OHIO LEGISLATIVE SERVICE COMMISSION

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Fiscal Note & Local Impact Statement

Bill: S.B. 9 of the 132nd G.A.

Status: As Enacted

Sponsor: Sen. Bacon

Local Impact Statement Procedure Required: Yes

Subject: Sales tax holiday

State & Local Fiscal Highlights

STATE FUND	FY 2017	FY 2018	FUTURE YEARS
General Revenue Fund			
Revenues	-0-	Loss of $14.7 million	-0-
Local Government and Public Library Fund (counties, municipalities, townships, and public libraries)			
Revenues	-0-	Loss of $0.5 million	-0-
Counties and transit authorities			
Revenues	-0-	Loss of $3.7 million	-0-

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

- The bill creates a three-day sales tax holiday, starting with the first Friday in August 2017 and exempts sales of clothing (up to $75), and school supplies and school instructional materials (up to $20).
- The bill reduces the sales and use tax base, and thus decreases state sales tax revenue and revenue from local permissive county 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

S.B. 9 exempts from the sales tax sales occurring on August 4, 5, and 6 in 2017 of the following items: clothing (up to $75), school supplies (up to $20 per item), and school instructional materials (up to $20 per item). A similar sales tax holiday was held in 2015 (S.B. 243 of 130th General Assembly) and 2016 (S.B. 264 of 131st General Assembly). The bill includes an emergency clause, thus would go into immediate effect.

The bill is estimated to reduce state revenue from the sales and use tax by up to $15.2 million in FY 2018. The GRF would receive 96.68% of the revenue from the state sales and use tax, while 1.66% of the receipts are transferred to the Local Government Fund (LGF, Fund 7069) and an identical share to the Public Library Fund (PLF, Fund 7065); funds in the LGF and PLF are for distribution to counties, municipalities, townships, and public libraries. Thus, sales tax revenue to the GRF would decline by up to $14.7 million in FY 2018, and distributions to the LGF and PLF would be reduced by a total of about $0.5 million.

The bill will also reduce the tax base for permissive county and transit authority sales taxes. Those local permissive taxes share the state sales and use tax base. The potential revenue loss to local governments from local sales taxes, at approximately 24.5% of state sales tax revenues, would be up to $3.7 million. Thus, total revenue reductions for local governments, including reduced LGF and PLF distributions, may be up to $4.2 million.

The estimates are based on data primarily from surveys from the National Retail Federation (NRF) on back-to-school and back-to-college shopping, and also on personal consumption expenditures from the U.S. Bureau of Economic Analysis. Estimated Ohio spending was obtained by adjusting national data using an index of Midwest spending patterns (relative to national average spending) from the U.S. Bureau of Labor Statistics (Consumer Expenditure Survey for 2015). This Fiscal Note utilizes school enrollment data by age from the U.S. Census Bureau (American Community Survey) both for K-12 and college-age students; however, please note that the sale of tax-free items is not limited to households with school-age or college-age children.

Consumers may opt to shift their purchases by delaying or accelerating their purchases into the tax holiday period. The estimates include temporal substitution effects of up to two weeks (based on previous NRF surveys on the timing of back-to-school purchases). If the temporal substitution is less, then the revenue loss from the bill would be less than estimated. If these effects are larger than presumed, the revenue loss could be greater. However, LSC expects most of these potential effects to fall within the holiday month.

As noted above, most additional sales during the tax holiday weekend will be delayed or accelerated purchases to take advantage of the exemption. However, other economic factors are at play. They include price and income substitution effects, cross border sales effects, and a shift of some sales from remote to store sales during the holiday weekend. The lack of precise empirical data regarding the magnitude of such factors makes this fiscal analysis more complex, and revenue loss estimates may be somewhat overstated, though the bill would result in a fiscal loss of state and local government sales tax revenue.

Price and substitution effects

The temporary sales tax exemption would effectively decrease prices of the tax-exempt items by a percentage equal to the combined state and local sales tax rates. A share of those savings will result in added purchases. Also, lower prices enhance consumer "real" income or purchasing power. This additional income from the sales tax exemption is likely to be spent on both taxable and nontaxable items, and some additional tax revenues may be collected. Also, demand for certain goods would rise during the sales tax holiday weekend, and some research had found evidence that retailers may respond by raising prices, and curtailing their customary "sales prices."[1]

Cross-border sales

Two cross-border effects are likely to take place with this bill. It is probable that some Ohioans already purchase clothing in other states and most do not pay Ohio use tax on those purchases. Such cross-border sales may remain in Ohio during the sales tax holiday. Also, Ohio stores may increase sales to residents of neighboring states.[2] Therefore, cross-border effects may be present, although impossible to quantify based on available data. However, the total cross-border effect on tax revenue may be small.

Shift from remote sales to store sales

A number of consumers purchase clothing and footwear through mail order and the Internet, in part as a tax avoidance strategy. Therefore, the bill would reduce the appeal of such remote purchases, and thus transfer some of the remote sales to store sales in Ohio. Electronic commerce continues to grow, and one of the largest online retailers, Amazon, is now collecting use tax from Ohio consumers, though the firm may not collect use taxes for third-party sellers using its platform. This shift from remote to store sales would result in a positive, but uncertain, fiscal impact.

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[1] Richard Harper, et al., (2003): *Price Effects Around a Sales Tax Holiday: An Exploratory Study,* 23 Public Budgeting and Finance, 108-113.

[2] Increased sales to residents of Pennsylvania would be limited, because that state excludes clothing from its sales tax base.