Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: S.B. 182 of the 128th G.A.

Date: January 19, 2010

Status: As Introduced

Sponsor: Sen. Schaffer

Local Impact Statement Procedure Required: No — No local cost

Contents: Exempts from property taxation the primary residences of military veterans who are 100% disabled from service-connected disabilities

State Fiscal Highlights

STATE FUND	FY 2010	FY 2011	FUTURE YEARS
General Revenue Fund			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	- 0 -	Possible $4 million increase	Possible $8 million increase

Note: The state fiscal year is July 1 through June 30. For example, FY 2010 is July 1, 2009 – June 30, 2010.

- Property tax revenue losses of local governments resulting from the bill's tax exemption for the primary residences of military veterans who are 100% disabled from service-connected disabilities would be fully reimbursed from the state GRF.
- The bill might cost roughly $8 million per year, but this estimate is subject to very considerable uncertainty.

Local Fiscal Highlights

- No direct fiscal effect on political subdivisions. The state would fully reimburse property tax revenue losses of local governments resulting from the bill's tax exemption for the primary residences of military veterans who are 100% disabled from service-connected disabilities.

Detailed Fiscal Analysis

S.B. 182 would exempt from taxation a primary residence owned by a disabled veteran, defined for the purposes of this section of law as a person who is a veteran of the armed forces of the United States, including reserves or national guard, who was honorably discharged with a service-connected total and permanent disability, with certification as specified in the bill. Ohio homeowners who are totally and permanently disabled currently qualify for a tax exemption on up to $25,000 of market value of their primary residences. The bill would extend this exemption to the rest of the value of these homes for qualifying veterans. A surviving spouse of a disabled veteran whose home is exempt from tax in the year that the veteran dies, and who meets certain other conditions, may continue to receive the tax exemption.

The loss of tax revenues to school districts and other units of local government that would otherwise result from creating this additional tax exemption would be offset by payments from the state GRF. These payments would increase the amount of the state's reimbursement of local government units for the homestead exemption. Consequently, the state, not local governments, would bear the cost of the additional real property tax exemption.

Department of Taxation data indicate that in tax year 2007, 776,154 homeowners qualified for the homestead exemption on the basis of age or disability, including surviving spouses of former homeowners who received the exemption. The published data do not indicate how many homeowners qualified on the basis of age, disability, or both, or how many had service-related disabilities.

Data from the U.S. Veterans Benefits Administration indicate that as of the end of federal fiscal year 2008, 2,952,282 veterans were receiving disability compensation, of which 262,682 (9%) were 100% disabled. The total number of veterans receiving disability compensation in Ohio at that time was 89,747. No disaggregation by degree of disability by state is provided in the source document from which these figures are taken.[1] If the percent of the veterans receiving disability compensation in Ohio who are 100% disabled is the same as that nationwide, about 8,000 Ohioans are in this category. In this fiscal note, a 100% degree of disability for Veterans Administration disability compensation purposes is treated as equivalent to total and permanent disability for purposes of Ohio's homestead exemption.

Out of these estimated 8,000 Ohioans assumed to meet the service-related disability requirement for tax exemption under the bill, some would not satisfy the requirement that they own their primary residences, living instead in rental units, with other family members or friends, in group quarters, or elsewhere. If the share of these

[1] Data cited are from various tables in U.S. Department of Veterans Affairs, Veterans Benefits Administration, Annual Benefits Report: Fiscal Year 2008.

disabled veterans who are homeowners is proportionate to the share of Ohio's adult population who are homeowners, perhaps roughly 4,000 persons are 100% disabled homeowners qualified for the tax exemption under the bill.[2]

If these 4,000 homeowners own homes of average value in Ohio, the exemption may cost the state about $8 million per year. Department of Taxation data indicate that the taxable value of residential real property in Ohio in 2008 was about $177.5 billion. An analysis using Census 2000 data indicates that more than 90% of this value was in owner-occupied units, with the balance in renter-occupied units in two-unit and three-unit buildings.[3] Dividing an estimated $161.9 billion taxable value of owner-occupied residences by 3.1 million owner-occupied units implies an average taxable value of about $51,600, equivalent to a market value of about $147,000 with Ohio's 35% assessment rate. The first $25,000 of market value, or $8,750 of taxable value, is already exempt for totally and permanently disabled persons. The average increase in the exemption is therefore about $42,800, which at an average effective tax rate for residential and agricultural real property of about 54 mills is about $2,300 of taxes charged. However, the state already reimburses the 10% and 2.5% rollbacks, about $300 of this calculated exemption. The average net cost is about $2,000 per unit, which times about 4,000 exemptions is an estimated roughly $8 million in incremental cost to the state. Because of the manner in which this estimate is derived, it is subject to very considerable uncertainty.

The bill is effective beginning in tax year 2010, for which real property taxes are payable in two installments during the first half of calendar year 2011. Half of the state's reimbursement to local governments would be made in FY 2011, with the balance in FY 2012. Assuming that all of the estimated 4,000 eligible homeowners apply for the exemption in the first year that it is offered, the estimated cost to the state would be roughly $4 million in FY 2011 and $8 million in FY 2012 and thereafter. The cost would tend to rise in future years if property values, effective tax rates, or numbers of disabled veterans rise.

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[2] Based on the 2008 American Community Survey, Ohio's 11.5 million population includes about 8.7 million adults, of whom 0.3 million (4%) live in group quarters and 8.4 million (96%) live in households. Of these, 6.7 million (77%) are the householder or the householder's spouse. Based on the number of owner-occupied and renter-occupied housing units, and adjusting downward for couples who own their homes in one person's name rather than jointly, about half of Ohio adults, or an estimated 4.4 million people, are owner-occupants. Applying the estimated roughly 50% of Ohio adults who are owner-occupants to the estimated 8,000 Ohioans who are 100% disabled veterans yields the estimate that 4,000 of these veterans own their primary residences. This number is in error, either too low or too high, to the extent that a larger or smaller share of veterans are homeowners who otherwise qualify for this tax exemption.

[3] Rental buildings with four or more units are taxed as commercial property.