Bill Analysis

Ralph D. Clark *Legislative Service Commission*

H.B. 651

126th General Assembly
(As Introduced)

Reps. **R. McGregor, Flowers, Hughes, D. White, Harwood, Fende, Martin, Schaffer, Wagoner, C. Evans, Widener, J. McGregor, Uecker, Distel, Perry**

BILL SUMMARY

- Creates new exemptions for eligible persons that "freeze" the amount of real property taxes paid on eligible homesteads and the amount of manufactured home taxes paid on eligible manufactured or mobile homes.

- Defines "eligible person" to mean a person that meets both of the following: (1) the person is at least 65 years old or, under certain circumstances, is the surviving spouse of a person who was at least 65 years old and received the reduction under the new exemption, and (2) the person's total income is $35,000 or less.

- Defines "eligible homestead" to mean a homestead, not including a unit in a housing cooperative, that has a true value in money as entered on the tax list that is less than or equal to $130,000 at the time the original application for a certificate of reduction is submitted.

- Defines "eligible manufactured or mobile home" to mean a manufactured or mobile home taxed under the manufactured home tax law that has a value before certain calculations under that law that is less than or equal to $130,000 at the time the original application for a certificate of reduction is submitted.

- Makes the provisions governing application for an exemption reduction, continuing application status, granting of a certificate of reduction, adjustment of income qualification thresholds, and state reimbursement of forgone local tax revenue that are applicable to the existing law homestead exemption also applicable to the new exemptions.

CONTENT AND OPERATION

<u>Current law--real property tax and manufactured home tax reductions</u>

Current law provides various exemptions that have the effect of reducing the real property taxes imposed on homesteads and the taxes imposed on manufactured or mobile homes by the manufactured home tax.[1] Various local governments, such as school districts, impose real property taxes in order to fund, among other things, current operations. The manufactured home tax is imposed on manufactured and mobile home owners that do not pay the real property tax on their home. The purpose of the manufactured home tax is to supplement the general funds of the local subdivisions in which the manufactured or mobile home is located.

<u>Qualifications to obtain homestead reduction</u>

The homestead exemption is one of various exemptions that work a reduction in the real property or manufactured home taxes on a person's home. This exemption is based on the status of the homeowner and the amount of his or her income. With respect to status, the exemption applies to a person who is (1) permanently and totally disabled, (2) at least 65 years old, or (3) the surviving spouse of a person who received the exemption at time of death, provided the survivor is from 59 to 64 years old at that time. The law also provides a varying rate of reduction depending on the income, which rates (along with the income thresholds) are subject to annual adjustment for inflation by the Tax Commissioner.

<u>Application for exemption and certificate of reduction</u>

If a person would qualify for the homestead exemption described above, in order to receive it, the person must make an original application and receive a certificate of reduction. The owner must file the application with the county auditor of the county in which the owner's homestead or manufactured or mobile home is located. The Commissioner is required to devise and supply to owners

[1] *Under existing law not sought to be changed by the bill, a "homestead" means either of the following: (1) a dwelling, including a unit in a multi-unit dwelling, and a manufactured home or mobile home taxed as real property, owned and occupied as a home by an individual whose domicile is in this state and who has not acquired ownership from a person, other than the individual's spouse, related by consanguinity or affinity for the purpose of qualifying for the reduction, or (2) a unit in a housing cooperative that is occupied as a home, but not owned, by an individual whose domicile is in this state. Revised Code section 323.251(A) (not in bill).*

the application form that must then be signed and filed in compliance with specific time requirements provided for in the law. The form must include various statements and warnings as required by law.

The application becomes a continuing application for the reduction in taxes for each year in which the dwelling is the place the applicant lives as a residence and in which the amount of the reduction to which the applicant is entitled does not exceed the amount or percentage of the reduction to which the applicant was entitled for the year in which the application was first filed. If the owner, in any year after an application has been filed, does not qualify for a reduction, or qualifies for a lesser reduction, the owner must notify the auditor of that fact. If the county auditor does not receive such a notice or a new application indicating that the person is no longer qualified for the reduction or is entitled to a lesser reduction, the auditor must treat the failure to receive a new application or notice as prima facie evidence that the owner is entitled to the reduction requested in the original application.

The auditor sends a certificate of reduction to any person who has made the application and who the auditor approves as qualified to receive the reduction. The certificate must be on a form approved by the Commissioner. It must also include statements setting forth the value of the property for purposes of taxation and the amount of the reduction, among other things. Provision is also made for appeal in the event the county auditor does not approve the application.

The bill--new reduction based on age and income

The bill creates new exemptions that reduce the amount of real property taxes paid on eligible homesteads and the amount of manufactured home taxes paid on eligible manufactured or mobile homes.

