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TO: ALL MEMBERS OF THE HOUSE FINANCE AND APPROPRIATIONS COMMITTEE

FROM: BRAD COLE, MANAGING DIRECTOR OF RESEARCH

SUBJECT: OPPOSITION TO SB 243

Good morning Chairman Amstutz, Vice Chairman Boose, Ranking Minority Member Sykes, and members of the committee. My name is Brad Cole and I am Managing Director of Research for the County Commissioners Association of Ohio. CCAO represents 86 boards of county commissioners and the county executives and county council members of Cuyahoga and Summit counties. I am here today to share the concerns we have with SB 243.

Revenue Impact of SB 243

The fiscal note prepared by the Legislative Service Commission on SB 243 estimates a revenue loss to the State General Revenue Fund of \$36 million in SFY 15 and \$37 million per year in succeeding years.

The 88 counties and 8 transit authorities that levy a permissive sales and use tax are projected to lose approximately \$9 million per year as a result of the sales tax holiday that would be established by SB 243. An additional revenue loss of \$1 million per year would be experienced by the State Local Government Fund (LGF) and the Public Library Fund (PLF), both of which currently receive fixed percentages (1.66%) of all state GRF revenues.

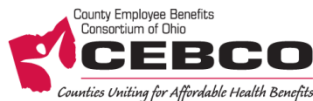
CCAO Sales Tax Policy

CCAO's legislative policy generally supports efforts by the state of Ohio to broaden the state sales tax base. Obviously, any base broadening by the state will have the practical effect of broadening the sales tax base for counties resulting in the distribution of additional revenues to counties. To provide context for this discussion of sales tax policy, the permissive sales and use tax generally is the number one revenue source for the county general fund for each county in the state. Due to declining investment income on county investments, weakness in real estate related revenues such as county real estate conveyance fees and property taxes, and reductions in intergovernmental revenues primarily from the state, county dependence on the sales and use tax has grown over the past several years. Simply put, counties are more dependent on the permissive sales and use tax now than they were five or ten years ago, and that dependence is increasing as increasing sales tax revenue is one of the few bright spots in an otherwise challenging fiscal picture.



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State Tax Policy

Beginning with the passage of the SFY 2006-2007 state budget (HB 66) back in July 2005, it has been the policy of Ohio to reduce its reliance on the state income tax. During this same time period the state has attempted at various points and with varying degrees of success to broaden the state sales tax while simultaneously reducing the state income tax. The state sales tax has been raised twice since 2003 (one cent increase in 2003 reduced to ½% and made permanent in 2005 and ¼% increase adopted in 2013).

Given the state's increasing reliance on the state sales tax which I understand is to become the state's largest single revenue source during the current biennium, it is interesting to ponder how SB 243 which creates a three day sales tax holiday for a select 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. While SB 243 is targeted both as to its duration and the number of goods subject to exemption, it does seem to be inconsistent with the policy pursued by the state over the past several years.

Simplicity, Equity and Administrative Efficiency

Good tax policy emphasizes simplicity, equity, and efficiency which generally lends itself to ease of administration for both the Department and for the taxpayer. To its credit, the Ohio Department of Taxation has in recent years emphasized the importance of simplifying administration and compliance with the tax law. Sales tax holidays add complexity to sales taxes and are accompanied by administrative costs – both for government and businesses alike, particularly small businesses.

Another important objective of good tax policy is the broadening of the tax base and the lowering of rates through the elimination of exemptions which enhances equity in the administration of the tax law. Additional exemptions naturally tend to drive rates up because taxpayers who do end up paying the tax must pay more tax to make up for those who have been exempted from the tax. In light of these considerations, it is hard to see how SB 243 enhances simplicity and equity by creating an additional exemption to the sales and use tax law.

Should the General Assembly decide to proceed with the passage of SB 243, CCAO recommends that this committee consider three amendments to the bill:

1. Establish the sales tax holiday as a pilot limited to one year
2. Require the Department of Taxation to conduct a study to determine the fiscal impact of the legislation on the state, local government revenues, changes in consumer behavior as indicated by actual sales tax collections, and other factors
3. Reimburse counties and transit authorities for any lost revenues based on the previously mentioned study.

Thank you, Mr. Chairman and members of the committee, for the opportunity to testify today. I would be happy to try to answer questions from the committee at this time.

