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OHIO LEGISLATIVE SERVICE COMMISSION

Office of Research
and Drafting

Legislative Budget
Office

H.B. 513
134th General Assembly

Fiscal Note & Local Impact Statement

[Click here for H.B. 513's Bill Analysis](#)

Version: As Introduced

Primary Sponsors: Reps. Cross and Roemer

Local Impact Statement Procedure Required: No

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Highlights

- Allowing a wholesaler to obtain a refund of excise taxes on cigarettes and other tobacco products (OTP) remitted on bad debts would reduce revenue to the GRF by an uncertain amount, likely hundreds of thousands of dollars annually, and varying considerably from year to year. The revenue losses will lower amounts distributed to counties, municipalities, and townships through the Local Government Fund (LGF, Fund 7069), and to public libraries through the Public Library Fund (PLF, Fund 7065).
- The bill also potentially reduces revenue from Cuyahoga County's excise tax on cigarettes.

Detailed Analysis

Excise taxes on cigarettes and other tobacco products are generally paid by wholesalers and passed through to retailers of those products (in whole or in part, via an increase in price). Payments by retailers could be in cash, but generally those transactions are made on credit, resulting in the creation of account receivables (i.e., the balance of money due for goods delivered) on the wholesaler's balance sheet.

The bill allows a wholesaler to obtain a refund of excise taxes remitted on certain business bad debts. The wholesaler would apply to the Tax Commissioner for a refund if the debt owed has become worthless, charged off as uncollectable on the wholesaler's books, and deducted in calculating the wholesaler's federal income tax liability.¹ In addition, the bill establishes a

¹ "Bad debt," as defined by the bill, excludes any interest on the bad debt and any expenses incurred in attempting to collect the debt. Also, a request for refund must be made within three years of the date the bad debt became uncollectable.

preferred claim by a wholesaler against a purchaser's assets for outstanding tax debts from the sale of cigarettes, OTP, or vapor products when the purchaser's assets are seized or business suspended by actions of creditors.

FY 2021 revenue from the cigarette and OTP taxes totaled \$926.9 million, including \$826.0 million from the sale of cigarettes and \$100.9 million from the sale of OTP. The bill will reduce revenue from this GRF source, likely by hundreds of thousands of dollars annually.² The revenue decline would be variable and dependent on both the amount of uncollectible bad debts incurred by wholesalers and the amount of refunds requested from the Tax Commissioner. LBO cannot rule out that the fiscal loss could exceed \$1 million in certain years, depending on financial difficulties or bankruptcies of retailers that sell tobacco products.

Receipts from the excise taxes on cigarettes, OTP, and vapor products are deposited in the GRF. Reductions in revenue to the GRF as a result of the bill would lower amounts distributed to counties, municipalities, and townships through the Local Government Fund (LGF, Fund 7069), and to public libraries through the Public Library Fund (PLF, Fund 7065). In the current biennium, the PLF receives 1.70% of GRF tax revenue under an uncodified provision of H.B. 110 of the 134th General Assembly (the main operating budget act). In codified law, the LGF and the PLF each receive 1.66% of GRF tax revenue, so the GRF would bear the bulk of the revenue loss from the bill.

Under continuing law, Cuyahoga County is the only Ohio county authorized to levy an excise tax on cigarettes, and the bill's refund provision would also apply to this local tax. The revenue loss would be dependent on purchases by retailers within the county at the origin of qualified bad debts of wholesalers. In FY 2021, the yield of the local excise tax on cigarettes was \$14.7 million.

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² LBO has not found data on business bad debt deductions of Ohio tobacco dealers. This fiscal assessment is based on business bad debt deductions in federal corporate income tax returns, and communications with Department of Revenue officials in states that allow refunds for business bad debt deductions for tobacco dealers.