OHIO LEGISLATIVE SERVICE COMMISSION

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Office of Research and Drafting

Legislative Budget Office

H.B. 440
133rd General Assembly

Fiscal Note & Local Impact Statement

Click here for H.B. 440's Bill Analysis

Version: As Introduced

Primary Sponsors: Reps. Miranda and Carruthers

Local Impact Statement Procedure Required: Yes

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Highlights

Fund	FY 2021	FY 2022	Future Years
State General Revenue Fund			
Revenues	Loss of up to $112.5 million	Loss of up to $123.5 million	Losses to increase approximately 0.5% per year
Local Government and Public Library funds			
Revenues	Loss of up to $1.9 million each	Loss of up to $2.1 million each	Losses to increase approximately 0.5% per year
Counties and transit authorities			
Revenues	Loss of up to $29.2 million	Loss of up to $32.0 million	Losses to increase approximately 0.5% per year

Note: The state or school district fiscal year runs from July 1 through June 30 and is designated by the calendar year in which it ends. For other local governments, the fiscal year is identical to the calendar year. The estimates assume the tax becomes effective on July 1, 2020; FY 2021 revenue losses are for 11 months of tax collections. FY 2022 revenue losses can be calculated as the FY 2021 multiplied by (12/11) and 1.005.

- The bill provides a sales and use tax exemption for transactions where personnel are supplied by a third party employment services company; to qualify for the exemption, the personnel must operate tangible property in a manufacturing operation to produce tangible personal property.

- The bill also provides a sales and use tax exemption for purchases of equipment, supplies, and building and janitorial services to be used to clean machinery that is part of a continuous manufacturing operation.
- Revenue from the state sales and use tax is deposited into the GRF. Portions of GRF tax revenue (1.68% and 1.70%, respectively, during the current biennium) are subsequently transferred to the Local Government Fund (LGF) and Public Library Fund (PLF). Revenue to the LGF is distributed to counties, municipalities, and townships statewide, while revenue to the PLF is distributed primarily to public libraries.
- The estimates above assume the bill becomes effective at the beginning of FY 2021.
- Permissive county and regional transit authorities' sales and use taxes share the same tax base as the state sales and use tax. The exemptions would also reduce revenue to those political subdivisions. Due to the difference in fiscal year for counties and transit authorities, there would be a revenue loss during their FY 2020 of roughly half the amount shown for FY 2021.

Detailed Analysis

H.B. 440 exempts the sale of employment services from Ohio's sales and use tax, provided the employment services are purchased to operate machinery, equipment, or other tangible products in the process of manufacturing tangible personal property. In addition, the bill exempts from the sales and use tax purchases of equipment, supplies, or building and janitorial services to be used in the cleaning or maintenance of machinery used in a continuous manufacturing operation. The exemptions apply to all purchases on or after the first day of the first month that begins at least 30 days after the bill's effective date.

Fiscal effect

The fiscal effect estimates stated in this fiscal note were derived by the Ohio Department of Taxation (TAX). According to TAX, if the bill's provisions were to be enacted before March 2020, the bill could reduce GRF revenue by up to $112.5 million starting in FY 2021. State collections of county and local permissive sales taxes are to decrease by up to $29.2 million per year starting in FY 2021. Revenue to the Public Library Fund (PLF) and Local Government Fund (LGF), which receive 1.7% and 1.68% of GRF tax revenue respectively during the current biennium,[1] could be reduced by up to a combined $3.9 million per fiscal year starting in FY 2021. LBO estimates the fiscal impact of the bill will increase by around 0.5% per year; this growth rate is roughly consistent with the TAX analysis, a janitorial supplies market research report,[2] and Bureau of Labor Statistics data on total compensation in the manufacturing industry.[3]

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[1] Under current law, the percentages will revert to the percentage in codified law, 1.66% for each fund, starting July 1, 2021.

[2] https://www.ibisworld.com/united-states/market-research-reports/janitorial-equipment-supply-wholesaling-industry/.

[3] https://www.bls.gov/iag/tgs/iag31-33.htm.

Sales and use tax payments are made monthly based on the preceding month's sales receipts. For this analysis, TAX assumed the bill becomes effective July 1, 2020, and due to time lags the revenue loss during FY 2021 is for only 11 months. The above information outlines the timeline for the revenue taken in by the state on behalf of political subdivisions during each state fiscal year. Transfers from the GRF to the LGF and PLF are made based on the previous month's tax revenue, and are therefore roughly based on the state fiscal year.

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