

Publications

Ohio Reduces Property Tax on Utilities; Encourages Infrastructure Development

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Ohio Governor DeWine recently signed Substitute House Bill 15 (HB 15) which will become the law effective August 14, 2025. HB 15 contains many reforms related to public utilities including: (1) tax changes favorable to select public utilities; (2) tax changes that lower operating expenses that may encourage development of some kinds of utility infrastructure; and (3) tax changes that ultimately should inure to the benefit of Ohio utility service consumers (businesses and individuals). This alert focuses on those tax changes.

Ohio phased out its tangible personal property tax on general businesses nearly 20 years ago. For a variety of local budgetary and political reasons, public utilities received no relief and continue to pay the tax to this day. Some utilities pay high personal property tax because of high assessment percentages applied to property value. Other types of utilities pay less tax on the same value of property. For example, natural gas distribution utilities pay property tax at an assessment rate of 25% whereas pipeline transmission companies pay using an assessment rate of 88%. Similar disparities exist between tax assessment rates applied to electric power generation property compared to transmission and distribution property.

These tax assessment rates and the corresponding tax burdens may have been holding back development in Ohio. Public utility personal property taxes are a significant factor in determining whether a new power generation plant and distribution lines or a new natural gas pipeline can be installed while achieving the goal of a reasonable return on investment. Some rural areas and small-town counties without adequate utility infrastructure were being left behind as new manufacturers and industry sought areas with stable and plentiful sources of power and natural gas that were not always available in less populated areas. HB 15 may address some of these tax roadblocks to development.

Several types of utilities will receive a tax assessment rate reduction for property first placed into service after December 31, 2025 (i.e., first subject to tax in or after tax year 2027). Reductions for these new assets

will be:

- **Pipeline Companies** – Existing tangible personal property remains subject to 88% assessment rate; new assets will bear a 25% assessment rate.
- **Electric Companies** – Existing tangible personal property that qualifies as transmission or distribution assets will continue to be taxed at an assessment rate of 85% while new tangible personal property transmission and distribution assets will have a 25% assessment rate. The tax assessment rate for energy conversion equipment (solar and wind) drops from 85% for current assets to 7% for new assets. New electric generation property and repowered or converted existing generation property drops from a 24% rate to 7%.
- **Rural Electric Companies and Energy Companies** – These types of utilities receive benefits under HB 15 similar to those described above for Electric Companies.

HB 15 also carves out tax benefits for energy storage systems by treating them as production or generation property. Energy storage systems are defined as assets that permit the storage of energy for future use as electricity. New generation property (and thus new energy storage systems) will receive an assessment rate of 7%. Without this adjustment, the Ohio Department of Taxation would have treated energy storage systems as transmission and distribution property assessed at 25% under the new benefits of HB 15, or 85% for older assets.

In addition, HB 15 allows the Ohio Department of Development to designate brownfield or former coal mine sites as a priority investment area (PIA). Any public utility property within a PIA that transports natural gas or transmits electricity will be exempt from the public utility personal property tax for five years.

This abbreviated recap makes clear that HB 15 has the potential to encourage development of new natural gas transportation as well as electric power generation and distribution assets through lower property taxes. Given that Ohio property taxes often constitute the highest, or one of the highest, annual operating costs for utilities, lower tax assessment rates may incentivize new development of these types of assets. New utility infrastructure also can bring the prospect of new business, commercial development and jobs to areas outside large population centers. One downside to these reduced tax assessment rates is the current assets will not receive the same benefits as new assets. This disparity between tax assessment rates applied to new and current property could give rise to objections about business competitiveness.

Vorys has a robust state and local tax practice consisting of over 20 professionals (including those involved with identifying and securing economic development incentives) who work with our public utility regulatory, real estate and finance professionals to serve clients in scoping and reducing tax obligations and resolving land use, licensing and finance challenges.