



S.B. 83

125th General Assembly
(As Introduced)

Sen. Robert Gardner

BILL SUMMARY

- Adjusts the computation of "H.B. 920" tax reduction factors by taking into account up to five years of real property value increases or decreases resulting from property tax complaint determinations.
- Provides that property tax complaints that are not timely determined by a county board of revision automatically continue for ensuing tax years, but do not continue beyond the tax year preceding a sexennial reappraisal or triennial update.

CONTENT AND OPERATION

"H.B. 920" tax reduction factors--generally

(R.C. 319.301)

The H.B. 920 tax reduction factor law (so called because the current real property tax limitation law was enacted by H.B. 920 of the 111th General Assembly in 1976) is designed to prevent appreciation in real property values from causing proportionate increases in real property taxes. Generally, the law ensures that unless new taxes have been voted, the total amount of taxes raised in one year is not greater than the total amount of taxes levied on the same property in the preceding year. The law does allow tax increases resulting from the addition of new property to the tax lists (e.g., new buildings and additions to existing buildings) or from reclassified property.

The property tax limitation applies to each separate tax levy. For each levy, there are two separate tax reductions: one for residential and agricultural real property ("Class I property") and one for all other real property, consisting primarily of commercial and industrial real property and mineral rights ("Class II property"). Thus, the amount of taxes raised by each tax levy against Class I

property in one year is limited to the amount raised by the levy from Class I property in the preceding year, plus the amount of taxes raised from the new Class I property added to the lists since the preceding year. A similar limitation applies to Class II property. If a parcel of property changes its classification from one class to another (e.g., farmland--Class I--being developed into a retail mall--Class II), the reclassification is treated in the same manner as a new addition to the tax lists--that is, the amount of taxes charged against the Class II property is permitted to increase to the extent of the taxes charged against the reclassified parcel.

Under existing law, property that has not been added to the tax list or reclassified since the preceding year is referred to as "carryover property." Carryover property is the base upon which the tax reduction factors are computed. Since tax reduction factors are computed separately for Class I and Class II property, there are two kinds of carryover property: Class I carryover property and Class II carryover property.

Adjusting carryover property to reflect property tax complaints

The taxable value of carryover property used to compute tax reduction factors is the value listed for taxation for a given year. But values are likely to change once property owners and taxing authorities file complaints with the county Board of Revision (BOR).¹ If, as a result of such complaints, the net value of carryover property is decreased below the value used to compute the tax reduction factors, the actual tax collections (net of refunds) will be lower than called for under the tax reduction factor law. In other words, net taxes against carryover property in one year will be lower than, rather than equal to, the net taxes against carryover property in the preceding year. It is also possible that complaints will result in current net taxes being higher than the preceding year's taxes (if, for example, local governments succeed in pressing the BOR for higher property values).

Adjustments under current law

(R.C. 319.301(I))

Under current law, the overstatement or understatement of tax reduction factors is remedied in part by adjusting tax reduction factors to account for finalized tax complaints. Once a tax complaint is finally determined (i.e., no longer appealable), it is applied to the next tax reduction computation in the

¹ *Although most complaints are likely to be initiated by property owners seeking a reduction in taxable value, school boards and other local governments also may file complaints seeking increases in the taxable value of property they perceive to be undervalued.*

following manner: If complaints resulted in a net reduction in the value of carryover property, the value of the current year's carryover property is reduced to the extent of the net reduction; this increases the amount of taxes that may be charged against all property in the same class because the tax reduction factor is smaller than it would be without the adjustment. If complaints resulted in a net increase in the value of carryover property, the value of carryover property for the current year is increased to that extent; this decreases the amount of taxes that may be charged against all property in the same class because the tax reduction factor is greater than it would be without the adjustment.

In either case, the adjustment accounts for only one year's worth of reduction or increase for each complaint. This means that if a complaint reduced the value of a \$1 million commercial parcel to \$850,000, and the reduction applied to three separate tax years, the current year's Class II carryover property would be reduced by \$150,000--rather than by the cumulative reduction of \$450,000 (3 x \$150,000)--on account of the parcel's reduction. Since tax complaints may take several years to become final if they are appealed above the BOR level, the tax reduction factor may over-reduce taxes for several years (in the case of complaints yielding net valuation reductions) or under-reduce taxes for several years (in the case of complaints yielding net valuation increases). But current law adjusts for only one year's worth of reduction or increase.

Adjustments under the bill--adjust for up to five years of changes

(R.C. 319.301(D)(2) and (J))

The bill provides for tax reduction factors to be adjusted to more fully account for changes in carryover property values resulting from property tax complaints. Under the bill, tax reduction factors are to be adjusted to compensate for the excessive (or insufficient) tax reductions occurring while tax complaints are pending for several years. The proposed adjustment accounts for up to five years of changes in the value of carryover property resulting from tax complaints. Specifically, when reduction factors are computed each year, the value of carryover property is to be adjusted by the *cumulative* amount by which net property values were changed as a result of property tax complaints becoming final in the most recent year. If these adjustments result in a decrease in the value of carryover property, they will also result in an increase in the total amount of taxes charged, since the tax reduction factors would diminish.² In terms of the example above, the complaint regarding the commercial parcel that was reduced in

² *The decrease in carryover property is limited by continuing law so that the adjusted tax reduction factor cannot become negative; i.e., it cannot cause taxes charged against carryover property to be greater in the current year than they were in the preceding year.*

value from \$1 million to \$850,000 effective for three tax years would cause the value of Class II carryover property in the current year to be decreased by \$450,000 (3 x \$150,000). Conversely, the value of carryover property is to be increased by the cumulative amount by which net property values were increased by complaints becoming final in the most recent year, consequently decreasing the taxes charged, since the tax reduction factors would increase.

The cumulative changes in value resulting from finalized tax complaints are to be accounted for only once, for the tax year in which they are reported to the Tax Commissioner, to avoid multiple adjustments for the same complaint. County auditors must report the net changes in taxable value each year on the first real property abstract that is delivered to the Tax Commissioner after the date on which a complaint is finally determined. The adjustment is not to be made for a school district at the so-called "20-mill floor" or for a joint vocational school district at the 2-mill floor.

Adjustments under the bill--implementation

(Section 3(A))

The adjustments required by the bill apply only to tax years beginning on or after one year following the effective date of an appropriation to the Department of Taxation of not less than \$150,000 that is earmarked to pay for computer software the adjustments will require for their implementation.

Property tax complaints

(R.C. 5715.19(D); Section 3(B))

Continuing law provides that if a real property tax complaint filed for the current year is not determined by the BOR within the time prescribed for it, the complaint must be continued as a valid complaint for any ensuing tax year until it is finally determined by the BOR or on any appeal from a decision of the BOR. The original complaint continues in effect without further filing.

The bill provides that such a complaint automatically continues for the ensuing tax year, but does not continue beyond the earlier of (1) the tax year in which the complaint is finally determined or (2) the tax year preceding the tax year in which the county's sexennial reappraisal or triennial update occurs. This provision applies to tax years ending on or after the bill's effective date.

Nonsubstantive revisions

(R.C. 319.301(E)(1) and (E)(3))

The bill updates two charts that pertain to adjusting property taxes charged and payable for school districts' current expenses. The bill accomplishes this by eliminating percentages that applied to prior years (dating back to 1987) and retaining the percentages that currently apply.

HISTORY

ACTION	DATE	JOURNAL ENTRY
Introduced	05-06-03	p. 314

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