Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: S.B. 90 of the 128th G.A.

Date: June 10, 2009

Status: As Introduced

Sponsor: Sens. Kearney and Seitz

Local Impact Statement Procedure Required: Yes

Contents: Authorizes local governments to exempt homes that have been vacant for at least 12 months from nonschool district property taxation for up to three years when purchased by an owner-occupant; authorizes the remission of previously unpaid taxes on such homes

State Fiscal Highlights

STATE FUND	FY 2010	FY 2011	FUTURE YEARS
General Revenue Fund			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Potential decrease	Potential decrease	Potential decrease
Property Tax Administration (5V80)			
Revenues	Potential loss	Potential loss	Potential loss
Expenditures	- 0 -	- 0 -	- 0 -

Note: The state fiscal year is July 1 through June 30. For example, FY 2010 is July 1, 2009 – June 30, 2010.

- Exempting homes from nonschool district property taxation for up to three years may reduce GRF expenditures for the 10% and 2.5% rollbacks as well as the Homestead exemption.
- A reduction in GRF tax relief expenditures reduces revenues to the Property Tax Administration Fund, which receives a fixed percentage of the total GRF tax relief expenditures in order to administer several property-related taxes.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2010	FY 2011	FUTURE YEARS
Counties			
Revenues	Potential loss	Potential loss	Potential loss
Expenditures	- 0 -	- 0 -	- 0 -
Other Local Governments			
Revenues	Potential loss	Potential loss	Potential loss
Expenditures	- 0 -	- 0 -	- 0 -

Note: For most local governments, the fiscal year is the calendar year. The school district fiscal year is July 1 through June 30.

- Exempting homes from nonschool district property taxation for up to three years may reduce revenues to the authorizing townships and municipal corporations. It may also reduce revenues to local governments and counties that did not authorize the exemption.
- The provision that requires the Tax Commissioner to remit any previously unpaid or delinquent taxes, and any penalties and interest, under the specified conditions, may reduce revenues to local governments.

Detailed Fiscal Analysis

The bill authorizes townships and municipal corporations to exempt vacant homes from property taxation upon their purchase by persons who will occupy them. The exemption does not apply to taxes levied by school districts.

To be considered "vacant," a home must have been unoccupied for at least the 12 months preceding the sale. The exemption applies only to single-family homes or condominiums, and it is limited to no more than one acre of land surrounding the home. A home must be purchased on or after the effective date of the resolution or ordinance granting exemption, for not more than $150,000, and by an individual domiciled in Ohio who occupies the home within 60 days after taking possession. For the purpose of the exemption, "purchase" includes a purchase under a land installment contract (a contract whereby the purchase price is paid in installments and title is retained by the seller as security and, typically, the purchaser has a right of tenancy during the term of the contract).

A board of township trustees or legislative authority of a municipal corporation that authorizes the exemption must request the Tax Commissioner to remit real property taxes charged against properties entitled to exemption, and must certify a resolution granting the exemption to the county auditor. The Tax Commissioner is required to remit any previously unpaid or delinquent taxes, and any penalties and interest upon such request.

Fiscal effect

The cost of this proposal is dependent on the number of properties exempted from taxation. The number of properties exempted depends on decisions made by boards of township trustees and city councils across Ohio. There would be no fiscal effect on school districts, and effects on townships and municipalities would be permissive. There could be a decline in property tax revenue to counties that would be outside of their control.

According to 2007 data from the American Community Survey (ACS), the median market value of an owner-occupied home in Ohio is approximately $137,800. The Revised Code requires that taxes be assessed on 35% of the market value, which means the median taxable value of an owner-occupied home in Ohio is $48,230. Data from the Department of Taxation tells us that the average effective tax rate on residential real property in tax year (TY) 2006 was 52.7 mills. As such, the estimated tax liability for the median Ohio home is approximately $2,542. A portion of the tax liability for an owner-occupied home is paid by the state in the form of the 10% and 2.5% rollbacks. The homestead exemption also reduces tax liabilities, but its effect is excluded from this analysis because it only applies to less than one quarter of the total value of Ohio's owner-occupied homes. If we assume the median household qualifies for both rollbacks but does not qualify for the homestead exemption, the taxes payable by the property-owner are approximately $2,224 (*multiply $2,542 liability by 87.5%*), and the remaining taxes are paid by the state.

However, school district property taxes are not exempted by this bill, which means this bill applies to about 35% of the total tax liability rather than 100% of the liability. Therefore, a property tax exemption for the median Ohio home would reduce local government revenues by $890 (*multiply $2,542 by 35%*), of which 87.5%, or $779, represents savings captured by the owner occupying the property and 12.5%, or $111, of the savings will be captured by the state GRF in the form of reduced expenditures.

If one assumes that homes vacant for at least 12 months are valued less than the median Ohio home, the ACS provides a figure for the lower quartile of Ohio home values. With a market value of $93,900, the resulting taxable value is $32,865, and an effective tax rate of 52.7 mills yields an annual liability of $1,732. Given this tax liability, local governments would forego approximately $606 in revenue if an exemption were granted to a home fitting this profile.

A lack of explicitly defined data prevents LSC economists from estimating the number of homes that fit the bill's definition of "vacant." National data from the 2007 American Housing Survey, which is published through a collaborative effort by the U.S. Department of Housing and Urban Development and the U.S. Census Bureau, indicate that approximately 21% of vacant homes are vacant for a year or more. The most recent data from the 2007 American Community Survey suggest that 559,259 of Ohio's 5,065,254 housing units are vacant. If one applies the 21% rate to this vacancy figure, then approximately 117,444 homes in Ohio have been vacant for 12 months or longer.

The reduction in property taxes reduces GRF expenditures on behalf of the 10% rollbacks, which in turn decreases revenues to the Property Tax Administration Fund because the administrative fund's revenue is equal to a fixed percentage of the total GRF tax relief expenditures.

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