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H.B. 134
133rd General Assembly

Fiscal Note & Local Impact Statement

Click here for H.B. 134's Bill Analysis

Version: As Introduced

Primary Sponsors: Reps. Antani and Weinstein

Local Impact Statement Procedure Required: Yes

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Highlights

Fund	FY 2020	FY 2021	Future Years
State General Revenue Fund			
Revenues	Loss of up to $5.2 million	Loss of up to $5.4 million	Loss of up to $5.5 million per year
Local Government and Public Library funds (counties, municipalities, townships, and public libraries)			
Revenues	Loss of up to $0.2 million	Loss of up to $0.2 million	Loss of up to $0.2 million per year
Counties and transit authorities			
Revenues	Loss of up to $1.3 million	Loss of up to $1.4 million	Loss of up to $1.4 million per year

Note: The state or school district fiscal year runs from July 1 through June 30 and is designated by the calendar year in which it ends. For other local governments, the fiscal year is identical to the calendar year.

- Authorizing an annual three-day sales tax holiday for sales of Energy Star-labeled appliances and heating and cooling equipment will reduce state sales tax revenue and receipts from permissive county and transit authority sales taxes, beginning in FY 2020.
- 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 Analysis

The bill authorizes an annual three-day "sales tax holiday" for Energy Star-labeled appliances and heating and cooling equipment. The tax holiday, during which sales of the qualifying items are exempt from state, county, and transit authority sales and use taxes, begins on the first Friday, Saturday, and Sunday in March each year. To qualify for exemption, an item must carry the Energy Star label, which indicates that the item meets the energy efficiency criteria of the Energy Star Program administered by the U.S. Environmental Protection Agency and Department of Energy. Under the program, "appliances" include washers and dryers, refrigerators, freezers, dishwashers, air purifiers, and dehumidifiers. "Heating or cooling equipment" includes air conditioners, furnaces, boilers, heat pumps, ventilation fans, and ductless heating and cooling systems. The bill specifies that exempted products do not include any device that is rented, purchased for use in a trade or business, or purchased by a person who will install the device on behalf of the ultimate consumer.

The bill is estimated to reduce state revenue from the sales and use tax by up to $5.4 million in FY 2020 and $5.6 million in FY 2021. Under codified law, the GRF receives 96.68% of the revenue from the state sales and use tax, 1.66% of the receipts are transferred to the Local Government Fund (LGF, Fund 7069) and an identical share to the Public Library Fund (PLF, Fund 7065); funds in the LGF and PLF are for distribution to counties, municipalities, townships, and public libraries. Based on the potential loss above, sales tax revenue to the GRF would decline by up to $5.2 million in FY 2020 and $5.4 million in FY 2021, and distributions to the LGF and PLF would be reduced by a total of about $0.2 million each fiscal year. The bill will also reduce the tax base for permissive county and transit authority sales taxes. Those local permissive taxes share the state sales and use tax base. The potential revenue loss to local governments from local sales taxes, at approximately 24.5% of state sales tax revenues, would be up to $1.3 million in FY 2020 and up to $1.4 million in FY 2021.

The estimates are based on data primarily from the 2012 U.S. Economic Census for Ohio. Sales of major household appliances were estimated at $1.24 billion that year, with the potential value of qualifying items estimated at about $742 million. The share of appliances qualifying for the Energy Star rating varies greatly by type of products according to the U.S. Department of Energy (for example, 6% of units for water heaters to 91% of units for dishwashers, in 2017). This Fiscal Note assumes that energy-efficient appliances would average 60% of the total appliance sales. However, if the overall market share of energy-efficient appliances is lower than assumed, then the revenue loss would be lower. This Fiscal Note also utilizes U.S. Department of Energy shipment data to estimate the potential qualifying sales tax base for sales of central air conditioning units, furnaces, and water heaters that would be made exempt by the bill. Based on nationwide shipments of energy-efficient appliances and Ohio's population, qualifying annual Ohio sales were estimated at $120 million, $47 million, and $4 million, respectively for central air conditioning units, furnaces, and water heaters, so qualifying sales of those products were estimated to total about $171 million. Please note that this latter estimate is subject to considerable uncertainty.

Summing the estimates for both appliances and for heating and cooling equipment, annual sales of Energy Star-labeled products would have totaled $914 million or a monthly average of $76 million in 2012. The latter amount was inflated through 2017 based on data from the U.S. Bureau of Economic Analysis. From 2018 through 2022, price increases are assumed to be 2.5% per year, to obtain estimated average monthly qualifying sales of $94 million in 2020, the first year the bill would be in effect, $97 million in 2021, and $99 million in 2022.

Consumers may opt to shift their purchases by delaying or accelerating their purchases into the tax holiday period. The revenue loss estimates include temporal substitution effects of up to four weeks. Estimates of the revenue loss to the state multiply the monthly figures above by the 5.75% statewide sales tax rate. If these effects are larger than presumed, the revenue loss could be greater. Though most additional sales during the tax holiday weekend would be delayed or accelerated purchases to take advantage of the exemption, other economic factors are at play. They include price and income substitution effects, cross-border sales effects, and a shift of some sales from remote to store sales during the holiday weekend. The lack of precise empirical data regarding the magnitude of such factors makes this fiscal analysis more complex, though the bill would result in a fiscal loss of state and local government sales tax revenue.

Price and substitution effects

The temporary sales tax exemption would effectively decrease prices of the tax-exempt items by a percentage equal to the combined state and local sales tax rates. A share of those savings may result in added purchases. Also, lower prices enhance consumer "real" income or purchasing power. This additional income from the sales tax exemption is likely to be spent on both taxable and nontaxable items, and some additional tax revenues may be collected.

Cross-border sales

Two cross-border effects are likely to take place with this bill. It is probable that some Ohioans already purchase items exempted under the bill in other states and do not pay Ohio sales tax on those purchases. Such cross-border sales may remain in Ohio during the sales tax holiday. Also, Ohio stores may increase sales to residents of neighboring states. Therefore, cross-border effects may be present, although impossible to quantify based on available data. Thus, the total cross-border effect on tax revenue is positive, but uncertain.

Shift from remote sales to store sales

A number of consumers purchase appliances through mail order and the Internet, in part as a tax avoidance strategy. Therefore, the bill would reduce the appeal of such remote purchases, and thus transfer some of the remote sales to store sales in Ohio. This shift from remote to store sales would result in a positive, but uncertain, fiscal impact.

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