



**LAWRENCE COUNTY  
TAX RATE EXPLANATION  
OCTOBER 5, 2017**

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# **ESTABLISHING THE TAX RATE**

## **Real Property Taxation: Establishing the Tax Rate**

- (1) Property Tax overview**
- (2) Property Tax Rates**
  - (a) Inside Millage**
    - 1. Establishing inside millage**
    - 2. Guarantees**
    - 3. Uniform Rule**
    - 4. Statutory Exceptions**
  - (b) Voted Millage**
  - (c) Levy types and terms**
- (3) Tax Reduction Factors – Basic Calculation**

## ESTABLISHING THE TAX RATE

$$(\text{Base} \times \text{Rate}) - \text{Credit} = \text{Tax}$$

# PROPERTY TAXATION OVERVIEW

Calculating property tax is relatively simple:

$$\begin{array}{rcl} \text{Property} & \text{X} & \text{Property} \\ \text{Value} & & \text{Tax Rate} \\ & & = \\ & & \text{Property} \\ & & \text{Tax Due} \end{array}$$

# PROPERTY TAXATION OVERVIEW

In Ohio, real property tax is calculated:

**(Property Value X Assessment Rate %) X (Tax Rate X Reduction Factors)**

**= Gross Tax – Tax Credits (pd by state) = Net Tax Due**

# CONSTITUTIONAL RESTRICTIONS

- **O. Const. Art. XII, Sec 2 imposes two primary limitations on real property taxation**
- **All real property must be taxed uniformly according to fair market value**
  - i.e., all real property must be treated equally and taxpayers must be charged the same rate for the same service
- **Taxes can exceed one percent of “true value” (fair market value) only by popular vote**



# CONSTITUTIONAL RESTRICTIONS

- **Statutory law is even more restrictive**
  - **Unvoted taxes cannot exceed 1% of taxable value**
  - **See RC 5705.02**
- **Article XII, Sec 2a of the Constitution allows real property to be “classified” or categorized for tax reduction factors as either residential/agricultural or other**

# PROPERTY TAX RATES

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➤ There are three different tax rates for each levy that is in effect:

1. The voted rate at which the levy was originally enacted.
2. The effective tax rate for Class 1 (Res/Ag) property, which is the rate calculated after application of Class 1 reduction factors
3. The effective tax rate for Class 2 (Other) property, which is the rate calculated after application of Class 2 reduction factors



# PROPERTY TAX RATES

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➤ There are two different ways tax levies can be implemented:

1. Unvoted millage (inside millage) is approved by the county budget commission, but cannot exceed 10 mills (a mill is 0.1 percent) for any taxpayer
  - a. Rates generally must be applied uniformly by purpose
  - b. Not subject to reduction factors
2. Voted millage (outside millage) is approved by popular vote
  - a. May be subject to reduction factors

# **INSIDE MILLAGE (IM)**

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➤ **Review:**

- Property tax rates are limited to one percent of true value unless approved by voters
- Statutory law further restricts the unvoted limit to 10 mills (1%) of assessed value

➤ **Creates the “10 mill limitation”**

➤ **These 10 mills are the inside mills which the taxing authorities must share.**

- Actual distribution of inside millage is subject to guaranteed minimums

## **VOTED (OUTSIDE) MILLAGE**

- **All levies in excess of the 10 mill limitation are outside levies and can only be enacted by popular vote**
- **There are several different allowable purposes for levies (both inside and outside)**
- **For voted levies, the purpose determines whether tax reduction factors apply**
- **Inside millage is not subject to reduction factors**

# LEVY TYPES AND PURPOSES

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➤ There are four main purposes for voted tax levies divided into two types:

## **Fixed-Rate Types:**

- Current Expense, for the general operations of a jurisdiction
- Special Purpose, which must be used for the specified purpose(i.e. **EMS**, Fire, etc.)

## **Fixed-Sum Types:**

- Emergency, for the general operations of a school district
- Bond, for site acquisition and building construction

# **VOTED (OUTSIDE) MILLAGE**

➤ **Fixed-Rate levies are subject to tax reduction factors**

**Provides revenue growth if additional property is added to the district**

➤ **Fixed-Sum levies are designed to raise specific dollar amounts and are not subject to reduction factors**

**As new property is added, the rate generally decreases**



# VOTED LEVY TYPES

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- **Additional levies are new. They result in an increase in tax.**
- **Renewal levies continue taxation at the same effective rate that is already being paid.**
- **Replacement levies sound like renewal levies, but provide additional revenue under reduction factor law. (They are essentially treated as additional levies).**

