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OHIO LEGISLATIVE SERVICE COMMISSION

Office of Research
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Legislative Budget
Office

H.B. 66
135th General Assembly

Fiscal Note & Local Impact Statement

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Version: As Reported by Senate Ways and Means

Primary Sponsors: Reps. Hall and Stoltzfus

Local Impact Statement Procedure Required: No

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Highlights

- Allowing a wholesaler or distributor to obtain a refund of excise taxes on cigarettes and other tobacco products (OTP), including nicotine vapor products, remitted on bad debts arising from the sale of those products would reduce revenue to the GRF by an uncertain amount, likely hundreds of thousands of dollars annually, and varying considerably from year to year. The revenue losses will lower amounts distributed to counties, municipalities, and townships through the Local Government Fund (LGF, Fund 7069), and to public libraries through the Public Library Fund (PLF, Fund 7065). This provision also potentially reduces revenue from Cuyahoga County's excise tax on cigarettes.

Detailed Analysis

Refund of wholesaler bad debts

Excise taxes on cigarettes and other tobacco products are generally paid by wholesalers and passed through to retailers of those products (in whole or in part, via an increase in price). Payments by retailers could be in cash, but generally those transactions are made on credit, resulting in the creation of account receivables (i.e., the balance of money due for goods delivered) on the wholesaler's balance sheet.

The bill allows a wholesaler to obtain a refund of excise taxes remitted on certain business bad debts, if the bad debt is charged off on or after January 1, 2024. The bill specifies that the bad debt refund would be only available on cigarette, tobacco product, and vapor taxes, net of any tax discounts that are part of the bad debt (wholesale dealers receive a discount of 1.8% of the face value of cigarette stamps; other tobacco products (OTP) and vapor products taxpayers receive a discount of 2.5% for timely payment of the tax).

The wholesaler would apply to the Tax Commissioner for a refund if the debt owed has become worthless, charged off as uncollectible on the wholesaler's books, and deducted in calculating the wholesaler's federal income tax liability.¹ The bad debt refund request is to be filed within three years after the debt became uncollectible and must be supported by evidence required by the Tax Commissioner. Under the bill, the Tax Commissioner may apply the refund as a credit against future tobacco or vapor products tax liability. FY 2024 revenue from the cigarette and OTP taxes totaled \$750.4 million, including \$636.5 million from the sale of cigarettes and \$113.9 million from the sale of OTP. The bill will reduce revenue from this GRF source, likely by hundreds of thousands of dollars annually.² The revenue decline would be variable and dependent on both the amount of uncollectible bad debts incurred by wholesalers and the amount of refunds requested from the Tax Commissioner. LBO cannot rule out that the fiscal loss could exceed \$1 million in certain years, depending on financial difficulties or bankruptcies of retailers that sell tobacco products.

Receipts from the excise taxes on cigarettes, OTP, and vapor products are deposited in the GRF. Reductions in revenue to the GRF as a result of the bill would lower amounts distributed to counties, municipalities, and townships through the Local Government Fund (LGF, Fund 7069), and to public libraries through the Public Library Fund (PLF, Fund 7065). In codified law, the LGF and the PLF each receive 1.70% of GRF tax revenue, so the GRF would bear the bulk of the revenue loss from the bill.

Under continuing law, Cuyahoga County is the only Ohio county authorized to levy an excise tax on cigarettes, and the bill's refund provision would also apply to this local tax. The revenue loss would be dependent on purchases by retailers within the county at the origin of qualified bad debts of wholesalers. In FY 2023, the yield of the local excise tax on cigarettes was \$12.3 million.

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¹ "Bad debt," as defined by the bill, excludes any interest on the bad debt and any expenses incurred in attempting to collect the debt.

² LBO has not found data on business bad debt deductions of Ohio tobacco dealers. This fiscal assessment is based on business bad debt deductions in federal corporate income tax returns, and communications with Department of Revenue officials in states that allow refunds for business bad debt deductions for tobacco dealers.