



**House Ways & Means Committee  
Testimony on Tax Provisions in HB 64  
March 11, 2015**

Chairman McClain, Ranking Minority Member Cera, and members of the committee, my name is Suzanne Dulaney, CCAO Executive Director. On behalf of the County Commissioners Association of Ohio, I'd like to take this opportunity to express our views on the tax provisions included in HB 64, the biennial budget bill.

**LGF Revenue**

As you examine the various tax reform proposals in HB 64, CCAO believes the Local Government Fund should be stabilized, particularly as state revenues rebound. If the tax reforms are enacted as proposed in HB 64, LGF revenue would increase 5.3 percent and 4.1 percent in FY 16 and FY 17, respectively. This represents maintaining the percentage of state GRF to the LGF at 1.66%. This occurs only if the revenue enhancement provisions are adopted in addition to the tax cut provisions. If the will of the General Assembly is to modify the proposal, we ask that steps are taken to protect the local government distributions and the services they support should the overall impact of the tax reforms negatively impact the LGF.

**Sales Tax**

As counties experienced significant declines in many revenue streams during the recession, including LGF, TPP reimbursements, interest income, conveyance fees, and property values, counties have become more and more reliant upon sales tax as a means to fund state mandates and services supported by the county general fund.

As part of a continuing effort to provide stable revenues to counties, enhance county fiscal security, and generate revenue in a fair and equitable manner from all segments of our evolving economy, CCAO supports the broadening of the state's sales and use tax base to include additional services and Internet, catalog, and telephone sales.

Another increase in the state sales tax rate included in HB 64 does begin to raise concerns about both the state and counties becoming more reliant on the same source and its impact on influencing purchasing decisions in boarder counties. CCAO has long supported increased flexibility for counties to levy permissive taxes to fund needed services in the face of declining state support. We should carefully evaluate our sales tax rates with our neighboring states and the impact it has on consumers and merchants alike.



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CCAO also seeks support for an amendment to remove an antiquated requirement in ORC 5739.212 which states that counties must reimburse vendors for the cost of adjusting cash registers when sales tax rates are increased. The state has no similar obligation.

### **TPP & Public Utility Reimbursements**

CCAO opposes the accelerated phase down of reimbursement payments for lost tangible personal property (TPP) taxes and public utility tangible property (PUTP) taxes to counties contained in HB 64. Under the 2012-2013 state budget, the phase down in the reimbursement schedule to local governments for lost TPP and PUTP was accelerated using a complex formula that attempted to recognize the relative importance of the reimbursement on the operation of the local government or levy funded service function such as mental health and addiction, developmental disabilities, child protective services, and senior citizen programs. The 2014-2015 state budget suspended the accelerated phase down.

While only six counties still receive TPP reimbursements and only three counties receive PUTP, continuation of the current suspension of phased-out reimbursement is very important to these counties. Under HB 64, seven of the nine counties would see reimbursements cease in August of this year. The counties impacted include: Adams, Gallia, Henry, Monroe, Morgan, Pike, Shelby, Union and Washington.

In addition to the direct general fund impact, county levy-funded programs are heavily impacted by the accelerated phase down.

For example:

**Developmental Disability Services** levies received approximately \$42.1 million in TPP reimbursements in 2014. The estimated distribution in 2016 falls to around \$20 million and \$10.5 million in 2017.

**Children Services** levies received approximately \$12.4 million in TPP reimbursements in 2014. That is slated to drop to around \$5.3 million in 2016 and then \$2 million in 2017.

**Health Services** levies received approximately \$8.4 million in reimbursements for 2014. That number falls to \$4.3 million in 2016 and \$3.2 million in 2017.

### **Severance Tax**

As you have heard from previous testimony, CCAO supports raising the severance tax on oil and natural gas to a rate reasonably similar to the severance tax rates by other oil producing states, with significant revenue to be returned to local governments with special emphasis to impacted counties.

In conclusion, counties operate as local branches of state government, with most state programs and service being delegated to county government for implementation. Our success for the citizens of Ohio relies upon a strong state and county partnership. Thank you for the opportunity to testify on these provisions of HB 64. I would be happy to answer any questions that you may have.

## Sales and Use Tax

### Taxpayer

Taxpayers include holders of vendor's licenses, direct-payment permits, and consumer use tax accounts; registered out-of-state sellers; and clerks of court.

### Tax Base

The tax applies to the sales and rental of tangible personal property and selected services.

### Rate

After staying at 5.5 percent since July 1, 2005, Ohio's sales and use tax rate increased to 5.75 percent on Sept. 1, 2013. County governments and transit authorities may impose "piggyback" taxes on top of this base rate; for details see the separate **Sales and Use Tax – County and Transit Authority** chapter.

