

BASICS OF REAL PROPERTY TAXATION AND H.B. 140



This fact sheet is intended to help property owners and voters in Ohio understand some basic concepts of how their properties are taxed to support their local governmental entities, including their school district, county, township, and other applicable overlapping entities, such as municipalities, joint vocational school districts, libraries, etc.

■ How are my local governmental entities funded?

Local governments typically receive funding from a variety of sources, and property taxes are often a key source of funding, particularly for school districts, townships, libraries, and county agencies such as developmental disabilities.

■ What kinds of property are taxed?

All "real property" (land and structures permanently attached to the land) in Ohio is subject to multiple ad valorem property tax levies, which means taxes based on the assessed value of the property. Public utility personal property is also subject to property taxation, but business tangible personal property such as inventory is not taxed.

Real property is separated into two classes: Class I is residential and agricultural properties, and Class II is commercial, industrial, and all other real property.

■ What is a taxing district?

All properties in Ohio are grouped into taxing districts, which are specified geographical areas that include all or parts of overlapping local governments.

■ Since property taxes are based on the value of property, how is property valued for taxation?

The county auditor in each of Ohio's 88 counties is the official charged with valuing every parcel of real property located within their respective county. Every property is assigned an appraised (market) value by the county auditor. All real property is then assessed for taxation at 35% of the appraised value; this 35% valuation is referred to as the assessed or taxable value of a property.

■ How often does a county auditor update property values?

County auditors are required by law to do a reappraisal every six years. Halfway between each sexennial (6 year) reappraisal the county auditor may also do a triennial (3 year) update that adjusts property values based on sales data since the last reappraisal.

■ How is the amount of each tax levy measured?

All property taxes are ultimately applied to individual properties at a certain property tax millage rate. One mill is one-thousandth of a dollar (one-tenth of a cent), and a one-mill tax equals \$1 in property tax levied per \$1,000 of a property's assessed value.

■ What types of property taxes apply to real property?

Both unvoted and voted property taxes are applied to all properties in Ohio. Unvoted taxes, referred to as inside millage, are limited by state law to 10 mills of a property's assessed value and are divided among the overlapping local governments by statutory formula. Usually all or almost all of that unvoted 10 mills is levied on properties statewide. Voted taxes, referred to as outside millage, are levied at whatever millage rates are approved by a majority of voters of the local government levying the tax.

■ What happens to property taxes when property values increase, including inflationary increases?

For voted (outside) property taxes, Ohio law provides for "reduction factors" that apply to the gross voted millage rate of all fixed-rate levies to keep revenue from that levy level and prevent inflationary tax increases. The application of these reduction factors to the voted millage rates result in effective millage rates that decrease as property values increase. Reduction factors are applied separately to Class I and Class II properties, which usually result in different effective millage rates for each property tax levy when applied to Class I and Class II properties. Unvoted (inside) taxes are not subject to reduction factors and experience full inflationary growth.

■ When are property taxes due?

Property taxes in Ohio are paid one year in arrears through two, semiannual payments. While the exact timeline varies from county to county and from year to year, the first half property tax bills are usually sent in the first quarter, and the second half property tax bills are usually sent in the late second to early third quarter.

■ What is the difference between the renewal and the replacement of an existing voted tax levy?

A renewal of an existing voted tax levy keeps the existing reduction factors in place, meaning that the revenue generated by the renewed levy does not increase except due to new construction. A replacement of an existing voted tax levy removes the previously-applied reduction factors, meaning that the revenue generated by the replaced levy will increase as the full millage rate is restored, subject to the application of new reduction factors that begin in the first year of collection. Both renewals and replacements can be paired with an increase or decrease of the voted millage rate. Replacements will void applicable property tax rollbacks.

■ How has House Bill 140 changed the ballot language for property tax levies?

House Bill (HB) 140 makes significant changes to ballot language starting with the May 2023 election and thereafter. The primary changes it makes are:

- 1) Requires most ballot language to include the estimated total amount the levy would collect annually, which previously was only required for certain fixed-sum levies; and
- 2) Requires ballot language to convey a levy's cost in dollars for each \$100,000 of the "county auditor's appraised value" (meaning the full market value). Previously the cost for a tax was stated in dollars and cents for each \$100 of taxable (assessed) value, which is 35% of the appraised value for real property.

■ How does HB 140 estimate the cost per \$100,000 of appraised value for renewals of existing taxes that are subject to reduction factors?

HB 140 requires the ballot to use the estimated effective rate for Class I (residential/agricultural) properties when calculating the cost per \$100,000 of appraised value for renewal levies. The effective rate for Class II properties is not reflected on such ballots.

■ How does the cost per \$100,000 of appraised value that is shown on the ballot compare to the actual cost for an individual property?

There is no way to show a tax cost that applies equally to all properties for the reason that a single property tax rated levied translates to numerous tax rates actually paid by the taxpayer. Reasons for this include the type of property, the use of the property, reduction factors that vary by property class, state subsidies such as rollbacks that apply to some levies but not others, the homestead exemption, and the fact that not all properties have a market value of \$100,000 or more. Some county auditors put levy calculators on their websites to help voters estimate the cost of a new levy as applied to a particular property, and this is often the easiest way for a taxpayer to estimate the actual cost of a levy on the ballot.