Ohio needs a property-tax circuit breaker

Sharp rises in home assessment values are bringing property-tax relief to the forefront at the Statehouse in Columbus. While various bills may provide a partial answer to the property tax squeeze being felt by some Ohioans, there is a better solution. It’s one that has been embraced by states across the country: A property-tax circuit breaker. As the name implies, much like an electrical circuit breaker prevents electric current overloads, it would reduce the load if property taxes are too high a share of income.

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. In many places, the state's portion is capped at a fixed amount. Crucially, as with Ohio's existing homestead exemption, the state pays the cost, protecting schools, counties and other taxing entities. The best style of circuit breaker would cover any household, regardless of the age of the homeowner or renter, and cover renters, who pay for property tax through their rent.

Policy Matters Ohio will soon provide more details on what an Ohio circuit breaker could do, but here's a possible example:

It could cover those with income of $60,000 and below and provide up to $1,500 to each participant. Then, it could set three thresholds:

- For those with income of $20,000 and below, it would kick in once someone pays more than 2% of their income in property tax. For someone making $20,000, that is $400.
- For those between $20,001 and $40,000, it would trigger when such taxes exceed $400 plus 3% of the amount over $20,000. Thus, someone making $30,000 would be eligible after the first $700 in tax.
- For those with income between $40,001 and $60,000, the same principle would apply, adding 4% of the amount over $40,000. So, someone making $50,000 would be eligible if their tax was more than $1,400.

Under this example, a homeowner with income of $50,000 whose property tax was $3,000 would get the full $1,500 credit and end up paying a net $1,500 in property tax. One could set the share of rent that goes to property tax at 15%; this is in line with other
states that provide aid to renters through circuit breakers. Under this example, a renter with annual income of $30,000 paying rent of $800 a month would receive an income-tax refund or rebate for the year of $740 (($800 x 0.15 x 12) - $700).

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. Policymakers can adjust the parameters to ensure the credit reaches only and all people who need it. Because homeowners would pay their full property-tax bills up front and receive the credit as refunds or rebates afterward, Ohio would need to promote the program with targeted outreach; experience in other states has shown that not everyone who qualifies applies.

Ohio’s existing homestead exemption focuses largely on elderly homeowners, and it could be expanded. However, a circuit breaker can provide more 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 should be structured to help renters, who are also affected by rising property values. At the same time, there are long-time 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 like the example above. Another dozen states, including Pennsylvania, have similar income-based programs but ones that provide a flat dollar amount or a percentage of property tax. Such programs vary considerably, but they are offered in a wide variety of states, from Oklahoma to Vermont. Of the states that have these programs, 21 extend their program to at least some renters, while 13 make them available to non-seniors, according to a recent study by the Institute on Taxation and Economic Policy. Michigan, for instance, does both. Ohio can establish its own parameters.

The Ohio General Assembly should consider a circuit breaker, the most targeted form of property-tax relief. Beyond the legislature including a robust circuit breaker in its review of bills already introduced on property-tax relief, the newly formed Joint Committee on Property Tax Review and Reform should prioritize that in its deliberations. As noted above, Policy Matters will provide more detail on circuit breakers as discussion of the property tax continues.