Homestead Exemption Still Out of Whack
More changes are needed to focus tax break on those who need it
Zach Schiller

Since 1971, Ohio has offered homeowners over age 65 an exemption on part of their property tax. In 2010 qualified homeowners averaged a tax reduction of $441 apiece, ranging from an average of $247 in Lawrence County to $581 in Cuyahoga County. The state budget approved in June changed who will be eligible for the homestead exemption. Starting in January, 2014, those turning 65 will only qualify if their annual income is $30,000 or less.

This change moves in the right direction, but it still leaves the homestead exemption out of whack. Thousands of rich Ohioans with homes worth hundreds of thousands of dollars will continue to get the exemption, while far less affluent residents just turning 65 won’t qualify. A wiser policy would provide the benefits more closely to those who need them, while eliminating them for all those who don’t, regardless of whether they are getting the exemption now.

According to data from the 2011 U.S. Census American Community Survey, 65 percent of Ohio homeowners age 65 and older have annual income of less than $50,000. Similarly, more than 60 percent of senior homeowners own property worth less than $150,000. Close to half of senior homeowners have income below $50,000 and property worth less than $150,000. One method of better targeting the exemption would be to allow all senior homeowners with total income and property values below those benchmarks, indexed for inflation, to participate.

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1 The homestead exemption has covered homeowners over age 65 as well as those who are permanently and totally disabled, along with surviving spouses at least 59 years old of deceased taxpayers who previously received the exemption. The state reimburses local governments and school districts for their shares of tax reductions from the homestead exemption.
3 The income limit, which is based on Ohio Adjusted Gross Income as calculated for income tax purposes, will be indexed to inflation.
4 Data are based on estimates from the 2011 American Community Survey, Public Use Microdata Sample, provided by Mark Salling, PhD, Maxine Goodman Levin College of Urban Affairs, Cleveland State University. Policy Matters Ohio used these data to calculate the numbers in this paragraph. Numbers have not been adjusted for inflation.
Prior to 2007, Ohio’s homestead exemption was available only to senior and disabled homeowners with income below $26,200, an amount that increased annually based on inflation. There were three brackets; the poorest homeowners got the full credit, while those with income above $19,700 only got a smaller credit. Under Governor Ted Strickland, the General Assembly expanded the credit to make it available regardless of income level; the legislature also changed it to the net amount of taxes due on $25,000 in appraised market value.⁵

The General Assembly reversed course in the recent state budget, limiting the exemption. This means a homeowner who turns 65 after Dec. 31 won’t be eligible for the tax break though neighbors, friends and relatives with the very same income will continue receiving it.⁶ However, for most seniors, the limit is actually higher than $30,000, since the income cap in the new law does not include Social Security payments. Such monthly retirement benefits nationally averaged $1,273.91 in November 2013 for retired workers.⁷

The most sensible homestead exemption would be structured so that it helped those paying an especially large share of their income on property tax, regardless of age. According to the Center on Budget and Policy Priorities,⁸ 18 states have such programs, often called “circuit breakers” because they prevent property taxes from overloading family budgets. Ohio’s constitution limits the homestead exemption to seniors, permanently disabled and their surviving spouses.⁹ Thus, the exemption has to be limited unless there is a constitutional revision.

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⁶ Sen. Lou Gentile and Rep. Nick Barborak each have introduced legislation that would reverse the recent change. See Senate Bill 180 or House Bill 267, available at [www.legislature.state.oh.us/bills.cfm?ID=130_SB_180](http://www.legislature.state.oh.us/bills.cfm?ID=130_SB_180) and [www.legislature.state.oh.us/bills.cfm?ID=130_HB_267](http://www.legislature.state.oh.us/bills.cfm?ID=130_HB_267), respectively.
⁹ The constitution empowers the General Assembly to pass laws “to reduce taxes by providing for a reduction in value of the homestead of permanently and totally disabled residents, residents sixty-five years of age and older, and residents sixty years of age or older who are surviving spouses of deceased residents who were sixty-five years of age or older or permanently and totally disabled and receiving a reduction in the value of their homestead at the time of death, provided the surviving spouse continues to reside in a qualifying homestead, and providing for income and other qualifications to obtain such reduction.” Article XII, Section 2, Ohio Constitution. The Legislative Service Commission explained in its analysis of the recent change that, “The homestead exemption is authorized under the Ohio Constitution as an express exception to the Constitution's "uniform rule," which requires all real property to be taxed uniformly according to its value.” Legislative Service Commission, Bill Analysis, H.B. 59 of the 130th General Assembly, p. 622, available at [www.lsc.state.oh.us/budget/agencyanalyses130/final/default.htm](http://www.lsc.state.oh.us/budget/agencyanalyses130/final/default.htm).
Nebraska and Michigan are among the states with homestead exemptions or credits that apply to seniors. For instance, Michigan homeowners with incomes of $50,000 or less and property with taxable value of $135,000 or less are eligible for a credit that is capped at $1,200. Seniors with income of $21,000 or less can get the full amount by which their property taxes exceed 3.5 percent of their income. The credit declines for those with higher incomes. In Nebraska, if your income is below $26,500 for individuals or $31,000 for couples, and your home value is no more than $2,500 more than the average in your county, you can get an exemption on $40,000 of the value of your home, or your county's average single family home value, whichever is greater. The benefit declines according to a set of brackets on incomes up to $33,400 for individuals and $39,300 for couples, and home values up to $20,000 above your county's average. While neither of these programs represents the ideal, both of them reflect a key concept: They factor both income and property value into the calculation.

