Bill Analysis

Ralph D. Clark   Legislative Service Commission

H.B. 648

126th General Assembly
(As Introduced)

Reps. Peterson, Martin, Fende, C. Evans, Dolan, Distel, Skindell, D. Evans, Hughes, Williams, Yuko, Flowers, Collier, Hood, Seitz, D. Stewart, Wagoner, Harwood, Hartnett, Mason

BILL SUMMARY

- Provides that if, after applying the taxable or assessable value reduction required under existing law, a homeowner currently eligible for the homestead exemption would have a property or manufactured home tax liability that exceeds 10% of the homeowner's annual income, that homeowner must receive, in lieu of the taxable value reduction required under existing law, a tax reduction equal to the amount by which the tax liability exceeds 10% of income.

- Extends a property or manufactured home tax reduction to homeowners whose annual incomes make them ineligible for the existing homestead exemption but do not exceed $50,000, which tax reduction is equal to the amount, if any, by which the homeowner's tax liability exceeds 10% of the homeowner's income.

- Requires that the Tax Commissioner annually adjust the $50,000 income threshold to account for general price inflation, in accordance with the continuing requirement that homestead exemption income brackets and taxable value reduction amounts be adjusted for inflation.

- Specifies that, in order to be considered for a tax reduction equal to the amount by which a homeowner's tax liability exceeds 10% of the homeowner's annual income, the homeowner must return a "continuing application" each year to the county auditor to report the homeowner's current annual income.

- Requires that the state reimburse local governments for additional tax revenue foregone by them by virtue of the changes the bill makes to the homestead exemption.

CONTENT AND OPERATION

Homestead exemption: overview

The homestead exemption is currently available for residences (including manufactured and mobile homes) that are owned and occupied by persons who are elderly or disabled and who have limited incomes. To be eligible for the homestead exemption, a household must have income (after certain adjustments) of $26,200 or less, and the owner must be either (1) disabled, (2) at least 65 years of age, or (3) the surviving spouse of a deceased person who qualified for the exemption at the time of death, as long as the survi vor was from 59 to 64 years old at that time.

The exemption is in the form of a reduction in the taxable value of the home (with respect to real property taxes) or its assessable value (with respect to the manufactured home tax), which translates into a reduction in the tax bill.[1] The extent of the reduction in taxable or assessable value depends on a person's income, with greater reductions afforded to those with comparatively lower incomes, as follows:

Income	Reduction in Taxable or Assessable Value
$0 to $13,400	$5,000 or 75% (lesser of the two)[2]
$13,401 to $19,700	$3,400 or 60% (lesser of the two)
$19,701 to $26,200	$1,100 or 25% (lesser of the two)

The Tax Commissioner indexes the foregoing income limits and taxable or assessable value reduction amounts annually to account for general price inflation.[3]

[1] With respect to the manufactured home tax applicable to manufactured and mobile homes, the bill generally alters existing law to refer to the assessable value reduction as a "tax reduction."

[2] The lesser of the two is usually the dollar amount. In order for a residence to receive a 60% reduction in taxable value, for example, it would have a taxable value of $5,667 or less, which equates to an appraised market value of only $16,190.

Enhancement of existing homestead exemption and extension to higher income homeowners: introduction

The bill changes the calculation of the homestead exemption for certain homeowners who are currently eligible under the program, thereby enhancing the benefits those homeowners receive. In addition, the bill extends a new tax reduction to homeowners who are not currently eligible for the homestead exemption because they have incomes in excess of $26,200. Current law applicable to the existing exemption also generally applies to the enhanced and extended exemptions provided for in the bill.

Enhancement of existing homestead exemption for certain homeowners currently eligible for the exemption

(R.C. 323.152(A)(1)(c) and 4503.065(A)(3))

Under the bill, if a homeowner who qualifies for the existing homestead exemption has a total real property or manufactured home tax liability that exceeds 10% of the homeowner's total annual income after accounting for the applicable reduction in taxable or assessable value described above, then, in lieu of being reduced as required under current law, the homeowner's taxes are reduced by the amount by which the homeowner's tax bill exceeds the homeowner's income. Accordingly, under the bill, the annual tax liabilities of homeowners who are currently eligible for the homestead exemption cannot exceed 10% of their income.

Homestead exemption extended to higher income homeowners

(R.C. 323.152(A)(2) and 4503.065(B))

The bill extends a tax reduction to homeowners who have household incomes in excess of $26,200 (thereby making them ineligible for the existing homestead exemption) but not more than $50,000 and whose total tax liability for a tax year exceeds 10% of the homeowner's income. To qualify for the reduction, a homeowner must satisfy all of the other existing eligibility criteria for the homestead exemption and obtain the appropriate certificate of reduction (see discussion below). The amount of the tax reduction equals the amount by which a homeowner's total real property or manufactured home tax liability exceeds 10% of the homeowner's income. With respect to a reduction of the manufactured

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[3] *The bill amends current law to reflect the Tax Commissioner's recent adjustments to the income limits and taxable or assessable value reduction amounts. A technical amendment is necessary, however, to correct the dollar amount for the highest reduction. It should read "$5,500" instead of "$5,000."*

home tax, the bill prohibits a person from getting the reduction if the person acquired ownership of the manufactured or mobile home from a friend or relative, other than the person's spouse for the purpose of qualifying for the reduction.[4]