### Major Exemptions

Major exemptions include:

- Purchases for resale.
- Food for human consumption off the premises where sold.
- Newspapers.
- Magazine subscriptions (repealed Jan. 1, 2014).
- Motor fuel.
- Sales of natural gas by a natural gas company, and water by a water works company when delivered through pipes or conduits.
- Sales of electricity delivered through wires.
- Prescription drugs.
- Property used primarily in manufacturing or used directly in mining or agriculture.
- Credit for trade-ins on purchases of new motor vehicles, and on purchases of watercraft and outboard motors purchased from registered dealers.
- Computer data center.

Revenue (in millions)				
Fiscal Year	General Revenue Fund	Revenue Sharing	Other <sup>1</sup>	Total
2009	\$7,116.0	\$207.1	\$5.3	\$7,328.4
2010	7,074.4	170.3	5.8	7,253.5
2011	7,578.2	183.8	5.7	7,767.7
2012	8,078.0	178.5	7.2	8,272.7
2013	8,444.9	174.6	6.0	8,625.5

### Disposition of Revenue

All revenues from the state sales and use tax are initially deposited in the General Revenue Fund. However, each month a designated amount of all general fund tax revenue<sup>2</sup> is deposited into the Public Library Fund. One half of this amount is credited against the state sales tax portion of General Revenue Fund revenues.

### Payment Dates

#### Monthly returns:

Due by the 23rd day of the month following the reporting period.

#### Semi-annual returns:

Due by the 23rd day of the month following the close of the semi-annual reporting period; this method of payment may be authorized for vendors and sellers whose tax liability is less than \$1,200 per six month period.

#### Quarterly returns:

Consumer use tax accounts and direct pay accounts by the 23rd day of the month following the reporting period if monthly liability is under \$5,000. Otherwise, consumers must remit tax monthly.

<sup>1</sup> Includes distributions to the Attorney General Claims Fund.

<sup>2</sup> Permanent law calls for the Public Library Fund to receive a percentage share of all tax revenue into the state's General Revenue Fund. The percentage was 2.22 percent from January 2008 through July 2009, 1.97 percent from August 2009 through June 2011, and 2.22 percent in July 2011. The fund will receive designated dollar amounts from August 2011 through June 2013.

**Vendor discounts:**

Vendors and out-of-state sellers are allowed a 0.75 percent discount for timely payment.

**Other provisions:**

All returns must be filed electronically. Payment is required to be made by electronic funds transfer by taxpayers when liabilities equal or exceed \$75,000 a year. Such taxpayers must also make accelerated payments on or before the 23rd of the month.

**Special Provisions/Credits****Local levies:**

Counties and transit authorities may levy additional sales and use tax. For more information, see the **Sales and Use Tax – County and Transit Authority** chapter.

**Sales of motor vehicles to residents of certain other states:**

Ohio motor vehicle dealers collect tax at the lowest combined Ohio state and local rate (currently 6 percent) from residents of states that impose a similar sales or use tax on Ohio residents (most states do not). As of Oct. 1, 2011, residents of seven states were subject to the nonresident motor vehicle sales tax: Arizona, California, Florida, Indiana, Massachusetts, Michigan, and South Carolina.

**Streamlined Sales Tax Project:**

Ohio is a member of the Streamlined Sales Tax Project, a multi-state effort to make sales tax laws, rules, and systems more uniform among states. The goal is to make it easier for those who make sales in multiple states to voluntarily collect and remit sales taxes to each of those states (federal law currently exempts sellers from this collection responsibility unless they have a physical presence in a state).

As part of Ohio's continued participation in the Streamlined Sales and Use Tax Agreement, changes to the sourcing of sales of tangible personal property and taxable services were effective Jan. 1, 2010. These changes allow Ohio to retain origin sourcing for most sales of tangible personal property made by Ohio vendors to Ohio consumers. Other sales are sourced to the location where the consumer receives the property or service that was sold. On Aug. 9, 2013, Ohio petitioned for full membership in the Streamlined Sales Tax Project

and became a full member on Jan. 1, 2014. For the majority of vendors, these changes have little or no impact on their method of doing business.

**Sections of Ohio Revised Code**

Chapters 5739, 5740, and 5741.

**Responsibility for Administration**

Tax Commissioner.

