Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: S.B. 180 of the 130th G.A.

Date: October 8, 2013

Status: As Introduced

Sponsor: Sen. Gentile

Local Impact Statement Procedure Required: No

Contents: Extends eligibility for the homestead exemption to elderly or disabled homeowners who did not receive the exemption for 2013 and have $30,000 or more in Ohio adjusted gross income

State Fiscal Highlights

STATE FUND	FY 2014	FY 2015	FUTURE YEARS
General Revenue Fund			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	- 0 -	Increase of $13 million	Larger increases

Note: The state fiscal year is July 1 through June 30. For example, FY 2014 is July 1, 2013 – June 30, 2014.

- The bill eliminates a means test for the homestead exemption, imposed by Am. Sub. H.B. 59 of the 130th General Assembly for persons who turn age 65 or become totally and permanently disabled in 2014 or thereafter.
- Tax savings to homeowners would equal increased expenditures from the state GRF to reimburse units of local government.
- The cost to the state would rise to an estimated $39 million in FY 2016, $65 million in FY 2017, and continue rising in subsequent years.

Local Fiscal Highlights

- No net revenue losses to school districts and other units of local government would result from the bill, as homestead exemption tax reductions are fully reimbursed by the state.

Detailed Fiscal Analysis

The bill eliminates the means test for the homestead exemption tax reduction, which was put in place by Am. Sub. H.B. 59 of the 130th General Assembly. The cost to the state would be an estimated $13 million in FY 2015, $39 million in FY 2016, and increasing amounts in subsequent years.

H.B. 59 allows new applicants to receive the homestead exemption only if they have Ohio adjusted gross income (OAGI) of $30,000 or less. This income limit is to be adjusted upward for inflation in future years. The requirement that these persons be age 65 or older, or totally and permanently disabled, in order to qualify for the homestead exemption, is unchanged by H.B. 59. That act also provides that persons who received the homestead exemption tax reduction in tax year 2013 for the real property tax, or tax year 2014 for the manufactured home tax, before the reinstitution of means testing,[1] continue to be eligible for the exemption. Qualified persons who timely file a late application for tax year 2013 (2014 for the manufactured home tax) also remain eligible. Thus the impact of the change in H.B. 59 is on persons who turn age 65 in 2014 or thereafter, or who become totally and permanently disabled then.

The tax reduction provided by the homestead exemption is up to $25,000 of market value of an owner-occupied primary residence. A home with a market value of $25,000 or more on tax records, equivalent to $8,750 of taxable value at the 35% assessment rate for real property, would receive the full amount of the exemption. A home with a lower market value would receive a smaller exemption but one that would offset the full amount of taxes due. The value of the homestead exemption is calculated at the effective tax rate for the property.

The full amount of the homestead exemption as well as the rollbacks is reimbursed to schools and other local government units by the state GRF. Thus the bill would increase state expenditures by the full amount of savings to taxpayers. Revenue to local governments would be unaffected by the bill, apart from a difference in the timing of payments (state reimbursements lag tax payments).

Calculation of the fiscal effect

Most of the tax reductions from the homestead exemption are based on age rather than disability. Data from the U.S. Census Bureau's 2011 American Community Survey (ACS) show about 40,000 owner-occupied households in which income was greater than $30,000 and the homeowner, or the older of the husband or wife if both were present, was age 65 at the time the survey was conducted. Income is as self-reported by the survey respondent, and may not match OAGI of the homeowner and spouse if present. It excludes income of any other household residents. The ACS data

[1] This tax benefit previously was means tested in tax year 2006 and before.

show age at the time of the survey, not date of birth, so do not directly indicate numbers of households that became eligible for the homestead exemption during the year. The same survey shows about 56,000 households in which income was greater than $30,000 and the homeowner, or husband or wife, was age 64 at the time the survey was conducted, but neither was older. In some of these households, one of these persons would have turned age 65 during 2011, particularly for surveys conducted early in the year.

