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OHIO LEGISLATIVE SERVICE COMMISSION

Office of Research and Drafting

Legislative Budget Office

H.B. 135
133rd General Assembly

Fiscal Note & Local Impact Statement

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Version: As Introduced

Primary Sponsor: Rep. Antani

Local Impact Statement Procedure Required: Yes

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Highlights

Fund	FY 2020	FY 2021	FY 2022
State General Revenue Fund			
Revenues	$0	Loss of up to $40.6 million	Loss of up to $41.9 million
Local Government and Public Library funds (counties, municipalities, townships, and public libraries)			
Revenues	$0	Loss of up to $1.4 million	Loss of up to $1.4 million
Counties and transit authorities			
Revenues	Loss of up to $10.3 million	Loss of up to $10.6 million	Loss of up to $10.9 million

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 computers costing less than $2,000 per item will reduce state sales tax revenue. This provision potentially reduces state sales and use tax revenues by an amount up to $37.4 million in FY 2021 and $38.6 million in FY 2022. These amounts were estimated starting with survey data on spending on computers and peripherals, a significantly broader category than the exemption in the bill, so the revenue loss from this provision of the bill would very likely be less than these amounts.
- Increasing the price limit for clothing and school supplies to $100 for items included in the existing three-day sales tax holiday will increase the revenue loss from the sales tax

holiday. This provision is estimated to reduce sales and use tax revenue by $4.6 million in FY 2021 and $4.7 million in FY 2022.

- Under codified law, 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.
- Permissive county and transit authority sales taxes share the state sales tax base, yielding estimated revenue losses up to $10.3 million in FY 2020 and $10.6 million in FY 2021.

Detailed Analysis

The bill increases the price limit in codified law for items included in the yearly three-day sales tax holiday in August: the price limit for an item of clothing would be $100, up from $75 and the price limit for an item of school supplies or school instructional material would increase to $100, up from $20. The limits in current law, which were enacted in S.B. 226 of the 132nd General Assembly, are estimated to reduce state sales tax revenue roughly $19 million each in FY 2020 and FY 2021 according to the tax department. The bill also expands the items in the sales tax holiday to include laptops, netbooks, and tablet computers costing up to $2,000.

The bill is estimated to reduce state revenue from the sales and use tax by up to $42.0 million in FY 2021 and up to $43.3 million in FY 2022. Under uncodified provisions of H.B. 166 (the current operating budget act), the GRF would receive 96.62% of the revenue from the state sales and use tax, 1.68% of the receipts are transferred to the Local Government Fund (LGF, Fund 7069), and 1.70% to the Public Library Fund (PLF, Fund 7065) during the current biennium;[1] 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 $40.6 million in FY 2021 and $41.9 million in FY 2022, and distributions to the LGF and PLF would be reduced by up to a total of $1.4 million in both FY 2021 and FY 2022. 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 counties and transit authorities from local sales taxes, at approximately 24.5% of state sales tax revenues, would be up to $10.3 million in FY 2020 (because the fiscal year is the calendar year for most counties) and $10.6 million in FY 2021.

Clothing and school supplies

LBO does not have data on expenditures on clothing, footwear, or school supplies costing between $75 and $100. For this fiscal note, LBO assumed that the share of the spending to be exempted would be 20% of personal consumption expenditures for the relevant items.

[1] Under codified law, the revenue loss would be shared by the GRF (96.68%), LGF (1.66%), and PLF (1.66%). These percentages will resume July 1, 2021 under current law.

Spending by Ohioans would be about $90 million in FY 2020. This amount was subsequently inflated at a growth rate of 3% per year to obtain a taxable base of about $93 million for FY 2021. Then, a downward adjustment of 15% was made for purchases for which use tax is not collected. At the state sales tax rate of 5.75%, the potential revenue loss from the expansion of the sales tax holiday would be about $4.6 million in FY 2021 and $4.7 million in FY 2022. Revenue losses would likely grow in future years.

The estimates are based on data from surveys from the National Retail Federation (NRF) on back-to-school and back-to-college shopping for August 2019, and also on personal consumption expenditures from the U.S. Bureau of Economic Analysis (BEA). Estimated Ohio spending was obtained by adjusting national data using an index of Midwest spending patterns (relative to national average spending) from the U.S. Bureau of Labor Statistics (Consumer Expenditure Survey for 2017). This fiscal note utilizes school enrollment data by age from the U.S. Census Bureau (American Community Survey, 2016) both for K-12 and college-age students; however, please note that the sale of tax-free items is not limited to households with school-age or college-age children. The revenue loss estimates include temporal substitution effects of up to three weeks.

Computers costing $2,000 or less

U.S. personal and business spending on computers and peripheral equipment was the basis for the revenue loss estimates below. These figures presumably included desktop computers, printers, monitors, and other peripheral equipment, at all price levels, so using these numbers for the estimate will very likely yield a larger revenue loss than would actually be experienced under the bill. Nationwide, businesses spent about $80 billion in calendar year (CY) 2013 (U.S. Census Bureau)[2] and individuals' purchases totaled $58 billion in CY 2017 (Bureau of Economic Analysis).[3] Those amounts were inflated at 3% per year for both business spending and individual purchases to project them to current levels. Ohio's purchases were assumed to be 3.5% of nationwide spending. Average monthly spending by individuals was estimated at $193 million in CY 2020 and $199 million in CY 2021. Both individual and business spending excludes purchases of software. Average monthly spending for business computers was estimated in CY 2020 and CY 2021, respectively. Assuming two months' worth of business spending would take place during the holiday, the base to be exempted during the holiday was calculated to be $573 million and $590 million, respectively for 2020 and 2021. The fiscal note assumes that all of the estimated monthly spending on computers for individuals would be sales tax-free. Combining individual and business spending, spending would total $766 million in FY 2021 and $789 million in FY 2022. A downward adjustment of 15% was made for purchases for which use tax is not collected. Thus, at the 5.75% state sales tax rate, the

[2] Capitalized and Noncapitalized Expenditures by Type of Equipment for Companies With Employees by Industry, https://www.census.gov/library/publications/2015/econ/2013-icts.html, accessed November 5, 2019.

[3] Table 2.4.5U. Personal Consumption Expenditures by Type of Product, https://apps.bea.gov/iTable/iTable.cfm?ReqID=19&step=2#reqid=19&step=2&isuri=1&1921=underlying, accessed November 5, 2019.

potential revenue loss from the tax-exempt computers would be up to $37.4 million in FY 2021 and $38.6 million in FY 2022.

Consumers may opt to shift their purchases by delaying or accelerating their purchases into the tax holiday period. 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

Any 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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