STATEHOUSE REPORT

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## Impact of Sales Tax Holiday on State GRF less than expected

House Bill 33, the current state operating budget, established an expanded sales tax holiday that provided an exemption for tangible goods with a cost of $500 or less. The expanded holiday took place for ten days between July 30 – August 8.

Automobiles and watercraft that require titling, as well as alcohol, tobacco, and marijuana products, were not eligible for the exemption. The expanded holiday replaced the previous "back-to-school" sales tax holiday in years in which the state has a year-end General Revenue Fund (GRF) budget surplus of at least $60 million. For the expanded sales tax holiday, the state set aside $750 million to reimburse the state GRF, county general funds, and the Local Government Fund and Public Library Fund for expected revenue reductions resulting from the expanded holiday.

Revenue from July non-auto sales, reported to the state in August, were 2.5% less than the year prior. Part of the reduction, however, was due to larger than average refunds that were unrelated to the sales tax holiday. Given the eight days of the expanded sales tax holiday in August, most of the impact from the expanded holiday was expected on final returns that vendors submitted to the Tax Department in September.

These results for the state have been reported in the Ohio Office and Budget and Management (OBM) Monthly Financial Report for October. OBM had estimated that the sales tax holiday would reduce September non-auto GRF sales tax to a level of $249.3 million, compared to $945.4 million received in September 2023 (Table 1). Actual non-auto receipts, however, were $815 million, about 14% less than September 2023, but approximately $566 million or 227% more than the monthly estimate.

| Table 1. State GRF Non-Auto Sales Tax Receipts (millions) | | |
|---|---|---|
| September 2023 (Actual) | September 2024 (Estimate) | September 2024 (Actual) |
| $945.4 | $249.3 | $815.0 |

Source: OBM Monthly Financial Report, October 2024

Anecdotal evidence suggests that some vendors did not properly program their IT systems to include all of the products covered by the exemption. Also, many consumers may have remained unaware of the holiday which minimized the expected shift in consumer demand into the ten-day holiday time period. The unexpectedly high level of actual receipts will result in the state transferring less from the $750 million reserve fund to the GRF and local governments than originally anticipated.

OBM cautions that, “[t]o the extent the GRF year-to-date variance comes from overestimating the impact of the holiday, the overall positive variance to the state GRF is only temporary.” Resources remaining in the reserve fund will be available for reimbursements for revenue losses created by future sales tax holidays.

Fiscal year-to-date non-auto sales tax receipts are nearly $2.8 billion, about 5.7% below the level of SFY 2024 (Table 2). As a reminder, the state fiscal year runs from July to June, so the “Year-to-Date” period in the tables below cover July 2024 through September 2024.

| Table 2. Year-to-Date Non-Auto Sales Tax Receipts, SFY 2024 vs. SFY 2025 (millions) | | | |
|---|---|---|---|
| SFY 2024 | SFY 2025 | Change ($) | Change (%) |
| $2,941.7 | $2,773.1 | -$168.6 | -5.7% |

Source: OBM Monthly Financial Report, October 2024

Due to rate cuts, personal income tax receipts deposited into the GRF also lag behind last year’s results by 4.5% on a year-to-date basis. The sales tax and the income tax are the largest sources of tax revenue for the GRF, so shortfalls in these returns contribute to a reduction in overall tax revenue for the state during the first three months of the fiscal year compared to FY 2024 (Table 3).

| Table 3. Year-to-Date Total GRF Tax Receipts, SFY 2024 vs. SFY 2025 (millions) | | | |
|---|---|---|---|
| SFY 2024 | SFY 2025 | Change ($) | Change (%) |
| $7,035.6 | $6,718.9 | -$316.7 | -4.5% |

Source: OBM Monthly Financial Report, October 2024

Revenue from August sales (September accounting period) will be distributed to counties in November, at which time the tax department is expected to provide reimbursements for revenue lost due to the sales tax holiday.

Members with questions should contact Senior Policy Analyst Jon Honeck, jhoneck@ccao.org, 614-220-7982.

## Ohio Public Works Commission reauthorization legislation to be introduced next week

On Wednesday, members of the Ohio House of Representatives held a press conference to announce that legislation renewing the Ohio Public Works Commission's constitutional borrowing authority for the State Capital Improvement Program (SCIP) will be introduced next week. The legislation will be sponsored by Representative Scott Oelslager and

Representative Dan Troy. Representative Troy is a former Lake County Commissioner and a former CCAO President.

The legislation, if passed by both chambers of the General Assembly, will authorize the placement of a ballot issue on the May 6, 2025, primary election ballot that would permit the state to issue $2.5 billion ($250 million annually for ten years) in borrowing authority for capital improvement projects.

SCIP funds are heavily utilized by counties and other local governments for crucial infrastructure projects across the state. Next week's *Statehouse Report* will contain more information regarding the legislation after it is introduced.