



TESTIMONY

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Bailey Williams

Testimony to the House Ways and Means Committee on HB 335

Chair Roemer, Vice-Chair Thomas, Ranking Member Smith, and members of the House Ways and Means committee: My name is Bailey Williams, and I am the tax policy researcher at Policy Matters Ohio, a nonpartisan, nonprofit research institute with the mission of creating a more vibrant, equitable, inclusive, and sustainable Ohio. Thank you for the opportunity to provide invited testimony on H.B. 335. Any property tax relief must target relief to those who need it while holding harmless the local governments who rely on property tax revenue. Because H.B. 335 fails to strike that appropriate balance, Policy Matters urges the committee to move on from this bill.

Ohioans have made clear they need property tax assistance, but the relief offered by this bill is far too costly. The proposal to eliminate inside millage would be devastating to all forms of local governments who receive property tax revenue, not just school districts. The costs range in the billions of dollars, meaning teachers, city fire fighters and police officers, and county sheriff deputies and corrections officers are at risk of losing their jobs. The alternative revenue sources these entities would be forced to rely on are often far more regressive than property tax. Forcing this tax shift on local governments will only exacerbate the problem caused by a generation-long tax shift at the state level: Income tax cuts. Ohio's tax code has become far too reliant on regressive taxes.

For the last two decades, state lawmakers have been gradually chipping away at the personal income tax, our only tax based on a person's ability to pay. These tax cuts, which have primarily benefitted the wealthiest Ohioans, have failed to generate the promised economic prosperity or offsetting revenue. The lack of revenue means less state support for our local communities. This has placed our cities, counties, and schools in a bind: either cut vital public services their communities need, or raise other taxes, usually property taxes or sales taxes. This increased reliance on regressive taxes has led to inequity in our tax code and the righteous discontent of Ohioans demanding property tax relief. The solutions offered by H.B. 335 fail to take this lesson into account.

Inside millage is the wrong target for property tax ire

The Ohio Constitution allows local governments to levy in the aggregate up to ten mills in inside, or unvoted millage. Note that this is a ceiling, not a floor, to ensure localities have a minimum guaranteed level of revenue to provide a small amount of public goods and services. If a locality needs revenue in excess of what this ten mill rate (put another way, this 1% rate) can generate, that will require voter approval. This ten mill rate, while a constant and reliable source of revenue, is only a small part of the property tax picture.

To blame the ten mills governmental units are able to allocate misses the forest for the trees. The statewide average rate for millage is 97.19 mills before applying the tax reduction factors of H.B. 920, meaning the overwhelming majority of mills do receive voter approval. Targeting our ire on inside millage is focusing on the wrong symptom of our property tax ailment. Prescribing the wrong treatment will only cause more damage.

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Policy Matters Ohio is a nonprofit, nonpartisan state policy research institute with offices in Cleveland and Columbus.

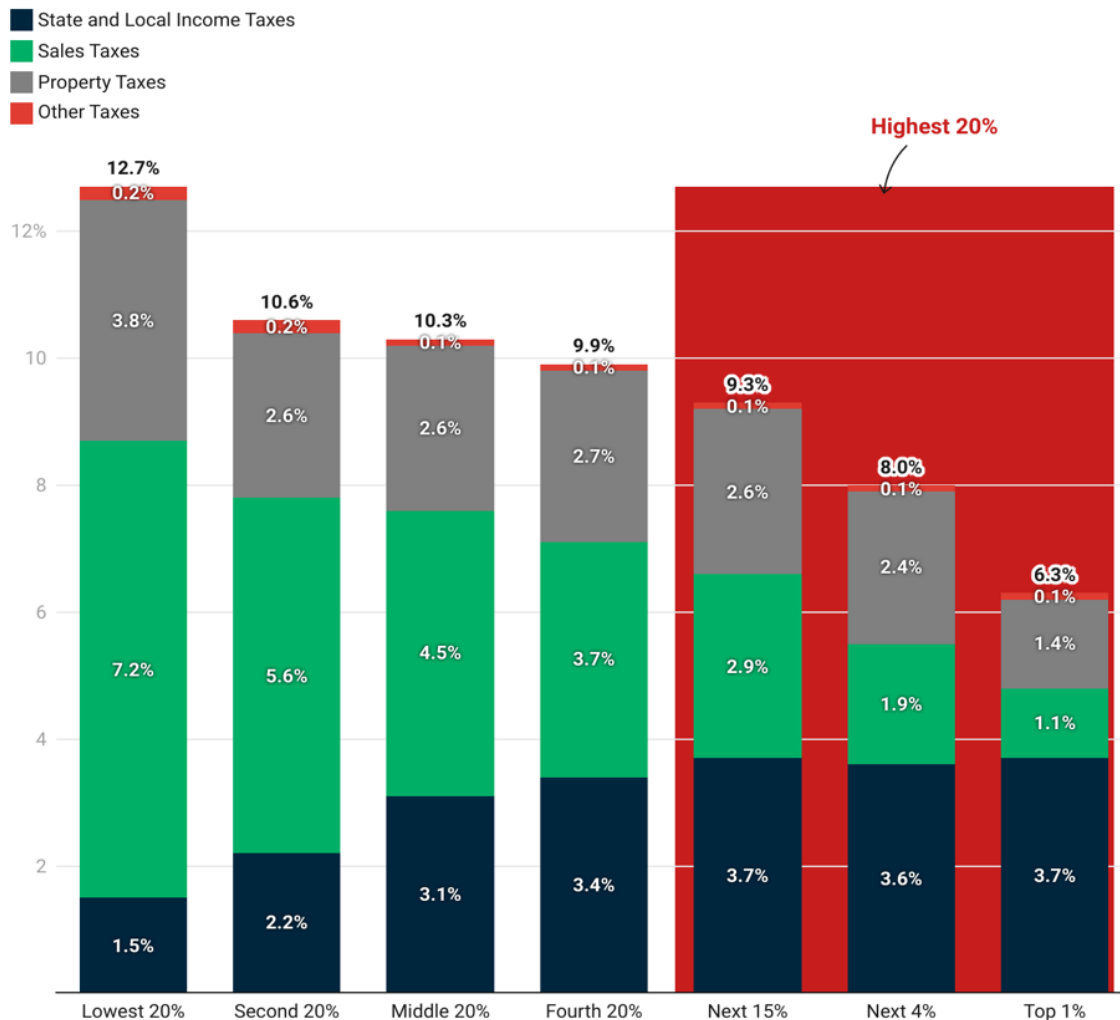
More inequity from proposed revenue alternatives