# VOTED LEVY TERMS

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- **Fixed-term levies usually last five years, but some specific purposes are allowed for up to 10 or 20 years.**
- **Continuing levies are permanent.**
- **Debt levies continue until debt is paid; typically 23 years.**

# TAX REDUCTION FACTORS

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- Purpose is to eliminate revenue growth that would otherwise result from appreciating real property values
- Tax rates have historically been limited in some fashion, but practice basing limits on the amount of revenue began in 1925
- House Bill 920 is the basis of the current system

# TAX REDUCTION FACTORS

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➤ **A constitutional amendment in 1980 created the classification system**

**-To target tax relief to the type of property experiencing the most rapid increase in value**

**-Constitutional amendment necessary to provide an exception to the uniform rule**

**-Under this system, the classes are:**

**\*Residential and Agricultural**

**\* All other types**

# COMMON MISCONCEPTIONS ABOUT REDUCTION FACTORS

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➤ Tax reduction factors are not designed to:

-Ensure every taxpayer within a jurisdiction pays the same taxes on a levy as in the year preceding reappraisal or triennial update

-Prevent taxing authorities from receiving additional revenue from new construction



# TAX REDUCTION FACTORS – SIMPLE EXAMPLE

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	Taxpayer 1	Taxpayer 2	Jurisdiction
Total Value Before Appraisal	\$40,000	\$40,000	\$50,000,000
Taxes Before Reappraisal (50 mill rate)	\$2,000	\$2,000	\$2,500,000
Taxable Value After Reappraisal	\$46,000	\$42,000	\$55,000,000
Taxes After Reappraisal (45.45 mill rate)	\$2,091	\$1,909	\$2,500,000

**Valuation in district increases 10%, but Taxpayer 1's value increases 15% and Taxpayer 2's value increases 5%**

**Assumes all 50 mills of tax are outside levies subject to reduction**

## **TAX REDUCTION FACTORS (TRF)**

- TRF's are calculated each year for every levy subject to reduction
- The calculation is based on the increase in the value of property that was taxed by the district in the same class in both the current and preceding year

-This is called carryover property

# BASIC TRF CALCULATION

	Authorized Rates (Mills)	2016 TRF	2016 Effective Rates (Mills)	2016 Taxes Charged	New 2017* TRF	New 2017 Effective Rates (Mills)	2017 Actual Taxes Charged	Revenue Increase From 2017
Tax Rates: ABC County								
Inside Current Expense	3.00		3.00	\$27,000.00		3.00	\$30,000.00	\$3,000.00
Voted 2015 Special Levy	3.00	0.1000	2.70	\$24,300.00	0.1900	2.43	\$24,300.00	\$0.00

Carryover Value Calculation - 2017: Res/Ag	
2016 Total Taxable Value	\$9,000,000
2017 Valuation Change	
New Construction	\$0
Reappraisal	\$1,000,000
2017 Total Taxable Value	\$10,000,000
2017 Carryover Value	\$10,000,000

# **DOES NEW CONSTRUCTION CAUSE REVENUE TO INCREASE?**

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- **Yes**
- **TRF does not change**
- **New revenue is equal to the value of new construction times the effective tax rate**
- **Also applies to any other non-reappraisal increase**
  - i.e., assessment of omitted property or the taxation of previously exempted property

# EFFECT OF NEW CONSTRUCTION ON REVENUES – FIRST YEAR

	Authorized Rates (Mills)	2016 TRF	2016 Effective Rates (Mills)	2016 Taxes Charged	New 2017* TRF	New 2017 Effective Rates (Mills)	2017 Actual Taxes Charged	Revenue Increase From 2017
Tax Rates: ABC County								
Inside Current Expense	3.00		3.00	\$27,000.00		3.00	\$30,000.00	\$3,000.00
Voted 2015 Special Levy	3.00	0.1000	2.70	\$24,300.00	0.1000	2.70	\$27,000.00	\$2,700.00

Carryover Value Calculation - 2017: Res/Ag	
2016 Total Taxable Value	\$9,000,000
2017 Valuation Change	
New Construction	\$1,000,000
Reappraisal	\$0
2017 Total Taxable Value	\$10,000,000
2017 Carryover Value	\$9,000,000



## **DO YOU LOSE THE NEW REVENUE FROM NC IN THE 2<sup>ND</sup> YEAR?**

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- **No**
- **TRF does not change**
- **New property created new revenue for the political subdivision in the first year**
- **The new revenue becomes part of the higher base revenue for succeeding years**