Existing law provisions made applicable to enhanced and extended exemptions

(R.C. 319.202, 322.07, 323.152, 323.153, 323.154, 323.159, 4503.06, 4503.064, 4503.065, 4503.066, and 4503.067)

The bill makes the following provisions of law applicable to the extended and enhanced homestead exemptions: (1) grantee statement of value required to be provided with transfers of real property and manufactured or mobile homes addressing whether the property will or will not receive a homestead exemption (R.C. 319.202), (2) the lower real property or manufactured home transfer tax rate applicable to property receiving a homestead exemption (R.C. 322.07), and (3) homestead exemption law applicable to real property and manufactured and mobile homes, including the provisions for indexing monetary thresholds to account for inflation and the provisions governing application, certification, and continuous application (R.C. 323.152, 323.153, 323.154, 323.159, 4503.06, 4503.064, 4503.065, 4503.066, and 4503.067). The discussion below under "***Application procedure***," "***Certificates of reduction***," "***Local government reimbursement***," and "***Application dates***" addresses (3) in more detail.

But, despite the general application of the homestead exemption law to the extended and enhanced exemptions, some provisions are not applicable. Certain provisions declaring an original application for an existing exemption for real property to be a continuing exemption do not apply to the extended and expanded exemptions due to the different method of determining the exemption (see discussion above regarding the method of calculating the various exemptions) (R.C. 323.153(A)(1)). The provision making failure on the part of the county auditor to receive a new application for a real property homestead exemption, or to receive a notice that a real property homeowner does not qualify for a homestead exemption, prima facie evidence that the homeowner is entitled to the homestead exemption based on the original application also does not apply to the expanded and enhanced exemptions (R.C. 323.153(A)(3)).

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[4] *Existing law governing the homestead exemption from real estate taxes already contains such a limitation in the definition of "homestead." R.C. 353.151(not in bill).*

Application procedure

(R.C. 323.153 and 4503.066)

Under existing law, those who qualify for the homestead exemption must file an "original application" with the county auditor of the county in which the home is located. Each year, the county auditor must send homeowners who are receiving the homestead exemption a "continuing" application upon which a homeowner must report any changes, including changes in income, which would have the effect of reducing the benefit they receive or that entirely disqualifies the homeowner from receiving the homestead exemption. Currently, the continuing application does not need to be returned by a homeowner if there are no changes that would affect the homeowner's eligibility for the exemption or the amount of benefit the homeowner receives.

The bill requires that homeowners who qualify for a homestead exemption that is calculated on the basis of the amount by which their real property or manufactured home taxes exceed 10% of their incomes must apply for the exemption as under existing law. The bill requires, further, that every such homeowner return the continuing application that is sent to the homeowner each year and to report thereon the homeowner's current income so that the amount of the homeowner's tax reduction can be calculated.

Currently, a homeowner who earns $26,200 a year or less and who receives a tax reduction based upon the existing income brackets and taxable or assessable value reduction schedule described above is not required to return the continuing application unless there are changes that affect the person's eligibility for the homestead exemption or the amount of tax benefit the person receives. Under the bill, however, if such a homeowner elects not to return the continuing application and to report the homeowner's current income, the homeowner is not eligible to be considered for a tax reduction calculated on the basis of the amount by which the homeowner's taxes exceed 10% of the homeowner's income.

Certificates of reduction

(R.C. 323.154 and 4503.067)

Continuing law requires that, each year, county auditors issue certificates of reduction to homeowners who are entitled to the homestead exemption. The certificates must specify the taxable or assessable value of the home and the amount of tax benefit to which the homeowner is entitled.

The bill specifies that, in the case of a homeowner whose tax reduction is calculated on the basis of the amount by which the homeowner's taxes exceed 10%

of the homeowner's income, the certificate of reduction issued to that person must specify the following, as applicable: (1) with respect to a real property tax reduction, the total reduction in taxes to which the homeowner is entitled for the tax year, the applicable tax rate, and any other information required by the Tax Commissioner, or (2) with respect to a manufactured home tax reduction, the total reduction in taxes for the succeeding year.

Local government reimbursement

(R.C. 323.156 (not in the bill) and 4503.068 (not in the bill))

Existing law requires that local governments be reimbursed from moneys in the state's General Revenue Fund for real property tax and manufactured home tax revenue foregone by them as a result of the homestead exemption. Reimbursement of local governments for additional tax revenue foregone by them as a result of the bill's extending the homestead exemption to certain taxpayers and enhancing its benefits for certain other taxpayers is provided in R.C. 323.156 and 4503.068. Those two sections are sufficiently general in their phrasing and, therefore, do not require amendment.

Application dates

(Section 3)

The bill's provisions first apply with respect to real property taxes levied for tax year 2006 (which are payable in 2007). The bill's provisions apply to the manufactured home tax on manufactured and mobile homes for 2007 (which are payable in 2007).

HISTORY

ACTION	DATE
Introduced	08-17-06

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