



**County  
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*Serving Ohio Counties Since 1880*

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TO: MEMBERS OF THE SENATE WAYS AND MEANS COMMITTEE

FROM: SUZANNE DULANEY, EXECUTIVE DIRECTOR

SUBJECT: OPPOSITION TO SB 243 (SALES TAX HOLIDAY)

Senator Schaffer, Vice Chair Peterson, and Ranking Minority Member Tavares and members of the Committee, my name is Suzanne Dulaney, CCAO Executive Director. At your last hearing on SB 243, the sales tax holiday legislation, you heard testimony from Brad Cole on our staff regarding the revenue impact to county government this legislation would bring and comments about tax policy. At the urging of our Board of Directors, I am here today to share some additional policy considerations they would like you to take under advisement prior to your vote.

The permissive sales and use tax is the single largest individual source of revenue to fund state mandates and services funded from the county general fund. The “piggyback tax” is the fuel that runs the engine of county government in Ohio. Under this proposal, previously enacted county sales taxes would be negatively impacted, which causes us serious concern. These are locally enacted revenues that counties rely upon to do what the General Assembly has tasked us to do for Ohio’s citizens.

In addition to the direct negative fiscal impact upon counties, there are some broader tax policy considerations to examine carefully. These include:

- Ensuring Ohio has a complete understanding regarding whether there is any potential impact a sales tax holiday may have on streamlined sales tax status before proceeding



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- Compliance costs issues for the state and for the business community, particularly our smaller businesses headquartered here in Ohio
- Weighing carefully the impact of government involvement in purchasing decisions
- Carefully studying the actual savings that is experienced by consumers
- Sustainability & Long-Term Objectives

### **Streamlined State Status**

Ohio has taken steps to obtain streamlined sales tax status with the objective of ending the disadvantage being experienced by bricks and mortar stores in Ohio as compared with online stores that do not collect sales tax. CCAO understands that the Ohio Department of Taxation is researching the issue to see whether a sales tax holiday as proposed causes complications with our compliance status or not.

### **Compliance Costs**

CCAO believes that good tax policy emphasizes simplicity, equity and efficiency. Sales tax holidays add complexity to sales taxes and are accompanied by administrative costs. These costs are especially high for small businesses without the overhead to dedicate employees to tracking these changes and ensuring compliance. As a University of Michigan study noted, these are not trivial costs. Retailers must determine which of their goods qualify for the tax exemption during the holiday, which may be difficult, even with guidance from the state's taxing authority. Retailers must also train their staff to relay this information to consumers, who may not necessarily comprehend the finer distinctions of the exemptions; reprogram their registers twice; and make appropriate adjustments to accounting systems. It can also lead to evading sales taxes on items not included in the holiday. The rate change may be particularly burdensome for small retailers who will be required to decrease and then three days later increase their sales tax rates on certain items subject to the state tax exemption. The report notes that, "Ultimately, sales tax holidays are probably not the most efficient way of achieving policymakers' goals."

## **Government Involvement in Purchasing Decisions**

Equity is a key concept for tax policy. When legislatures single out a subset of the retail market for a benefit, it can distort consumer spending and reduce market efficiency by favoring certain products over others. Consumers should make consumption decisions for economic reasons, not tax reasons. Supporters claim that sales tax holidays stimulate the economy because individuals will purchase more of the exempted goods than they would have in the absence of a holiday. Second, consumers will increase their consumption of non-exempt goods through impulse purchases, paying taxes that would otherwise not have been collected. However, some research seems to indicate that rather than causing new sales, sales tax holidays simply shift the timing of sales. For example, the New York Department of Taxation and Finance studied its clothing sales tax holiday and found that while sales of exempt goods rose during the holiday, overall retail sales for the year did not increase.

## **Consumer Benefit**

Determining whether and how much the end consumer benefits from sales tax holidays can be challenging. Some research indicates that most or all of the benefit does reach the consumer, while other research indicates that is not be the case. Researchers at the University of West Florida studied the price effect of Florida's sales tax holiday in 2001. Data was collected to analyze whether before-tax prices were comparable before, during, and after the sales tax holiday. Based on the prices observed before the sales tax holiday, it was expected that shoppers would save \$125.58 during the holiday. Due to changes in the before-tax price of the various products, actual savings observed during the holiday were \$100.06. In short, retailers absorbed up to 20% of the benefit of a sales tax holiday, significantly reducing the benefit that consumers received. Their study is not conclusive for all tax holidays, but it strongly suggests uncertainty about how much consumers actually benefit. There have also been investigative reports documenting prices consumers pay during holidays may exceed the prices during other times of the year, even after accounting for the tax savings.

## **Sustainability & Long-Term Objectives**

By 2007, 20 states and the District of Columbia held a total of 118 sales tax holidays. This accounted for nearly half of the 45 states and the District of Columbia that levy some form of sales tax. At the close of 2007, 12 states and the District of Columbia had 15 holidays. In 2013, 17 states conducted some form of a sales tax holiday, two fewer than in 2010. Budgetary concerns have been a leading driver in the decline, bringing into question whether such holidays are sustainable in the long term and worth the administrative burden.

It is also worth noting that it has been the policy of Ohio for the past several biennial budgets to reduce its reliance on the state income tax and increase reliance on sales tax. Given the state's increasing reliance on the state sales tax, further deliberation seems in order as to how a sales tax holiday for a particular group of goods can be reconciled with a state policy that supports the elimination of exemptions to the sales tax as part of base broadening and a growing reliance on sales tax revenue.

## **Conclusion**

In conclusion, we urge opposition to SB 243. In the event you do proceed, please consider the following:

- A hold harmless provision from fiscal harm for counties
- Sunset the sales tax holiday and couple it with a study regarding impact

Thank you for the opportunity to testify. I would be happy to answer any questions from the committee at this time.