**History of Major Changes**

- 1934** General Assembly enacts a 3 percent sales tax effective Jan. 1, 1935.
- 1935** Legislature enacts a companion use tax effective Jan. 1, 1936.
- 1936** Ohio voters approve a constitutional amendment exempting food for human consumption off the premises where sold.
- 1962** The use of sales tax stamps is discontinued.
- 1967** Legislature increases rate to 4 percent and broadens the tax base to include cigarettes and beer.
- 1971** Cigarettes again become exempt.
- 1980** Senate Bill 448, signed Dec. 19, temporarily increases the state sales tax rate to 5 percent from Jan. 1 through June 30, 1981.
- 1981** House Bill 694, signed on Nov. 15, immediately increases the state sales tax rate from 4 percent to 5.1 percent. Some vendors indicate the new rate is incompatible with their registers. House Bill 552, signed on Nov. 24, immediately lowers the state rate to 5 percent. Other provisions of H.B. 694 stand, including a broadening of the base to again include cigarettes, as well as repairs and other selected services. Other legislation establishes a credit for trade-ins on new motor vehicles.
- 1983** Base is broadened to include business data processing services.
- 1987** Purchases made with food stamps become exempt from the tax; long distance telecommunications service becomes taxable.

- 1990** The legislature exempts tangible personal property primarily used in manufacturing operations from the tax, replacing a direct use exemption for manufacturers. Also, a credit is established for trade-ins on new or used watercraft.
- 1991** The tax base is broadened to include lawn care, landscaping, private investigation, and security services.
- 1993** Legislature broadens tax base to include building cleaning and maintenance, exterminating, employment agency, and personnel supply services as well as memberships in physical fitness facilities and recreation and sports clubs. Exemptions are established for qualified property used in research and development and for nonprofit scientific organizations. The vendor discount is lowered from 1.5 percent to 0.75 percent of tax collections.
- 1994** General Assembly exempts purchases made by organizations defined under Internal Revenue Code 501(c)(3).
- 1997** Legislature exempts the sale of personal computers and qualified equipment to licensed and certified teachers.
- 1999** The sale of used manufactured and mobile homes becomes exempt effective Jan. 1, 2000. Also, for the purposes of the sales and use tax, the sales of new manufactured or mobile homes are no longer considered motor vehicle sales.
- 2000** Legislature reduces transient vendor's license fee from \$100 to \$25. Also, the definition of an exempt casual sale is changed to include items that had been subject to the taxing jurisdiction of another state.
- 2001** The application of the sales and use tax on certain leased motor vehicles, watercraft, aircraft, and on the lease of tangible personal property by businesses is changed so that the tax is paid upon consummation of the lease.
- 2002** Senate Bill 200 permits refunds to be issued directly to consumers in cases where the consumer illegally or erroneously paid tax to the vendor.
- 2003** House Bill 95 temporarily increases the state sales tax rate from 5 percent to 6 percent from July 1, 2003 to June 30, 2005. The vendor discount is temporarily increased from 0.75 percent to 0.9 percent during the same period. Also:
- The tax base is expanded to include laundry and dry cleaning, satellite broadcasting service, personal care services, the intrastate transportation of persons by motor vehicle or aircraft, towing service, snow removal, and the storage of tangible personal property, effective Aug. 1, 2003.
  - The threshold is raised for mandatory payment by electronic funds transfer from \$60,000 annual tax liability to \$75,000, and such taxpayers begin paying on an accelerated schedule.
  - Some definitions of food, beverages, and medical supplies are changed to conform to the provisions of the multi-state Streamlined Sales Tax Project.
- 2005** House Bill 1 resets the sales tax rate to 5.5 percent effective July 1, 2005, and extends the temporary vendor discount rate of 0.9 percent through June 30, 2007.
- 2006** General Assembly exempts property withdrawn from inventory and donated to a charitable organization from the use tax.
- 2008** General Assembly enacts House Bill 429, which allows Ohio to retain origin sourcing for most sales of tangible personal property made by Ohio vendors to Ohio consumers effective Jan. 1, 2010.
- 2009** Electronic filing of sales tax returns becomes mandatory. General Assembly, in House Bill 1, applies sales tax to monthly Medicaid premiums received by health insuring corporations in lieu of a former 5.5 percent franchise fee.
- 2013** House Bill 59 increases the state sales and use tax rate to 5.75%, effective Sept. 1, 2013.

## Comparisons with Other States

(As of September, 2013)

This table shows state sales tax rates, the maximum combination of local sales tax rates currently in effect for each state, and the highest combined state and local sales tax rate currently in effect for each state.