"Eligible homestead" exemption

(R.C. 323.152)

The exemption. In order to give an additional partial exemption, the bill provides that real property taxes on an eligible homestead owned and occupied by an eligible person as the primary residence of that person must be reduced each year for the which the eligible person obtains a certificate of reduction. The reduction must equal the amount necessary to make current taxes equal to original taxes. If the current taxes are less than original taxes, no reduction is permitted and the amount of taxes charged must equal current taxes.

Defined terms. Under the bill, an "eligible homestead" means a homestead, not including a unit in a housing cooperative, that has a true value in money as entered on the tax list that is less than or equal to $130,000 at the time the original application for a certificate of reduction is submitted.[2] Under that definition, a subsequent increase in that value does not disqualify a homestead as an eligible homestead. "Eligible person" is defined by the bill to mean a person that meets both of the following: (1) the person is at least 65 years old, or is the surviving spouse of a person who was at least 65 years old at death and who also applied and qualified for a reduction in taxes under the new exemption in the year of death, provided the surviving spouse is at least 60 but no more than 65 years old on the date the deceased spouse dies, and (2) the person's total income is less than or equal to $35,000. "Original taxes" are defined by the bill to mean the amount of taxes charged against a homestead for the tax year preceding the tax year in which an eligible person owns and occupies the eligible homestead and applies for the reduction under this new exemption. Excluded from "original taxes" are any assessment, penalties, interest charges added pursuant to law permitting correction of clerical errors on the tax list, or charges remaining unpaid from any previous tax year. "Original taxes" must also be determined after accounting for the reductions caused by the existing law homestead exemption, the 2.5% rollback, the 10% rollback, and the "H.B. 920" tax reduction factor.

Annual adjustment. The bill requires the Tax Commissioner, each calendar year, to adjust the income amount threshold ($35,000 or less) a person must meet to be an eligible person. The bill requires the Commissioner to use the calculation method established under current law for the inflation adjustment of the existing law homestead exemption rate and income ranges.

"Eligible manufactured or mobile home" exemption

(R.C. 4503.064 and 4503.065)

The exemption. The bill provides that the manufactured home tax on an eligible manufactured or mobile home that is owned and occupied by an eligible person as the primary residence of that person must be reduced each year for which the person obtains a certificate of reduction, provided that the eligible person did not acquire ownership from a person, other than the eligible person's spouse, related by consanguinity or affinity for the purpose of qualifying for the reduction under this new exemption. The reduction is required to equal the amount necessary to make current taxes equal to original taxes. If the current

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[2] Under existing law not sought to be changed by the bill, a "housing cooperative" means a housing complex of at least 250 units owned and operated by a nonprofit corporation that issues a share of the corporation's stock to an individual, entitling the individual to live in a unit of the complex, and collects a monthly maintenance fee from the individual to maintain, operate, and pay the taxes of the complex. R.C. § 323.151(F) (not in bill).

taxes are less than the original taxes no reduction will be permitted, and the amount of taxes charged must equal the current taxes. The reduction under this new exemption must be in addition to the reduction, if any, under the existing law homestead exemption.

Defined terms. Under the bill, "eligible manufactured or mobile home" means a manufactured home or mobile home taxed under the manufactured home tax law that has a value, as computed using the depreciation schedule provided under that law, that is less than or equal to $130,000 at the time the original application for a certificate of reduction is submitted. The bill defines "eligible person" the same way an eligible person is defined for the purposes of the new eligible homestead exemption described above. By using the same definition, the income threshold ($35,000 or less) of the eligible person under the new eligible manufactured or mobile home exemption will be subject to the same annual adjustment described above for the eligible person under the new eligible homestead exemption. Finally, the bill defines "original taxes" to mean the amount of taxes charged against an eligible manufactured or mobile home for the tax year preceding the tax year in which an eligible owner owns and occupies the home and applies for the reduction in taxes under this new exemption. Excluded from "original taxes" are any assessments, penalties, interest, or charges remaining unpaid from any previous tax year. "Original taxes" must also be determined after accounting for the reduction in taxes resulting from the existing law homestead exemption.

Existing law homestead exemption provisions made applicable to the new exemptions

The bill makes the following provisions of the existing law homestead exemption applicable to the new 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 provisions governing application, certificate of reduction, and continuous application (R.C. 323.152, 323.153, 323.154, 4503.06, 4503.064, 4503.065, 4503.066, and 4503.067), and (3) state reimbursement of tax revenue forgone by local governments due to the exemptions (R.C. 323.156 and 4503.068, not in the bill). The discussion above under "***Application for exemption and certificate of reduction***" addresses the provisions referred to in (2) in more detail.

Application dates

(Sections 3 and 4)

The bill provides that the eligible homestead exemption is available for tax years beginning on or after January 1, 2007. The eligible manufactured or mobile home exemption is available for tax years beginning on or after January 1, 2008.

HISTORY

ACTION	DATE
Introduced	08-31-06

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