Fiscal Note & Local Impact Statement

124 th General Assembly of Ohio

Ohio Legislative Service Commission
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BILL: **Am. H.B. 65** DATE: **December 11, 2002**

STATUS: **As Enacted – Effective April 3, 2003** SPONSOR: **Rep. Calvert**

LOCAL IMPACT STATEMENT REQUIRED: **Yes**

CONTENTS: **Exempts from taxation property held or occupied by veterans' organizations that qualify for income tax exemption under the Internal Revenue Code.**

State Fiscal Highlights

STATE FUND	FY 2003	FY 2004	FUTURE YEARS
General Revenue Fund			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	- 0 -	Potential increase	Potential increase

Note: The state fiscal year is July 1 through June 30. For example, FY 2001 is July 1, 2000 – June 30, 2001.

- This bill proposes to exempt from taxation real and tangible personal property held or occupied by any veterans' organization that does not generate an annual gross income greater than the specified amount. For tax year 2002, the specified amount is $7,500. The amount will increase by $250 each year until 2012, when it will equal $10,000. In tax year 2013 and thereafter, the designated amount will be $10,000.

- The State General Revenue Fund (GRF), which finances the 10% rollback on real property taxes and the state base cost funding for Ohio schools, would be affected by these exemptions. By reducing the amount of property taxes due, the amount of the rollbacks provided by the state is also reduced. On the other hand, a reduction in real property values results in increased base cost funding payments made to the school district where these properties are located[1]. The net result is most likely to be an increase in expenditures for the GRF.

- If the effective date of this bill is during CY 2003, the exemption will be allowed for property taxes charged in 2003 – which will be collected in 2004 – and each year following.

[1] School districts on the guarantee do not benefit from the additional base cost payments due to the lower property value.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2002	FY 2003	FUTURE YEARS
School Districts and Other Local Governments			
Revenues	- 0 -	Potential loss	Potential loss
Expenditures	- 0 -	- 0 -	- 0 -
Counties			
Revenues	- 0 -	Potential loss	Potential loss
Expenditures	- 0 -	Potential increase	Potential increase

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

- This bill proposes to exempt from taxation real and tangible personal property held or occupied by any veterans' organization that does not generate an annual gross income greater than the specified amount. For tax year 2002, the specified amount is $7,500. The amount will increase by $250 each year until 2012, when it will equal $10,000. In tax year 2013 and thereafter, the designated amount will be $10,000.

- Due to the income requirements listed in the bill, the administration of the exemptions could be time-consuming for county auditors resulting in an increase in expenditures.

- School districts and other local governments stand to lose revenue from property taxes due to the exemptions granted in the bill. Statewide, school districts benefit from 60% of all property taxes levied. The remaining 40% benefit other local governments, such as counties and municipalities.

- As a result of the property tax exemptions, most school districts could see an increase in base cost funding, which is funded by the state. This is due to the reduction in the taxable property valuation. School districts that are "on the guarantee" would not see an increase in funding.

Detailed Fiscal Analysis

Currently, real and tangible personal property held or occupied by a war veterans' organization is exempted from property taxation, but only if the veterans' organization is organized exclusively for charitable purposes. In the case of real property, it may be exempted from taxation only if it is not held for producing rental income. The bill expands the current exemption to include property held or occupied by any veterans' organization that is exempted from federal income taxation under I.R.C. 501(c)(19) or (c)(23) and does not have an annual gross income greater than the specified amount. For tax year 2002, the specified amount is $7,500. The amount will increase by $250 each year until 2012, when it will equal $10,000. In tax year 2013 and thereafter, the designated amount will be $10,000.

A veteran's organization qualifies for federal tax exemption under 501(c)(19) if it satisfies all of the following criteria: (1) at least 75% of the members are past or present members of the United States Armed Forces, and most of the remaining members are cadets, or the spouses, widows, or widowers of members or cadets, (2) it is nonprofit in the sense that none of the organization's net earnings (if any) inure to the benefit of a private person, and (3) it is organized in the United States or a U.S. possession. A veterans' organization qualifies for federal tax exemption under section 501(c)(23) if it satisfies all of the following: (1) at least 75% of the members are past or present members of the United States Armed Forces, (2) its principal purpose is to provide insurance and other benefits for veterans or their dependents, and (3) it was an association organized before 1880.

Evaluating an organization's income in light of the income limits that would qualify the organization for a tax exemption under the bill could be time-consuming for county auditors. This process could result in an increase in expenditures.

The effects of this bill on school districts and local governments, as well as the State GRF, depend largely on the number of organizations that would qualify for this exemption and the value of property those organizations own or occupy. The specific tax rates of the associated taxing districts would also have an impact.

