Ohio Legislative Service Commission

Jean J. Botomogno

Fiscal Note & Local Impact Statement

Bill: H.B. 343 of the 131st G.A.

Date: November 5, 2015

Status: As Introduced

Sponsor: Reps. Romanchuk and Young

Local Impact Statement Procedure Required: Yes

Contents: To exempt sales of employment services and employment placement services from the sales and use tax

State Fiscal Highlights

STATE FUND	FY 2016	FY 2017	FUTURE YEARS
General Revenue Fund			
Revenues	Potential revenue loss of several millions	Loss of $131 million	Loss of $132 million
Expenditures	- 0 -	- 0 -	- 0 -

Note: The state fiscal year is July 1 through June 30. For example, FY 2016 is July 1, 2015 – June 30, 2016.

- The bill reduces the sales and use tax base, and thus decreases sales and use tax revenue. The revenue loss in FY 2016 would depend on the effective date of the bill.
- State sales and use tax receipts are deposited in the GRF which would bear the majority of the revenue loss. Any reduction to GRF tax receipts would also reduce the amount distributed to the Local Government Fund (LGF) and Public Library Fund (PLF) as these local funds receive distributions from GRF tax receipts.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2016	FY 2017	FUTURE YEARS
Counties, municipalities, townships, and public libraries (LGF and PLF)			
Revenues	Potential loss	Loss of $4.6 million	Loss of $4.6 million
Expenditures	- 0 -	- 0 -	- 0 -
Counties and Transit Authorities			
Revenues	Potential loss	Loss of $33 million	Loss of $34 million
Expenditures	- 0 -	- 0 -	- 0 -

Note: For most local governments, the fiscal year is the calendar year. The school district fiscal year is July 1 through June 30.

- The bill reduces revenue from local county permissive and transit authority sales taxes. Those taxes share the same base as the state sales and use tax.

- Receipts from the state sales and use tax are deposited in the GRF. A share of GRF tax revenues is distributed under permanent law to the LGF and PLF. Thus, any reduction to GRF tax receipts would also reduce the amount distributed to the LGF and PLF.

Detailed Fiscal Analysis

Under current law, the sale or use of services is generally not taxable unless expressly made subject to the sales tax; and employment services and employment placement services have been explicitly subject to the tax since 1993. Employment services are transactions in which a service provider furnishes personnel to perform work under the supervision or control of the purchaser. The personnel may be assigned to the purchaser for a short period of time or on a long-term basis, and are paid by the service provider or a third party that supplies the personnel to the service provider. Generally, if employment services are supplied by a third party to a service provider, and then by the service provider to a purchaser, only the transaction between the service provider and the purchaser is taxable. H.B. 343 would exempt all taxable employment and employment placement services.

Sales taxes on employment services are generally remitted by businesses with North American Industry Classification System (NAICS) codes starting with 5613. These would include employment placement agencies (NAICS 561311), executive search services firms (NAICS 561312), temporary help services firms (NAICS 561320), and professional employer organization firms (NAICS 561330). Total state sales tax revenue paid by those firms was $132 million in FY 2014 according to data from the Department of Taxation. Separately, data from the U.S. Census Bureau suggest that nationwide revenue grew on average 1% per year between 2005 and 2012. Assuming a similar growth rate for firms in that industry in Ohio, the potential revenue from the sales and use tax on employment services might be about $135 million in FY 2016. Assuming the sales and use tax exemption was effective January 1, 2016, the fiscal loss from H.B. 343 would likely be approximately half that amount, or about $67 million. Beginning with FY 2017, the estimated revenue loss would be about $136 million, and may increase in future years.

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 Local Government Fund (LGF) and the Public Library Fund (PLF). Under a temporary provision of H.B. 64, the budget act for the current biennium, the GRF would receive 96.64% of tax revenue, and the LGF and the PLF 1.66% and 1.70%,[1] respectively. Thus,

---

[1] Under permanent law, the PLF share is identical to that of the LGF at 1.66%.

the GRF loss would be about $131 million in FY 2017. Reduced distributions to the LGF and PLF would be about $2.3 million each.

Local county permissive and transit authority sales taxes share the same tax base as the state sales tax, and are approximately 24.5% of state sales tax revenues. Thus, the revenue loss to local governments from permissive and transit authority sales and use taxes from H.B. 343 would be about $33 million.

HB0343IN.docx/th