OHIO LEGISLATIVE SERVICE COMMISSION

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Fiscal Note & Local Impact Statement

Bill: H.B. 641 of the 132nd G.A. **Status:** As Introduced

Sponsor: Rep. Antani **Local Impact Statement Procedure Required:** Yes

Subject: Sales and use tax exemption for tangible personal property for qualified logistics companies

State & Local Fiscal Highlights

- The bill authorizes sales and use tax exemptions for sales of certain tangible personal property (TPP) to a qualified interstate logistics business.
- The bill would reduce by an undetermined amount state sales tax revenue and revenue from local county permissive and transit authority sales taxes, beginning in the second half of FY 2019. The size of the revenue decrease, which will be dependent on the number of qualified businesses and their TPP expenditures, could potentially be several millions of dollars annually.
- The state sales tax revenue loss would be shared by the state General Revenue Fund (GRF, 96.68%), the Local Government Fund (LGF, 1.66%) and the Public Library Fund (PLF, 1.66%). Funds deposited into the LGF and PLF are distributed to counties, municipalities, townships, and public libraries according to statutory formulas and decisions by county budget commissions.

Detailed Fiscal Analysis

The bill authorizes a sales and use tax exemption for sales of certain tangible personal property (TPP) to a qualifying interstate logistics business, which is defined as an entity operating in the transportation and warehousing sector that primarily engages in transporting TPP in the business's trucks to out-of-state destinations. Specifically, the exemption applies to (1) TPP used primarily for transporting manufactured products from the manufacturing facility to a place from which those products will be removed from that facility and (2) TPP used to power or charge that transportation equipment. The exemption applies beginning January 1, 2019. Current law exempts motor vehicles used primarily for transporting TPP belonging to others by a logistics business, or components or the repair of those vehicles.[1]

[1] Under motor vehicles primarily used in transporting personal property by a firm engaged in highway transportation for hire (R.C. 5739.02(B)(32)). The tax department estimated this exemption would reduce state sales tax receipts by $43.9 million in FY 2019.

The bill expands the existing exemption benefiting logistics companies to include other TPP, but describes in general terms which additional TPP would be exempt from the sales and use tax. Presumably, the newly exempted items would include forklifts and hand trucks; batteries, fuel cells, and power systems; pallets; conveyors; moving, separating, sorting, and picking equipment; warehousing management systems; and other items purchased by an eligible business. Ohio companies purchase several tens of millions of dollars of those types of equipment;[2] however, LSC has no data either on qualifying taxpayers or estimated total expenditures that would become sales tax-free. Thus, the revenue loss from the bill is uncertain, but could potentially be several millions of dollars per year, depending on the number of qualifying taxpayers and their level of capital expenditures for exempted TPP. Because the proposed exemption is specified to begin January 1, 2019, the bill would have no fiscal effect before FY 2019, and would reduce revenue in that year by about half of the eventual actual annual revenue loss.

Receipts from the state sales and use tax are deposited into the GRF. Under permanent law, the revenue loss would be shared by the GRF (96.68%), the Local Government Fund (LGF, 1.66%), and the Public Library Fund (PLF, 1.66%). However, in the current biennium as prescribed by H.B. 49 (the main operating budget act), the GRF would retain 96.66% of state sales and use tax revenue, and distributions to the LGF and PLF would be 1.66% and 1.68%, respectively.

The bill will also reduce revenue from local permissive county and transit authority sales taxes. Those local taxes share the same tax base as the state sales tax. Sales tax revenue to permissive county and transit authorities' governments is about 24.5% of state sales tax collections. The potential revenue loss for these local governments may also be millions of dollars annually.

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[2] For example, based on data from the Industrial Truck Association (the nationwide trade group of the material handling and logistics industry) and the U.S. Bureau of Economic Analysis, purchases of new forklifts in Ohio could be up to $90 million per year, though only a share of that amount may qualify for the sales tax exemption under the bill.