



OHIO LEGISLATIVE SERVICE COMMISSION

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Fiscal Note & Local Impact Statement

Bill: H.B. 116 of the 132nd G.A.

Status: As Introduced

Sponsor: Rep. Merrin

Local Impact Statement Procedure Required: Yes

Subject: Sales tax exemption for prescription eyewear and optical goods

State & Local Fiscal Highlights

STATE FUND	FY 2018	FY 2019	FUTURE YEARS
General Revenue Fund			
Revenues	Loss of \$18.5 million	Loss of \$21.3 million	Annual loss of \$22.4 million
Local Government and Public Library Funds (counties, municipalities, townships, and public libraries)			
Revenues	Loss of \$0.7 million	Loss of \$0.7 million	Annual loss of \$0.8 million
Counties and transit authorities			
Revenues	Loss of \$2.8 million	Loss of \$5.7 million	Annual loss of \$6.0 million

Note: The state fiscal year is July 1 through June 30. For example, FY 2018 is July 1, 2017 – June 30, 2018.

- Exempting sales of prescription eyewear and other optical goods reduces the sales and use tax base, and thus decreases state sales tax revenue and revenue from local county permissive and transit authority sales taxes.
- 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 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 exempts from the sales and use tax sales of eyeglasses and optical aids by a vendor licensed under Chapter 4725. or Chapter 4731. of the Revised Code or any person authorized to sell them. The bill defines optical aids as eyeglasses, contact lenses, and other instruments or devices that may aid or correct human vision and have been prescribed by a physician or optometrist licensed by any state, country, or province. The bill also specifies that eyeglasses include lenses and frames into which lenses have been installed if the lenses have been prescribed.

The bill would reduce state sales and use tax revenue by about \$19.1 million in FY 2018 and \$22.0 million in FY 2019. Receipts from the state sales and use tax are deposited into the GRF. Under permanent law, a portion of GRF tax receipts is subsequently transferred to the LGF and the PLF, with each local fund receiving 1.66% of GRF tax revenue. Thus, the GRF revenue loss from the bill is estimated at \$18.5 million and \$21.3 million, respectively in FY 2018 and FY 2019; and the LGF and PLF losses would total up to \$0.7 million in each of FY 2018 and FY 2019. The revenue loss is likely to grow in future years, depending on growth in spending for items exempted by the bill. These estimates assume the bill takes effect July 1, 2017.

Local permissive county and transit authority sales taxes share the same tax base as the state sales tax. Thus, the bill would also reduce permissive county and transit authority sales tax revenue. Revenue losses to those local governments are estimated at \$4.7 million and \$5.4 million, respectively, in state FY 2018 and FY 2019.

Underlying data for these estimates are retail sales of prescription glasses and lenses at optical goods stores (product codes 20491 and 20492) in the 2012 Economic Census for Ohio, totaling approximately \$279 million. Assuming prescriptions provided by physicians and optometrists would also be filled at other types of retail establishments by persons authorized to sell them, Ohio retail sales in 2012¹ would have been about \$341 million. The latter amount was inflated based on growth in sales of therapeutic appliances and equipment as predicted by IHS Economics, a private economic forecasting firm, in its December 2016 forecast of consumer spending for health care. Sales that would be made exempt by the bill were estimated at about \$363 million in FY 2018,² \$382 million in FY 2019, and \$402 million in FY 2020. The state sales and use tax rate is 5.75% of taxable sales.

Please note that the revenue loss estimates above assume sales of nonprescription eyewear and all other nonprescription optical goods and accessories that do not correct human vision, including those sold by physicians, optometrists, or other persons authorized to dispense optical aids, will be taxed as in current law. If not, the potential revenue loss from the bill would be understated. Also, consumers buy the exempted items through remote purchases (primarily on the Internet). The level of compliance with the use tax for remote sales is assumed to be low and little use tax is collected. Thus, for a large portion of remote sales, the tax exemption in the bill is unlikely to result in a revenue loss.

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¹ 2012 U.S. Census Subject Series – Product Lines: Product Lines Statistics by Industry for the U.S. and States.

² An effective date of July 1, 2017 would have a revenue impact starting in August 2017.