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S.B. 307
133rd General Assembly

Fiscal Note & Local Impact Statement

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Version: As Introduced

Primary Sponsor: Sen. Gavarone

Local Impact Statement Procedure Required: Yes

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Highlights

- The bill authorizes a temporary sales and use tax exemption for sales of personal protective equipment (PPE) through December 2020.
- The sales tax exemption is estimated to reduce GRF sales tax revenue by up to \$21.3 million in FY 2021. However, the actual revenue loss would be dependent on the bill's effective date. The bill declares an emergency, so the exemption would take effect immediately upon the bill's enactment and signing into law. This estimate assumes the fiscal note is signed into law by July 1, 2020.
- In FY 2021, the state sales tax revenue loss would be shared by the state General Revenue Fund (GRF, 96.62%), the Local Government Fund (LGF, 1.68%), and the Public Library Fund (PLF, 1.70%). As a result of the bill, GRF receipts may decline by up to \$20.6 million and distributions to the LGF and PLF would decline by a total of up to \$0.7 million. 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.
- The bill may also reduce revenue from local permissive county and transit authority sales taxes by up to \$5.2 million. Those permissive local taxes share the same tax base as the state sales and use tax.

Detailed Analysis

The bill authorizes a temporary sales and use tax exemption for sales of personal protective equipment (PPE). The exemption applies to sales made between the first month after the bill's effective date and December 31, 2020. Under the bill, "protective equipment" is defined as items for human wear designed to protect the wearer against injury or disease or to protect other people or property against damage or injury, but not suitable for general use.

Vendors would not be required to collect an exemption certificate from consumers with respect to sales of such equipment.¹ The bill declares an emergency, so the exemption would take effect immediately upon the bill's enactment and signing into law.

The market for PPE includes various segments of different sizes, including head, face, eye, hearing, clothing, footwear, respiratory, fall protection equipment, and others. The temporary sales tax exemption will reduce revenue from the state and permissive county and transit authority sales taxes. The reduction of state sales tax revenues might be up to \$21.3 million in FY 2021. The revenue loss would be shared by the state General Revenue Fund (GRF, 96.62%), the Local Government Fund (LGF, 1.68%), and the Public Library Fund (PLF, 1.70%).² Thus, the GRF loss would be up to \$20.6 million and the reduction to the LGF/PLF would total \$0.7 million.

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. At about 24.5% of state sales tax collections, the revenue reduction to permissive county and transit authorities' governments would total up to \$5.2 million.

These estimates are primarily based on estimates from [Statista.com](https://www.statista.com), which estimated a U.S. PPE market totaling \$12.4 billion in 2020. However, this forecast was made before the COVID-19 pandemic and has not been updated, and probably does not accurately reflect recent market conditions. Therefore, as individuals, governments, and businesses procure PPE for themselves and workers due to the pandemic, LBO made upward adjustments to estimated purchases across various PPE segments, most notably clothing, respiratory, head, eye, and face protection equipment. Those adjustments increased the demand for PPE to an estimated \$50 billion for 2020. An unknown amount of PPE is purchased by governments and nonprofit entities and those purchases do not yield sales and use taxes. Thus, a downward adjustment of 50% to the previous estimate was made to arrive at a U.S. taxable base of \$25 billion. Of that total, Ohio taxable base was estimated at about \$0.89 billion, based on its share of the U.S. population. At a state sales and use tax rate of 5.75%, the potential revenue loss from the bill would be up to \$51.2 million for 2020 if the tax exemption had been in effect all year. Assuming the bill is effective July 1, 2020, the potential revenue loss would be up to \$21.3 million in FY 2021.

Please note that the estimates in this fiscal note are necessarily rough due to market distortions created by the current pandemic, and it is also possible that the peak demand for taxable PPE would have been reached before the bill goes into effect. Thus, actual losses from the bill may be higher or lower than estimated in this fiscal note.

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¹ Normally, most tax-exempt sales require the purchaser to give an exemption certificate to the seller to document the basis of the exemption.

² FY 2021 shares are based on H.B. 166 (the operating budget act). Under codified law, the revenue loss would be shared by the GRF (96.68%), the LGF (1.66%), and the PLF (1.66%).