While not as well targeted, another alternative would be to create a sliding scale of eligibility, where people at the lowest income levels get the full exemption, but it phases out gradually as income increases. This would mirror how the Ohio homestead exemption worked prior to 2007, though with a different bracket structure and a higher maximum income, allowing more homeowners to benefit. In a 2007 report, Policy Matters Ohio found that limiting the exemption to those with income of $40,000, including Social Security, would allow the majority of homeowners over 65 to qualify, while saving more than half the additional cost. As noted above, a more current analysis shows that an exemption with a $50,000 limit would take in two-thirds of Ohio senior homeowners. 

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10 Non-seniors also are eligible for the Michigan credit, at lesser amounts. See Michigan League for Public Policy, State Homestead Property Tax Credit (Tax Year 2012), available at http://bit.ly/J2Y8Co and State of Michigan, Department of Treasury, Homestead Property Tax Credit Information, available at http://1.usa.gov/1i8kukl. In Michigan, such property is assessed at half of market value, so the credit is available to those with principal residences worth no more than $270,000.
12 The program could be focused further by tying benefits to county-level incomes.
14 Ideally, such an exemption also would take in renters. “Renters pay property taxes indirectly, in the form of higher rents, rather than directly to local governments,” as the National Conference of State Legislatures noted in a 2002 report on property taxes (see NCSL Fiscal Affairs Program, “A Guide to Property Taxes: Property Tax Relief,” p. 16, available at www.leg.state.nv.us/73rd/otherDocuments/PTax/NCSL-gptrelfie.pdf). To determine the amount, the state must make an assumption about how much property tax makes up of the rent; percentages vary among the states with such programs.
In 2012, $400 million was distributed in Ohio homestead exemptions.\textsuperscript{15} By means-testing the exemption more immediately than the current law, the state would save money that could be used for badly needed public services.\textsuperscript{16} These include services that support the elderly. To cite one example: The state has insufficiently supported adult protective services, which safeguard neglected and abused elderly.\textsuperscript{17}

Ohio’s constitution has been amended three times in the past half century to provide for and then expand the homestead exemption. A 1970 amendment approved by Ohio voters permitted the exemption, which started in 1971. Later amendments extended the exemption to permanently and totally disabled homeowners (1974), and then to the surviving spouses of homestead exemption recipients (1990).\textsuperscript{18} Clearly, this is an issue that matters to Ohioans.

The homestead exemption should help those who need it. There are a variety of ways that this can be accomplished, whether it means borrowing principles from other states or returning to another form of the Ohio program before 2007. Ideally, it would be structured so that it helped those paying an especially large share of their income on property tax. Short of that, one practical option would be to make the exemption available to all senior homeowners with income below $50,000 and property worth less than $150,000. That would allow nearly half of elderly homeowners to qualify, while focusing the benefits.

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\textsuperscript{15} Ohio Department of Taxation, Tax Data Series, Real Estate Taxes: Real Property Tax Relief: Ten Percent and Two and One Half Percent Rollbacks, and Homestead Exemption, by County, Distributed during Calendar Year 2012 (for Tax Year 2011), available at \url{www.tax.ohio.gov/tax_analysis/tax_data_series/publications_tds_property/PD1CY12.aspx}

\textsuperscript{16} Some other public services that could use additional support, from hiring teachers to firefighters, are outlined in a Policy Matters Ohio brief that discussed how savings from Medicaid expansion could be used. See \url{www.policymattersohio.org/404million-oct2013}. At some point, of course, current law that limits the exemption for those turning 65 will save the state considerably from the previous law. However, that amount was estimated at $9 million in FY2015 and $27 million in FY2016. Office of Management & Budget, Estimates of HB 59 Tax Reform Package.


\textsuperscript{18} Ohio Department of Taxation, 2012 Brief Summary of Ohio’s Taxes, pp. 99-100, available at \url{www.tax.ohio.gov/communications/publications/brief_summaries/2012_brief_summary.aspx}. 