribution. Specifically, with respect to the ten-mill limitation, the bill fixes it at 1% of the taxable value of tangible personal property (equal to the current ten mills) and at 0.35% of the taxable value of real property (because 0.35% of 100% of true value equals 1% of 35% of true value). Thus any tax levy that would cause the total unvoted tax on tangible personal property to exceed 1% of taxable value or the total unvoted tax on real property to exceed 0.35% of taxable value (which, under the bill, equals true value) may not be levied without voter approval. (See sec. 5705.02(A).)

With respect to any limitation on a subdivision's tax rate, the bill specifies that the limitation constitutes a limitation on the rate that may be levied on 35% of the taxable value of real property and on 100% of the taxable value of tangible personal property. For example, a section limiting a subdivision's tax rate to one mill per dollar of taxable value is to be construed as a limitation of one mill (or 0.1%) per 35¢ of real property value and one mill per \$1 of tangible personal property value. This preserves the existing tax burden distribution between real property and tangible personal property. (See sec. 5705.02(B).)

**Example**

The following table illustrates how a homeowner's property tax bill would be computed under the bill as compared to current law. It is assumed that the home has an appraised true value of \$100,000 and is located in a taxing unit where the total voted tax rate is 50 mills per dollar of taxable value, the unvoted tax rate is ten mills per dollar of taxable value, and the composite tax reduction factor (under the "H.B. 920" law) is 0.30.

| <b>Computation of tax bill</b>   |                    |             |
|----------------------------------|--------------------|-------------|
|                                  | <b>Current law</b> | <b>Bill</b> |
| True value                       | \$100,000          | \$100,000   |
| Taxable value                    | \$35,000           | \$100,000   |
| Total voted tax rate             | 50 mills/dollar    | 1.75% †     |
| Gross voted tax                  | \$1,750            | \$1,750     |
| H.B. 920 reduction factor        | 0.30               | 0.30        |
| Voted tax net of H.B. 920 credit | \$1,225            | \$1,225     |
| Unvoted tax rate                 | 10 mills/dollar    | 0.35% †     |
| Unvoted tax                      | \$350              | \$350       |
| Total tax, voted and unvoted     | \$1,575            | \$1,575     |
| 10% and 2.5% reductions          | (\$196.88)         | (\$196.88)  |
| Net tax due                      | \$1,378.12         | \$1,378.12  |

†This reflects the bill's reduction in the voted and unvoted tax rates to 35% of the existing rates (i.e., from 50 mills to 17.5 mills and from 10 mills to 3.5 mills per dollar, respectively) to compensate for the increase in the assessment percentage, with the resulting rates expressed as a percentage.

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**HISTORY**

| <b>ACTION</b> | <b>DATE</b> | <b>JOURNAL ENTRY</b> |
|---------------|-------------|----------------------|
| Introduced    | 06-26-01    | p. 709               |

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