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OHIO LEGISLATIVE SERVICE COMMISSION

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H.B. 40
136th General Assembly

Fiscal Note & Local Impact Statement

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Version: As Introduced

Primary Sponsors: Reps. Richardson and Dovilla

Local Impact Statement Procedure Required: No

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Highlights

- The bill increases the value of the homestead exemption available to disabled veterans, which provides a reduction in property taxes on their owner-occupied home.
- Marginal taxpayer savings from the bill's enhanced homestead exemption benefit are estimated to be between $7.7 million and $7.8 million in calendar year (CY) 2026 and between $7.8 million and $7.9 million in CY 2027. Future year savings will likely change by a few percentage points a year depending on inflation, house prices, and income levels of households with at least one disabled veteran.
- GRF expenditures would increase by a commensurate amount, as continuing law requires the GRF to reimburse schools and local governments for revenue losses incurred by the homestead exemption.
- County auditor and Department of Taxation administrative costs would likely increase.

Detailed Analysis

The bill expands an existing property tax reduction for disabled veterans and their surviving spouses. Under continuing law, qualifying veterans are those of the United States armed forces including reserves, or of the national guard, discharged or released from active duty under honorable conditions. Qualified households may receive an enhanced homestead exemption, owing no property tax in calendar year (CY) 2025 on $56,000 of the market value of their homes (or the home's value if lower than this). This exemption amount is indexed to inflation and will likely increase in most years accordingly.[1] To qualify, a veteran must have received a 100% disability rating or a total disability rating for compensation based on individual unemployability. Eligibility does not depend on the disabled veteran's age or income and is passed on to the surviving spouse of a qualified veteran until the spouse dies or remarries. Revenue losses to schools and local governments from the homestead exemption, inclusive of the disabled veteran benefit, are reimbursed from the state GRF.[2]

The bill increases the claimable exemption amount to $100,000 for qualified veterans having incomes that do not exceed $125,000. The bill also indexes the larger exemption amount and the income threshold to inflation. Section 3 of the bill applies this policy beginning with tax year (TY) 2025 for real property owners and TY 2026 for the owners of manufactured homes; therefore, both types of homesteads would realize benefits on their property taxes payable in CY 2026.

LBO estimates the marginal taxpayer savings from the bill's enhanced homestead exemption benefit to be between $7.7 million and $7.8 million for taxes payable in CY 2026 and between $7.8 million and $7.9 million for taxes payable in CY 2027. Future year savings will likely change by a few percentage points a year depending on inflation as measured by the GDP deflator, house prices, and income levels of households with at least one disabled veteran.

Count of applicable households

Using the most recent U.S. Census data publicly available from the American Community Survey (ACS), LBO estimates that Ohio was home to approximately 42,700 households with a veteran head of household (henceforth "head") or spouse who was at least 70% disabled in 2023.[3] According to testimony provided by the Executive Director of AMVETS (American Veterans) in November 2022, of all disabled veterans in Ohio who are rated at least 70% disabled, approximately 37.8% of those are 100% disabled or otherwise receiving 100% compensation for service-connected injuries. Assuming this proportion did not change in 2023, LBO estimates the number of households in Ohio eligible for the homestead exemption for disabled veterans to have been approximately 16,200.

The Department of Taxation reported approximately 15,200 households received credits against their property tax under the disabled veteran homestead exemption, payable in CY 2023. There are a few explanations for the difference between this number and the number of eligible households estimated from the ACS (16,200). First, not all eligible households will claim the tax benefit. The credit is not automatically awarded; it must be applied for by households who are aware that it exists. Second, the figures derived from the ACS are estimates from a subsample of the population and are thus subject to sampling error. Lastly, the disabled veteran must have had the 100% disability rating for the entire year. If the veteran received the rating after January 1,

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[1] Inflation is calculated as the annual percent change in the gross domestic product (GDP) deflator as measured by the U.S. Bureau of Economic Analysis the previous calendar year. In the case that inflation is negative, no adjustment is made to the exemption threshold. Inflated values are rounded to the nearest $100.