The jump in the number of households in which someone reached age 64, compared with the number in which someone reached age 65, probably reflects in part the rise in the number of people born each year following the end of World War II. Live births in the U.S. rose 34% between 1945 and 1947, then fell back about 5% before rising to a new peak in 1951 and continuing to rise for several more years.[2] National population projections suggest that the number of households in which the homeowner or spouse (if present) reached age 65 in 2011, cited in the preceding paragraph, may understate the number of households in which such persons will reach age 65 in 2014, but the number of households in which the homeowner or spouse reached age 64 in 2011 may overstate the number in which such persons will reach age 65 in 2014. Based on the national projections, an estimated 53,000 households in Ohio are projected to have income of the homeowner and spouse of $30,000 or more in 2014 and to have the homeowner or spouse reach age 65, with neither older than age 65.

An alternative calculation, also using the 2011 ACS data, determines the number of households in which the homeowner, or the older of the homeowner or spouse if present, was age 61 at the time of the 2011 survey, with income of $30,000 or more, determines the comparable number of households for age 62 at the time of the survey, and averages the two figures as an estimate of the number of households in that income range in which the homeowner, or the older of the homeowner or spouse, reach age 62 in 2011. This number is then adjusted downward to represent those reaching age 65 in 2014, using national population estimates and projections by single year of age. This alternative calculation gives a similar answer to the first calculation, indicating about 54,000 such households.

In tax year (TY) 2010, the average reduction in homeowners' taxes statewide as a result of the homestead exemption was $441. The amount realized by individual homeowners varied widely around the state, depending mostly on effective tax rates in various areas, and also on property values. From TY 2007, after means testing for the homestead exemption was eliminated, through TY 2010, the statewide average reduction in homeowners' taxes from the homestead exemption rose about 2.5% per year with increases in average effective tax rates. The average reduction in

[2] National Center for Health Statistics data.

homeowners' taxes from the homestead exemption in TY 2014 is projected at $478, using a model that is based on a time trend and on an index of home prices.[3]

Combining the estimate of about 53,000 to 54,000 affected households, based on the 2011 ACS and population projections, and the estimated average tax reduction per household of $478, about $26 million per year in tax savings would be realized by qualifying households under the bill.

Timing of the effects

The change in the homestead exemption under the bill would first affect taxes for TY 2014, payable in calendar year 2015 because Ohio real property taxes are paid one year in arrears. Real property tax payments generally are made in two equal installments in January and June, with state reimbursements to local governments for the homestead exemption and the rollbacks mainly in April and May for the first of the two tax payments, and in September and October for the second payments. Consequently, half of the fiscal impact of the bill on TY 2014 payments would increase state expenditures in FY 2015, by an estimated $13 million, and the other half would increase FY 2016 expenditures, also by $13 million.

In TY 2015, many of the owner-occupants who benefitted from the bill in TY 2014 would continue to do so, likely at higher effective tax rates on average, and another group of owner-occupants would turn age 65 and newly qualify for the tax benefit reinstated by the bill. Half of this increase in state spending would affect outlays in FY 2016 and half in FY 2017. Together with the full-year increase in FY 2016 spending from the homeowners who became eligible in TY 2014, the rise in state spending resulting from the bill might be about three times as large in FY 2016 as the increase in FY 2015, or about $39 million. For similar reasons, the increase in state spending in FY 2017 might be about five times as large as in FY 2015, or about $65 million. These approximations do not take account of variation from year to year in the number of newly qualifying households under the bill. With the passage of years, the rapid rise in the fiscal effects of the bill would damp down, as the homeowners who benefit from the bill in TY 2014 would increasingly cease to be homeowners, and similarly for homeowners who first qualify for the benefits of the bill in subsequent tax years.

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[3] Higher home prices tend to be associated with larger H.B. 920 tax reduction factors, hence with lower effective tax rates.