Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: S.B. 172 of the 131st G.A.

Date: May 25, 2016

Status: As Reported by House Ways and Means

Sponsor: Sen. Jordan

Local Impact Statement Procedure Required: Yes

Contents: To exempt sales of investment bullion and coins from the sales and use tax; to modify real property tax exemption of fraternal organizations; and to clarify municipal income tax withholding remittances.

State Fiscal Highlights

STATE FUND	FY 2016	FY 2017	FUTURE YEARS
General Revenue Fund			
Revenues	Potential loss	Loss of up to $5.5 million	Loss of up to $5.5 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 tax revenue. The actual revenue loss would be dependent on prices and purchases of investment metal bullion and coins.
- State sales 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	Loss of up to $0.2 million	Loss of up to $0.2 million	Loss of up to $0.2 million
Expenditures	- 0 -	- 0 -	- 0 -
Counties and Transit Authorities			
Revenues	Loss of up to $1.4 million from reduced local sales taxes	Loss of up to $1.4 million from reduced local sales taxes	Loss of up to $1.4 million from reduced local sales taxes
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 permissive local county and transit authority sales taxes. Those taxes share the same base as the state sales and use tax.
- Receipts from the state sales 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.
- The bill clarifies certain requirements in current law for municipal income tax withholding remittances in sec. 718.03 of the Revised Code. This provision has no fiscal effect.
- Changes to exemption from real property taxation of property of fraternal organizations in the bill may make this tax exemption available on more parcels. This expansion might increase the fiscal cost (relative to current law) to political subdivisions.

Detailed Fiscal Analysis

Sales tax exemption for investment metal bullion and coins

S.B. 172 exempts sales of investment metal bullion and investment coins from the sales and use tax. Those sales were made exempt by H.B. 111 of the 118th General Assembly on July 1, 1989. Subsequently, H.B. 66 of the 126th General Assembly reinstated the sales and use tax on these items on July 1, 2005. Thus, S.B. 172 would return the taxation of investment metal bullion and coins to Ohio law prior to H.B. 66.The bill defines investment metal bullion as any bullion described in section 408(m)(3)(B) of the Internal Revenue Code, regardless of whether that bullion is in the physical possession of a trustee; and investment coin as any coin composed primarily of gold, silver, platinum, or palladium. The amendment specifies the sales tax exemption applies the first day of January, April, July, or October that begins at least 60 days after the effective date of the bill.

Using data from the Economic Census, nationwide sales of coins, medals, and other numismatic items at jewelry stores, art stores, used merchandise stores, and miscellaneous store retailers were about $3.36 billion in 2012.[1, 2] Assuming Ohio sales at

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[1] The U.S. Census Bureau has not yet released detailed state data on retail sales of coins and numismatic items for the 2012 Economic Census. The U.S. Census estimated sales of numismatic items in Ohio were about 3.4% of nationwide sales in 2007. To the extent the sales shares attributable to Ohio in the latest survey would differ markedly from that of the 2007 Economic Census, it is possible that the fiscal impact of the bill would be different than the estimates in this Fiscal Note. An official at the Census Bureau stated that state level product line data are scheduled to be released starting in January 2016.

[2] The Professional Numismatists Guild estimated the annual U.S. coin business at $5 billion in 2014, excluding bullion items or modern coin sold directly by the United States Mint. http://www.coinworld.com/news/u-s-coin-market-near-5-billion-dollars-in-2014.html.

between 3% and 4% of nationwide sales, taxable sales in Ohio may have been between $101 million and $135 million that year. Like most commodities, the prices of precious metal bullion and coins depend on supply and demand of each metal, monetary conditions, inflation levels, or the expectation of future inflation and, as a result, prices could be very volatile. The taxable base (and consequently tax receipts) for sales of investment metal bullion and coins will rise and fall with those conditions. Prices of various metals, particularly gold and silver, have varied over the years.[3] Price data from various sources suggest most prices have fallen since 2012, and, based on most recent prices, annual Ohio taxable sales may be between $74 million and $99 million. Associated tax revenue from the state sales and use tax on those sales would be between $4.3 million and $5.7 million. Accordingly, the yearly revenue loss from the bill may be within the same range, based on recent precious metal prices.

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). For the current biennium, the LGF and the PLF are receiving 1.66% and 1.70% of GRF tax revenue, respectively. Thus, the potential revenue loss to those local funds would total about $0.2 million, and the potential revenue loss to the GRF would be up to $5.5 million per year.

Permissive local county 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 annual revenue loss to local governments from county and transit authority sales and use taxes would be between $1.0 million and $1.4 million.

Any price increase from current levels in the precious metal markets would likely increase revenue losses to the state and local governments. Alternatively, any price declines would reduce estimated revenue losses. Also, an unknown share of sales of investment bullion and investment coins occur through remote sales (catalogs, telephone, and Internet sales), and that share may be growing. A portion of those remote purchases likely escape sales and use taxes already. For such sales, the bill would not result in a revenue loss. For this reason, it is possible the Fiscal Note may overstate the potential revenue loss from the bill.

Municipal income tax withholding remittances

The bill clarifies certain requirements in current law for municipal income tax withholding remittances in sec. 718.03 of the Revised Code. For employers withholding more than $2,399 in a preceding calendar year, income tax payments must be made to the tax administrator of municipalities no later than 15 days after the last day of each month, instead of so as to be received by the tax administrator no later than 15 days after the last day of each month. For employers remitting quarterly, income tax payments shall be made no later than the last day of the month following the last day of

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[3] For example, gold prices tripled between 2005 and 2012, but then have decreased about 25% since that year. Silver prices tripled between 2006 and 2011, and have fallen almost 50% from that peak.

each calendar quarter, instead of the 15th day of that month. The amendment specifies that payments shall be considered to be made on the date of the timestamp assigned by the first electronic system receiving that payment. This provision has no fiscal effect.

Real property taxation of fraternal organizations

The bill amends division (D) of Revised Code section 5709.17, changing language that exempts from property taxation real property of a fraternal organization "that has been operating in this state with a state governing body for at least eighty-five years" and that meets other criteria unchanged in current law. Instead, the exemption would be for real property of a fraternal organization "that operates under a state governing body that has been operating in this state for at least eighty-five years."

When division (D) was added to Revised Code section 5709.17 by H.B. 59 of the 130th General Assembly, it specified that the fraternal organization needed to have been operating in Ohio for at least 100 years to qualify for the exemption. LSC estimated the cost to political subdivisions at $4.8 million per year but cautioned that the estimate was based on old information and could substantially understate the current cost. The 100-year requirement was changed to 85 years by H.B. 483 of the 130th General Assembly, and LSC estimated this change to cost political subdivisions very roughly $1 million per year. H.B. 64 of the 131st General Assembly broadened the uses of the property that would qualify for tax-exempt status. LSC noted that the change might increase the real property tax revenue loss to school districts and other units of local government but did not quantify any additional loss. With the passage of time and increases in property values and effective tax rates, amounts of tax revenue losses would tend to rise. The changes to division (D) of Revised Code section 5709.17 made by the bill may make this tax exemption available on more parcels. If so, this expansion might increase the fiscal cost (relative to current law) to political subdivisions.

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