[2] R.C. 323.156.

[3] LBO was unable to obtain an estimate of the number of surviving spouses eligible for the homestead exemption.

he or she may appear to be qualified in the ACS data, but not actually be qualified for the credit until the following year, CY 2024.

Measurement of income

The definition of income used for determining eligibility for the homestead exemption is modified adjusted gross income (MAGI).[4] LBO can approximate MAGI for households in the ACS data by excluding the portion of household income that is attributable to Social Security or welfare payments. Since it is only possible to identify households with a head or spouse that is at least 70% disabled, LBO assumed no relationship between income and disability rating among households that had at least one veteran who is rated at least 70% disabled. The difference in income between households with at least one 100% disabled veteran and those with at least one veteran that is rated between 70% and 90% disabled is likely small as both households have high levels of disability. Under this assumption and using the approximate measure for MAGI, the number of eligible households earning no more than $125,000 in 2023 is estimated to have been 11,400.

Participation rate among eligible households

To estimate the number of households that would claim the homestead credit for disabled veterans in CY 2026 and CY 2027, LBO assumed that approximately 94.2% of all estimated eligible households would claim the exemption. This percentage was chosen to match the share of households that claimed the exemption in CY 2023 relative to the estimated number of eligible households.[5] LBO does not have information on the projected number of disabled veteran households for future years. As such, it is assumed that this population does not change between CY 2023 and CY 2027. Any increase (or decrease) in the number of disabled veteran homeowners over time would increase (or decrease) the estimates provided here accordingly.

Tax benefit amounts

To estimate the additional benefit of the enhanced homestead exemption received by all qualified households under the income threshold, the rate of property taxation must be approximated for each household. The rate of taxation employed in calculating each household's property tax burden is the average rate of taxation for the household's county. For households located in sparsely populated areas, the ACS does not list the county of residence due to privacy concerns. For those that were in unidentifiable counties, the average rate of taxation for all such counties, weighted by county population, was employed to calculate the disabled veteran's tax benefit.[6]

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[4] R.C. 323.151(C).

[5] To calculate this percentage, LBO used the actual population counts rather than the rounded population counts reported here. The calculation was (15,232 claimants ÷ 16,164 eligible) × 100% = 94.2% of eligible households were claimants.

[6] As of the writing of this fiscal note, the latest available property tax rates are those for TY 2023. Any increase (or decrease) in these rates experienced in future years would increase (or decrease) the estimated tax benefit calculations presented here. The latest available county population statistics are also for CY 2023, and the same principle applies to those figures.

Calculating future values of the exemption amounts and the income threshold listed in the bill requires knowledge of future home values and inflation according to the GDP deflator. Likewise, determining eligible households requires knowledge of future income levels. LBO employs Moody's Analytics projections on future home values and income levels in Ohio and the GDP deflator to forecast the future values of the disabled veteran homestead exemption under current law and under the specifications of the bill. For TY 2025 (payable in CY 2026), LBO projects the additional dollar amount of homestead credits issued to disabled veterans due to the bill to be between $7.7 million and $7.8 million. For TY 2026 (payable in CY 2027), LBO projects this amount to be between $7.8 million and $7.9 million.

GRF reimbursements for the homestead exemption occur semiannually and are paid from appropriation items 200903, Property Tax Reimbursement – Education, and 110908, Property Tax Reimbursement – Local Government. The bill increases GRF expenditures for these two items by an amount totaling $3.9 million in FY 2026 and $7.8 million in FY 2027. Expenditures will continue in future years on behalf of this permanent exemption, and the growth rate will likely change by a few percentage points a year depending on inflation as measured by the GDP deflator, home values, and income levels of disabled veterans.

Administrative costs

County auditors and the Department of Taxation would likely incur increased costs to administer the bill's expanded homestead exemption. Additional costs to the Department could be paid from GRF line item 110321, Operating Expenses, or from Fund 5V80 line item 110623, Property Tax Administration.

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