

Detailed Fiscal Analysis

The bill would allow school boards to reduce property tax revenue collected in the district when proposing a new or additional school district income tax. A percentage reduction is made to residents' net property tax bill equal to the additional income tax revenue collected over the school district's portion of Class 1 tax liability. This effectively shifts the incremental financing burden from property owners to residents with Ohio taxable incomes in the district.

School District Income Tax

A school district income tax is voter approved and earmarked specifically for the school district. It can be either for a fixed number of years or a continuing levy. To implement the tax, a school board needs to pass a resolution and submit how much revenue needs to be generated to the Tax Commissioner. The Tax Commissioner will then notify the school board with the school district income tax rate (increments of one quarter percent-no rate limit), equivalent millage, and, if requested, effective millage rate reductions. In 1998, there were 125 of 611 school districts levying an income tax, with an average tax rate of 0.85 percent and average district revenues of \$908,000.

The school district income tax requires a tax return to be filled out and uses the Ohio Adjusted Gross Income amount from the state return, minus an exemption if the resident did not reside in the district for the entire year. Table 1 lists income that is and is not taxable by the school district income tax.

Table 1	
Taxable and non-taxable income for the School District Income Tax	
<u>Taxable Income</u>	<u>Non-Taxable Income</u>
Wages, Salaries, Tips	Social Security Benefits
Interest, Dividends, Capital Gains	Disability and Survivors Benefits
Unemployment Compensation	Railroad Retirement Benefits
Self-Employment	Welfare Benefits
Taxable Fellowships and Scholarships	Child Support
Pensions, Annuities, IRA Distributions	Property Received as a Gift
Federal Bond Interest subject to state tax	Bequest or Inheritance
State and Local Bond Interest (except OH governments)	Worker's Compensation
Alimony Received	
All other sources	

Source: *School District Income Tax Question and Answer Guide for School Administrators and General Public*, Department of Taxation, December 1998.

Under current law, property tax millage can be reduced when a school district income tax levy is proposed. Residents may vote on enacting a continuing school district income tax and repealing or reducing continuing property tax levies on a single-issue ballot. The school district may also take independent action to reduce any existing property tax levies. In either action, it is possible that school districts close to or at the HB 920 20-mill floor may see little reduction in

their levies and may also have millage equivalent to the income tax used to determine the floor requirement. Any reduction to millage rates from the passage of a school district income tax only applies to the school district portion of property tax liability.

Methodology

The bill would add one more method to reducing a property owner’s tax bill, but without changing millage rates. The bill works as follows:

- (1) A school district passes a school district income tax, along with a reduction in property tax revenue as defined in this bill.
- (2) Tax commissioner certifies the school district income tax liability.
- (3) The county auditor, once receiving the certification (revenue from the school district income tax), will reduce school district residents’ tax bill, after application of reduction factors, by the percentage the school district income tax liability is of the school district’s portion of Class 1 taxes.
- (4) If the county auditor receives the certification after the tax list is compiled, then the percentage reduction is treated as an overpayment of tax liability and a refund to the parcel’s owner is made.

In aggregate at the school district level, additional revenue from the school district income tax exactly offsets the lost revenue from reducing the school district portion of Class 1 property taxes. Table 1 presents an example of two districts, each currently levying a 1.00 percent school district income tax, implementing an additional 0.25 percent income tax under this bill’s proposal.

Table 2		
Application of Incremental School District Income Tax and Property Tax Reduction		
	<u>School District 1</u>	<u>School District 2</u>
Total School District Income	\$198,411,200	\$191,095,100
School District Income Tax Revenue (1%)	\$1,984,112	\$1,910,951
Additional Revenue from 0.25% Increase	<u>\$496,028</u>	<u>\$477,738</u>
Total School District Income Tax Revenue	\$2,480,140	\$2,388,689
School District Class 1 Property Tax Liability ^{1,2}	\$3,866,337	\$1,960,599
Percentage Decrease in Resident’s Tax Bill ³	12.83%	24.37%
Decrease in Property Tax Revenue	<u>\$496,028</u>	<u>\$477,738</u>
School District Class 1 Property Tax Liability	\$3,370,309	\$1,482,861
Net Revenue Effect at the School District Level	<u>\$0.00</u>	<u>\$0.00</u>

Notes:

- (1) School districts with a school district income tax typically have reduced property tax rates and therefore revenue compared to districts with no income tax.
- (2) The reduction only applies to the school district’s portion of property tax revenue, which is approximately 70 percent.
- (3) Percentage Decrease in Residents’ Tax Bill = Additional Revenue from 0.25% increase - Total Class 1 Property Tax Liability.

It is important to note that while there is an offsetting fiscal effect at the school district level, individual homeowners may realize a net increase or a net decrease in total household taxes paid contingent on their income levels and property tax liability.

Summary

The bill provides an additional method to shift school district financing from the property owner to resident's earning Ohio taxable income. The additional revenue received from a school district income tax is used to determine and exactly offset a reduction in the school district's portion of property tax revenue. On the whole, there is no loss or gain of school district revenue. However, an individual property owner's total taxes paid (income and property tax) can increase or decrease, depending on their unique wealth situation.

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