Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

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

Date: May 31, 2016

Status: As Reported by House Economic and Workforce Development

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 beginning July 1, 2017

State Fiscal Highlights

STATE FUND	FY 2017	FY 2018	FUTURE YEARS
General Revenue Fund			
Revenues	- 0 -	Loss of $164 million	Loss of $169 million in FY 2019. Losses are likely to grow in ensuing years
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 starting in FY 2018.
- 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	- 0 -	Potential loss	Loss of $5.6 million in FY 2018. Losses are likely to grow in ensuing years
Expenditures	- 0 -	- 0 -	- 0 -
Counties and Transit Authorities			
Revenues	- 0 -	Potential loss	Loss of $41.5 million in FY 2018. Losses are likely to grow in ensuing years
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 permissive county 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 beginning July 1, 2017, thus affecting sales tax revenue starting in FY 2018.

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). Additionally, certain users of employment services and employment placement services pay use taxes directly to the state. Roughly $155 million was collected from the state sales and use tax on employment and employment placement services in FY 2015, according to the Department of Taxation.

Separately, data from the U.S. Census Bureau suggest revenue from establishments in the administrative and support services industries (NAICS 561) which declined during the last economic recession grew about 6% per year, on average, in the most recent years.[1] Assuming a revenue growth rate of 3% for firms in the employment and employment placement services in Ohio, the potential revenue from the sales and use tax on employment services might be about $169 million in FY 2018 and $174

[1] Nationwide, revenue growth at businesses in the Administrative and Support Services sector (NAICS 561), which includes firms relevant to the bill, was about 6% per year between 2011 and 2014, according to the 2014 Service Annual Survey and administrative data from the Economic Census.

million in FY 2019, and possibly higher depending on the growth of the industry. The amounts above would also correspond to the potential revenue loss from H.B. 343, which is likely to increase in future years, though the magnitude of the increases would depend on the business cycle.[2]

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 permanent law, the GRF would receive 96.68% of sales tax revenue, and the LGF and the PLF 1.66% each.[3] Thus, the GRF loss would be about $164 million in FY 2018. Reduced distributions to the LGF and PLF would be about $2.8 million for each local government fund. In FY 2019, estimated revenue losses from the bill would be about $169 million to the GRF, and $2.9 million each for the LGF and the PLF.

Local permissive 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 revenue loss to local governments from permissive county and transit authority sales and use taxes from H.B. 343 would be about $41.5 million in FY 2018 and $42.7 million in FY 2019. Adding those amounts to the potential revenue losses to the LGF and the PLF, revenue reductions to local governments would total $47.1 million in FY 2018 and $48.5 million in FY 2019, and are likely to grow in future years.

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[2] Though a small share of nonfarm payroll employment (2.1% in 2014), the temporary help industry plays an outsized role in workforce adjustment during recessions and recoveries. Generally, during recessions, companies increase their use of temporary help, lengthen existing temporary help assignments, or reduce hiring from their pool of temporary workers in response to economic uncertainty. The reverse tends to occur in periods of economic recovery.

[3] Under temporary provision in H.B. 64, the budget act for the current biennium, the PLF share would be 1.70%, instead of 1.66%.