State	State Rate	Max. Local Rate	Max. Total Rate
California	7.5%	1.0%	10.0% <sup>1</sup>
Florida	6.0	1.5	7.5
Illinois	6.25	3.75	9.25
Indiana	7.0	----	7.0
Kentucky	6.0	----	6.0
Massachusetts	6.25	----	6.25
Michigan	6.0	----	6.0
New Jersey	7.0	----	7.0
New York	4.0	4.875	8.875
Ohio	<b>5.75</b>	<b>2.25</b>	<b>8.0</b>
Pennsylvania	6.0	2.0	8.0
Texas	6.25	2.0	8.25
West Virginia	6.0	1.0	7.0

<sup>1</sup> Special district taxes, range from 0.10 percent to 1.0 percent. More than one district tax may be in effect in any given political subdivision (e.g., some areas of Los Angeles have a 10 percent total rate).





**STATE AND PERMISSIVE SALES TAX RATES  
BY COUNTY, OCTOBER 2014**

County	County Tax Rate	Transit Tax Rate	Total State & Local Rate	County	County Tax Rate	Transit Tax Rate	Total State & Local Rate
Adams	1.50%	--	7.25%	Licking	1.50%	--	7.25%
Allen	1.00	--	6.75	Logan	1.50	--	7.25
Ashland	1.25	--	7.00	Lorain	0.75	--	6.50
Ashtabula	1.00	--	6.75	Lucas	1.25	--	7.00
Athens	1.25	--	7.00	Madison	1.25	--	7.00
Auglaize	1.50	--	7.25	Mahoning	1.00	0.25%	7.00
Belmont	1.50	--	7.25	Marion	1.50	--	7.25
Brown	1.50	--	7.25	Medina	1.00	--	6.75
Butler	0.75	--	6.50	Meigs	1.50	--	7.25
Carroll	1.00	--	6.75	Mercer	1.50	--	7.25
Champaign	1.50	--	7.25	Miami	1.25	--	7.00
Clark	1.50	--	7.25	Monroe	1.50	--	7.25
Clermont	1.00	--	6.75	Montgomery	1.00	0.50	7.25
Clinton	1.50	--	7.25	Morgan	1.50	--	7.25
Columbiana	1.50	--	7.25	Morrow	1.50	--	7.25
Coshocton	1.50	--	7.25	Muskingum	1.50	--	7.25
Crawford	1.50	--	7.25	Noble	1.50	--	7.25
Cuyahoga	1.25	1.00%	8.00	Ottawa	1.25	--	7.00
Darke	1.50	--	7.25	Paulding	1.50	--	7.25
Defiance	1.00	--	6.75	Perry	1.50	--	7.25
Delaware	1.25	--	7.00	Pickaway	1.50	--	7.25
Erie	1.00	--	6.75	Pike	1.50	--	7.25
Fairfield	1.00	--	6.75	Portage	1.00	0.25	7.00
Fayette	1.50	--	7.25	Preble	1.50	--	7.25
Franklin	1.25	0.50	7.50	Putnam	1.25	--	7.00
Fulton	1.50	--	7.25	Richland	1.25	--	7.00
Gallia	1.25	--	7.00	Ross	1.50	--	7.25
Geauga	1.00	--	6.75	Sandusky	1.50	--	7.25
Greene	1.00	--	6.75	Scioto	1.50	--	7.25
Guernsey	1.50	--	7.25	Seneca	1.50	--	7.25
Hamilton	1.00	--	6.75	Shelby	1.50	--	7.25
Hancock	1.00	--	6.75	Stark	0.50	0.25	6.50
Hardin	1.50	--	7.25	Summit	0.50	0.50	6.75
Harrison	1.50	--	7.25	Trumbull	1.00	--	6.75
Henry	1.50	--	7.25	Tuscarawas	1.00	--	6.75
Highland	1.50	--	7.25	Union	1.25	--	7.00
Hocking	1.25	--	7.00	Van Wert	1.50	--	7.25
Holmes	1.00	--	6.75	Vinton	1.50	--	7.25
Huron	1.50	--	7.25	Warren	1.00	--	6.75
Jackson	1.50	--	7.25	Washington	1.50	--	7.25
Jefferson	1.50	--	7.25	Wayne	0.75	--	6.50
Knox	1.00	--	6.75	Williams	1.50	--	7.25
Lake	1.00	0.25	7.00	Wood	1.00	--	6.75
Lawrence	1.50	--	7.25	Wyandot	1.50	--	7.25

**Note:** Municipalities whose boundaries extend both within and beyond Franklin County assess a COTA rate of 0.50% in addition to the posted state and county sales tax rate. Delaware's COTA rate covers the portions of the Cities of Columbus and Westerville located in Delaware County; Fairfield's COTA rate covers the portions of the Cities of Columbus and Reynoldsburg in Fairfield County; Licking County's COTA rate covers the portion of the City of Reynoldsburg located in Licking County, and Union's COTA rate covers the portion of the City of Dublin located in Union County. The current state rate is 5.75%.