According to the Internal Revenue Service's 1998 Data Book, 35,684 organizations were exempt under I.R.C. 501(c) 19 and (c) 23 in 1998. Based on the assumption that these are proportionally located throughout the U.S., LSC estimates 1,570 of these organizations are located in Ohio. (Ohio makes up 4.4% of the U.S. population. 35,684 x 4.4% = 1,570.096.) The income levels of such organizations are unknown, and are likely to vary greatly, as the property values owned by organizations do. Table 1 displays some examples of the disparate property values of some of the veterans' organizations in Ohio that might qualify for the tax exemption under the bill.

Table 1: Examples of Property Owned by Veterans' Organizations, The 2001 Assessed Value and 2001 Property Taxes Due			
Organization	Location	Assessed Property Value	Taxes Due
American Legion Post 304	Cleveland	$94,800	$2,314
Amvets Post 24	Dayton	$18,900	$491
American Legion Post 121	Fremont	$283,879	$3,452
Veterans of Foreign Wars Post 8402	Jackson	$93,440	$1,311
Disabled American Veterans Chapter 45	Jackson	$188,160	$2,641
American Legion Post 83	Sandusky	$1,035,130	$19,831

Assuming that the average tax bill for properties owned or occupied by veterans' organizations is $2,500 and that half of the 1,570 Ohio organizations have an annual income of less than $7,500, the bill would reduce real property tax revenue by $1.96 million for tax year 2002 ((1,570 /2)* $2,500 = $1.96 million). The loss would increase in subsequent years as the qualifying income level increases.

Because property taxes benefit school districts and other local governments, they stand to see the largest fiscal effect of the proposed exemptions. However, the state GRF will also be affected by such property tax exemptions, although these effects will be relatively minimal. The 10% rollback on real property taxes and the state base cost funding for Ohio schools are both financed by the GRF. By reducing the amount of property taxes due, the amount of the rollback is also reduced. On the other hand, the exemption leads to a lower property tax valuation in the corresponding school district, and this may cause the state's base cost funding payments to the school district to increase. Table 2, below, demonstrates the fiscal effects of three hypothetical tax exemptions for property owned or occupied by veterans' organizations with a gross income less than the designated amount.

Example A displays the typical effects of a $40,000 property exempt from property taxation. Example B displays the typical effects of a $200,000 property exempt from property taxation. Example C displays the typical effects of a $1,000,000 property exempt from property taxation.

As shown in example B, a property with a true market value of $200,000 has an assessment value of $70,000, or 35% of the true market value. Using the state average effective tax rate on class II real property, this property would generate $4,040 in property tax revenue. (Due to the 10% rollback, the property owner would pay $3,636 of this and the GRF would pick up the remaining $404.)

With the property tax exemption no tax revenue would be generated by this property. Approximately 60% of real property taxes benefit school districts, while the remaining 40% benefit other local governments such as counties and municipalities. Thus, the exemption of a property with a value of $200,000 will reduce property tax revenue for a school district by approximately $2,424. It will reduce property tax revenue for other local governments by approximately $1,616. At the same time, the GRF saves $404. An additional wrinkle is added by the impact of the reduced property value on school funding and the calculation of state base cost funding. The exemption reduces the total property value in the school district by $70,000 - thus increasing the base cost funding to the school district by $1,610.

The net effect of the exemption in example B is a loss to the school district of $814, a loss to the other local governments of $1,616, and an additional cost to the GRF of $1,206.

Table 2: Examples of Tax Exemptions for Real Property Owned or Occupied by Veterans' Organizations

	Example A	Example B	Example C
Property Value	$40,000	$200,000	$1,000,000
Assessed Value	$14,000	$70,000	$350,000
2000 State Average "Effective Tax Rate" For Class II Real Property	57.71 Mills	57.71 Mills	57.71 Mills
Tax Revenue			
Taxes Due Without Exemption			
Total Taxes	$808	$4,040	$20,199
Portion Paid by Taxpayer	*$727*	*$3,636*	*$18,179*
Portion Paid by State	*$81*	*$404*	*$2,020*
Loss of Tax Revenue Due to Exemption			
School District Loss	$485	$2,424	$12,119
Other Local Government Loss	$323	$1,616	$8,079
Increase in Base Funding Due to Exemption	$322	$1,610	$8,050
Net Effect of the Tax Exemption			
Net Loss to School Districts	$163	$814	$4,069
Net Loss to Other Local Governments	$323	$1,616	$8,079
Net Cost to the GRF	$241	$1,206	$6,030

This bill proposes to exempt from taxation both real and tangible personal property. The discussion above has been focused on real property. This is because LSC found no examples of veterans' organizations that pay tangible personal property taxes.

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