Policy Matters Ohio

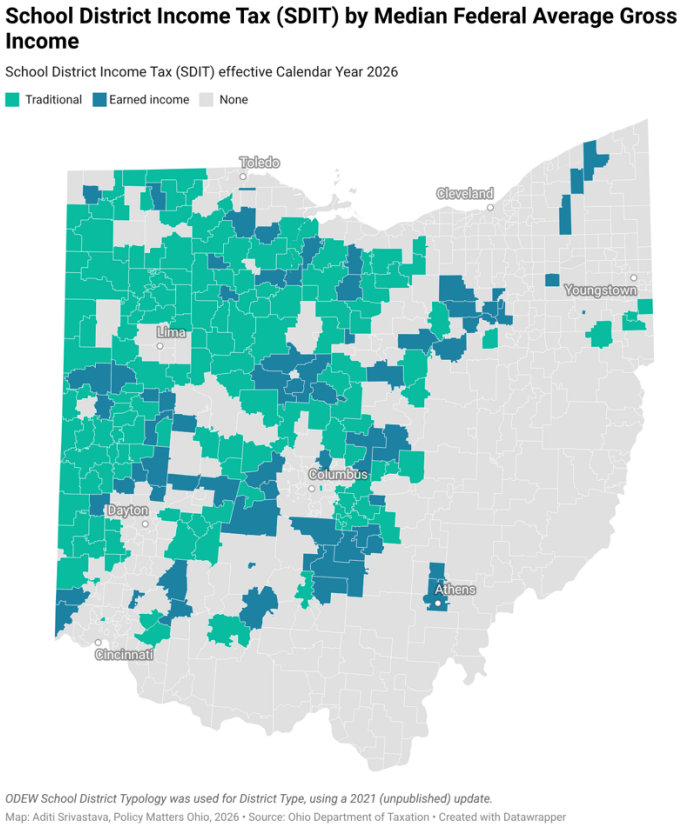
POLICY BRIEF

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School District Income Taxes are a limited tool for school funding

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Concerns about property taxes have brought greater interest in pursuing **school district income taxes** (SDITs) as an alternate source of revenue for public schools. While in some districts this can be a useful alternative to the property tax, by far the main source of local funding,[1] there are reasons to think twice about it as a significant revenue source.



Some 210 school districts, or about a third of all Ohio districts, currently levy an income tax. It is paid by residents of the district; if you work in a district but don't live there, you

don't pay. Voters must approve such taxes, and their flat rates range up to 2%. Most often, they fall between 1% and 1.5%.

Ohio districts that collect this tax are usually small, are heavily concentrated in western Ohio, and as of last year, fully 92% of them were rural or small-town districts.[2] See the map above for more detail. This revenue can be important for these districts: the Legislative Service Commission calculated that in Fiscal Year 2025, such income taxes accounted for 28% of their local operating revenue, or $2,489 per pupil.[3]

Districts can choose between two different tax bases for the tax: A traditional one, similar to what's used for Ohio's state income tax, or one that only includes earned income, like wages, tips and earnings from self-employment. The traditional base includes investment income, such as capital gains and dividends, as well as retirement income, while the earned income base does not. The traditional base also covers more of business income than the earned income base does.

About 70% of the Ohio districts with school income tax use the traditional base.

Investment income is heavily concentrated among Ohio's more affluent residents. This means that the earned income base relies more heavily on residents with lower incomes. Wider use of this kind of tax will further shift who's paying taxes to those who are less able to afford it. Ohio already has seen a long-term shift toward the most affluent 1% of tax filers paying less than half as much of their income in state and local taxes as those in the bottom 20%.[4]

Whichever tax base is used, school income taxes inherently hit poor residents harder than the state income tax. You don't have to pay that tax if your income is less than $26,050. The school tax, while it allows for personal exemptions and has a $50 credit for seniors, has no such exclusion.

At a time when concerns about property taxes are in the headlines, school district income taxes can appear to be more appealing than property tax, especially in agricultural communities. Seniors may find them attractive since school district income tax does not cover Social Security income, and the earned income base excludes retirement income.

Notably, school income taxes also depend on residents, not businesses, to pay. So, a move to greater dependence on such taxes would further reduce the share of school taxes paid by Ohio businesses. As it is, that share has declined significantly; though it has been more stable lately, since 1991, it has fallen from 52.5% to 32.1%.[5]

School district income taxes aren't covered by state limits that constrain most property taxes, which could appeal to some school districts because income-tax revenue grows over time. However, that doesn't matter much to the vast majority of districts using them, because their property tax rates are so low they aren't covered by that limitation, known as House Bill 920.

Recent experience does not indicate that voters necessarily show more enthusiasm for

school district income taxes than they do property taxes. Though voters approved 8 out of 9 school district income tax renewals last November, they rejected 11 out of the 18 new levies that were on the same ballot. In May, 32 districts put income taxes on the ballot, and just eight were approved, two of which were renewals.[6]

School district income taxes are not likely to be collected in high-poverty Ohio districts. As the map shows, they are rarely used in Appalachian Ohio. As of January 2026, none of the 36 poorest districts in the state had such taxes, and only two of the 50 poorest did, based on 2023 median federally adjusted gross income.[7]

For now, although they can be an important source of support for smaller districts, school district income taxes remain just a secondary source of revenue on a state-wide basis. While total property taxes charged for current school expenses (excluding joint vocational districts) amounted to $13.5 billion in Tax Year 2025, the state collected and distributed just $778 million in school district income tax in Fiscal 2026.

For some districts, the income tax may be a useful alternative for bolstering revenues. But overall, it's not the key answer to support for school funding.

Ohio needs to finally make good on increasing state support and reducing district reliance on the property tax for school funding, as the Supreme Court made clear was needed decades ago. To truly set our schools up for success, fully implementing the Fair School Finding Plan (a funding formula based on the actual costs of educating students) is essential.

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[1] Policy Matters Ohio. Property tax repeal would harm students in every school district. June 2026.

[2] ODEW School District Typology, explained here, was used for District Type, using a 2021 (unpublished) update.

[3] Legislative Budget Office of the Legislative Service Commission. School District Income Taxes. December 2025.

[4] Policy Matters Ohio. The Great Ohio Tax Shift, 2026. February 2026.

[5] Ohio Education Policy Institute. Update on Ohio Property Tax Reform. p. 14. May 2026.

[6] Ohio School Election Results. Unofficial results compiled by the Ohio School Boards Association and Support Ohio Schools.

[7] Ohio Department of Taxation. Updated School Districts. Effective January 1, 2026.
Ohio Department of Taxation. Ohio Tax Data Series: Historical State and Local Tax Statistics.