Assume this bill does become law and Ohio eliminates inside millage. The alternative revenue options offered, specifically sales tax offsets, undercut the tax relief intent of the bill. The sales tax is a far more regressive tax than the property tax in Ohio. This tax shift will necessarily place a higher burden on those with lower incomes. How does it make sense to offer a senior, living on a fixed income, a small amount of property tax relief, only to place a higher burden on the goods they need? It doesn't.

For more evidence of how inequitable our tax code, and the effects of two decades of income taxes, the figure below shows who pays how much of their income in state and local taxes. Thanks to this analysis by the Institute on Taxation and Economic Policy, we can truly see the consequences of our overreliance on regressive taxes like the sales and property taxes. As a share of their income, most Ohioans pay most of their taxes through the sales tax. This share is higher for lower-income Ohioans, as it is with property taxes. We can't shift from one regressive tax to another and call it relief. We need to restore equity in the state tax system and the first step is through a property tax circuit breaker.

As a share of income, top 1% pay less than half as much as lowest-paid in state and local taxes.

Total state & local taxes as a share of income, by income group, by type of tax.



Source: Policy Matters Ohio based on data from the Institute on Taxation and Economic Policy's "Who Pays" report, 7th edition (2024). Based on 2023 income levels. Includes non-elderly Ohio residents.

A property tax circuit breaker

Property tax reductions must be aimed specifically and only at those who truly need them. That's exactly what a circuit breaker does, targeting those who are paying an outsized share of their income in property taxes.

The typical circuit breaker mechanism works like this: A qualifying household pays property taxes up to a threshold percentage of income. If the household's property tax bill exceeds this limit, the state picks up all or a portion of the tax payments made above it (up to a cap in many places). Crucially, as with Ohio's existing homestead exemption, the state pays the cost, protecting schools, counties, and other taxing entities. This state support is standard across the country. S.B. 190, currently pending in the Senate, adopts the best style of circuit breaker: It would cover any household, regardless of the age of the homeowner or renter, and cover renters, who pay for property tax through their rent.

The new circuit breaker program in Ohio proposed in S.B. 22 and S.B. 190 would be provided as an income-tax credit and as a standalone rebate to those who don't pay income tax. Utilizing an income tax credit allows lawmakers to provide tax relief while avoiding unintended consequences that may come with property tax reform. Specifically, a circuit breaker would not violate Article XII, Section 2 of the Ohio Constitution requiring property taxation to be uniform according to value. The circuit breaker does not change the assessment process while its credit value is based on income and property taxes paid. Further, as an income-based credit, the circuit breaker would not interfere with the Fair School Funding Plan. The state could pay for such a program by rolling back special-interest tax breaks like the business income deduction, the sales-tax deduction for data centers and the Commercial Activity Tax exemption for suppliers to big pharmaceutical warehouses.

This is the most targeted form of property tax relief: It goes to those who most need it because property tax takes a hefty share of their income. Homeowners would still pay their full property-tax bills and get income-tax refunds or rebates afterward. The state would also need to do outreach to make people aware of this; experience in other states has shown that not everyone applies.

While homestead exemptions for the elderly are helpful and expanding them would provide limited aid to some, a circuit breaker of this kind can provide significant tax relief and cover other homeowners who are affected just as elderly homeowners are. This includes those who live in gentrifying neighborhoods and those who may face a loss of income from unemployment or divorce. It is structured to help renters, who are also affected by rising property values. At the same time, there are elderly homeowners who are able to afford their taxes and don't need state support. Ohio already provides insulation against tax hikes for many, and it's important that any additional property-tax relief be carefully tailored.

Seventeen states, including Michigan and West Virginia, offer circuit breakers with one or more income thresholds as in S.B. 22 and 190. Another dozen states have similar income-based programs that instead provide a flat dollar amount or a percentage of property tax; among them is Pennsylvania, which recently expanded its program. Such programs vary considerably, but they are offered in a wide variety of states, from Oklahoma to Vermont. ITEP found in a report last year that of the states with these programs, 21 extend their program to at least some renters, while 13 make them available to non-seniors. Michigan, for instance, does both. Ohio can establish its own parameters.

Any property tax relief that comes from the state must hold harmless the localities that rely on the revenue while targeting the assistance to those who need it. H.B. 335 fails on both fronts while introducing the possibility for a more regressive tax code. The Ohio General Assembly should reject this bill and instead create a circuit breaker, the most targeted form of property tax relief. We urge you to introduce legislation similar to the bipartisan S.B. 22 and S.B. 190. Thank you for the opportunity to testify and I'm happy to answer questions.