# EFFECT OF NEW CONSTRUCTION ON REVENUES – SECOND YEAR, NO VALUE CHANGE

	Authorized Rates (Mills)	2016 TRF	2016 Effective Rates (Mills)	2016 Taxes Charged	New 2017* TRF	New 2017 Effective Rates (Mills)	2017 Actual Taxes Charged	Revenue Increase From 2017
Tax Rates: ABC County								
Inside								
Current Expense	3.00		3.00	\$30,000.00		3.00	\$30,000.00	\$0.00
Voted 2015 Special Levy	3.00	0.1000	2.70	\$27,000.00	0.1000	2.70	\$27,000.00	\$0.00

Carryover Value Calculation - 2017: Res/Ag	
2016 Total Taxable Value	\$10,000,000
2017 Valuation Change	
New Construction	\$0
Reappraisal	\$0
2017 Total Taxable Value	\$10,000,000
2017 Carryover Value	\$10,000,000

# EFFECT OF NEW CONSTRUCTION ON REVENUES – SECOND YEAR, REAPPRAISAL CHANGE

	Authorized Rates (Mills)	2016 TRF	2016 Effective Rates (Mills)	2016 Taxes Charged	New 2017* TRF	New 2017 Effective Rates (Mills)	2017 Actual Taxes Charged	Revenue Increase From 2017
Tax Rates: ABC County								
Inside Current Expense	3.00		3.00	\$30,000.00		3.00	\$33,000.00	\$3,000.00
Voted 2015 Special Levy	3.00	0.1000	2.70	\$27,000.00	0.1834	2.45	\$27,000.00	\$0.00

Carryover Value Calculation - 2017: Res/Ag	
2016 Total Taxable Value	\$10,000,000
2017 Valuation Change	
New Construction	\$0
Reappraisal	\$1,000,000
2017 Total Taxable Value	\$11,000,000
2017 Carryover Value	\$11,000,000

## WHAT IF VALUE DECREASES DUE TO REAPPRAISAL?

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- Reduction factors will decrease to protect the revenue base on carryover property
- Exception: operation of the reduction factor cannot increase the effective tax rate above the rate authorized by the voters

# EFFECT OF REAPPRAISAL VALUE DECREASE ON REVENUES

	Authorized Rates (Mills)	2016 TRF	2016 Effective Rates (Mills)	2016 Taxes Charged	New 2017* TRF	New 2017 Effective Rates (Mills)	2017 Actual Taxes Charged	Revenue Increase From 2017
Tax Rates: ABC County								
Inside Current Expense	3.00		3.00	\$27,000.00		3.00	\$24,000.00	-\$3,000.00
Voted 2015 Special Levy	3.00	0.1000	2.70	\$24,300.00		3.00	\$24,000.00	-\$300.00

Carryover Value Calculation - 2017: Res/Ag	
2016 Total Taxable Value	\$9,000,000
2017 Valuation Change	
New Construction	\$0
Reappraisal	-\$1,000,000
2017 Total Taxable Value	\$8,000,000
2017 Carryover Value	\$8,000,000



## **ARE LEVIES SUBJECT TO TRF'S IN THE FIRST YEAR?**

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- **Levies are subject to reduction factors in the first year (ORC 319.301)**
- **Millage was based on most recent valuation available for the estimate (last year's value)**
- **Factor adjusts rate so current value produces same revenue as the value used in the estimate**

# NEW LEVY SUBJECT TO TRF IN FIRST YEAR – WITH APPRAISAL

	Authorized Rates (Mills)	2016 TRF	2016 Effective Rates (Mills)	2016 Taxes Charged	New 2017* TRF	New 2017 Effective Rates (Mills)	2017 Actual Taxes Charged	Revenue Increase From 2017
Tax Rates: ABC County								
Inside Current Expense	3.00		3.00	\$27,000.00		3.00	\$30,000.00	\$3,000.00
Voted 2018 Special Levy	3.00			\$0.00	0.1000	2.70	\$27,000.00	\$27,000.00

Carryover Value Calculation - 2017: Res/Ag	
2016 Total Taxable Value	\$9,000,000
2017 Valuation Change	
New Construction	\$0
Reappraisal	\$1,000,000
2017 Total Taxable Value	\$10,000,000
2017 Carryover Value	\$10,000,000

# **RESTRICTIONS ON TRF'S**

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- **The legislature may place floors on effective rates for any type of jurisdiction**
- **Floors must be placed uniformly within the jurisdiction type**
- **Two floors are currently in place:**
  - The 20 mill floor for school districts**
  - The 2 mill floor for JVS**
- **Floors are beneficial to taxing authorities because they freeze effective rates at the floor level**