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Bill Analysis

Version: As Introduced

Primary Sponsors: Reps. Abdullahi and Rader

Mike Niemi, Assistant Division Chief

SUMMARY

Free higher education for Ohio residents

- Requires state institutions of higher education to provide Ohio residents accepted for enrollment with a free higher education for the equivalent of eight semesters.
- Prohibits a state institution from charging tuition or fees to Ohio residents.
- Establishes the Ohio Free College Fund.
- Requires the Chancellor of Higher Education to develop a method to annually distribute funds to subsidize the costs of providing a free higher education.

Tax levies

- To subsidize the bill's free tuition program, levies all of the following:
  - A tax on the sales of residential real estate where the price exceeds $2 million equal to 1% of its price.
  - A tiered state income tax on the incomes of taxpayers with more than $500,000 of annual income.
- A payroll tax on employers with total annual Ohio payroll of $10 million or more, equal to 0.5% of that excess payroll.

DETAILED ANALYSIS

Free higher education for Ohio residents

Under the bill, state institutions of higher education must provide Ohio residents accepted for enrollment with a free higher education for the equivalent of eight semesters. A state institution may not charge an Ohio resident any tuition (instructional fees) or general or special fees. Under the bill, an Ohio resident is an individual who meets the residency criteria

already established in rules by the Chancellor of Higher Education under continuing law. The bill is silent on room and board.

The Chancellor must develop a method to annually distribute funds to subsidize the costs incurred in providing a free higher education to all accepted Ohio residents. To that end, the bill establishes the Ohio Free College Fund in the state treasury. The Fund consists of the funds designated by the General Assembly and is created to provide free higher education and cover the Chancellor's related administrative costs. The Chancellor must adopt rules to implement the bill's free higher education provisions.[1]

A state institution of higher education is any state university or branch campus or any community, state community, or technical college.[2]

For more information on the Chancellor's residency rules, see the LSC Ohio Residency and Higher Education Members Brief (PDF).

Free higher education funding

To fund free higher education as described above, the bill levies three new taxes – (1) a tax on the transfer of certain residential real estate, (2) an income tax on higher income taxpayers, and (3) a payroll tax on certain employers. Each new tax is discussed below.

Real estate transfer tax

First, the bill levies a tax on the legal transfer of residential real estate whose transfer value exceeds $2 million. The fee equals 1% of that property's sales price. Similar to existing transfer taxes, the tax applies at the time the deed is endorsed by the county auditor. The auditor remits the tax to the county treasurer who further remits the amount to the Treasurer of State for deposit in Ohio Free College Fund.

Continuing law exempts several types of transfers from real estate transfer taxes, e.g., delinquent tax sales, transfers to a government, sales required by court order, and certain trust-related transfers. The bill extends these exemptions to the bill's transfer tax.[3]

Income tax

The bill also levies an income tax on the annual income of a taxpayer, i.e., an individual, estate, or trust, that exceeds $500,000. The rate of the tax varies according to the taxpayer's income above that level and the applicable taxable year as follows:

[1] R.C. 3345.012.

[2] R.C. 3345.011, not in the bill.

[3] R.C. 319.202 and 319.54.

Tax rates by taxable year and income

Taxable year	Income of $500,000-$1 million	Income above $1 million
2025	5.375%	7.375%
2026 and after	5.75%	7.5%

The tax is in addition to the existing state income tax and is administered in the same manner, except that revenue from the new tax is credited to the Ohio Free College Fund rather than the GRF.[4]

Payroll tax

Finally, the bill levies a payroll tax on the employee compensation paid by certain employers. Continuing law requires employers to withhold state income tax from the wages of their Ohio-based employees. The bill requires employers with $10 million or more of annual Ohio payroll subject to the state's income tax to pay an additional tax equal to 0.5% of that excess payroll. The tax is paid after that $10 million threshold is exceeded, at the same time and in the same manner that the employer remits state income tax. Revenue from this payroll tax is credited to the Ohio Free College Fund.[5]

HISTORY

Action	Date
Introduced	05-12-26

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[4] R.C. 5747.02 and 5747.03; Section 3.

[5] R.C. 5747.07.