Ohio Legislative Service Commission

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# Fiscal Note & Local Impact Statement

**Bill**: S.B. 216 of the 131st G.A.

**Date**: April 19, 2016

**Status**: As Introduced

**Sponsor**: Sens. Burke and Gardner

**Local Impact Statement Procedure Required**: Yes

**Contents**: Exempts the first $500 of prescription eyeglasses and other optical aids from the sales and use tax

## State Fiscal Highlights

| STATE FUND | FY 2017 | FY 2018 | FUTURE YEARS |
|---|---|---|---|
| **General Revenue Fund** | | | |
| Revenues | Loss of $16.1 million | Loss of $18.0 million | Loss of $18.4 million |
| Expenditures | - 0 - | - 0 - | - 0 - |

Note: The state fiscal year is July 1 through June 30. For example, FY 2018 is July 1, 2017 – June 30, 2018.

- The bill exempts most eyeglasses and optical aids from the sales and use tax. Thus, the bill reduces sales tax revenues. The actual revenue loss from this exemption would depend on the share of sales exceeding $500 per item.
- State sales tax receipts are deposited in the GRF. Any decrease in GRF tax receipts would also decrease the amount distributed to the Local Government Fund (LGF) and Public Library Fund (PLF) as these local funds receive distributions from GRF tax receipts.

## Local Fiscal Highlights

| LOCAL GOVERNMENT | FY 2016 | FY 2017 | FUTURE YEARS |
|---|---|---|---|
| **Counties, municipalities, townships, and public libraries (LGF and PLF)** | | | |
| Revenues | Potential loss | Loss of $0.6 million | Loss of $0.6 million |
| Expenditures | - 0 - | - 0 - | - 0 - |
| **Counties and Transit Authorities** | | | |
| Revenues | Potential loss | Loss of $4.4 million | Loss of $4.6 million |
| Expenditures | - 0 - | - 0 - | - 0 - |

Note: For most local governments, the fiscal year is the calendar year. The school district fiscal year is July 1 through June 30.

- The bill will decrease revenue from local permissive county and transit authority sales taxes. Those taxes share the same base as the state sales and use tax.

- Receipts from the state sales tax are deposited in the GRF. A share of GRF tax revenues is distributed under permanent law to the LGF and PLF. Thus, any decrease to GRF tax receipts would also decrease the amount distributed to the LGF and PLF.

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## Detailed Fiscal Analysis

The bill exempts from the sales and use tax the first $500 in a sale of eyeglasses and optical aids by a vendor licensed under Chapter 4725. or Chapter 4731. of the Revised Code. For example, if a pair of eyeglasses cost $600, only $100 of the purchase price would be subject to sales tax. Alternatively, if the pair of eyeglasses cost $400, the purchase would be sales tax free. The $500 limit applies per item. The bill defines optical aid as spectacles, contact lenses, and other instruments or devices that may aid or correct human vision and have been prescribed by a physician, optometrist, and any other person authorized to dispense optical aids.

S.B. 216 would reduce state sales and use tax revenue by $16.6 million in FY 2017 and $18.6 million in FY 2018. Receipts from the state sales and use tax are deposited into the GRF. Under permanent law, a portion of GRF tax receipts is subsequently transferred to the Local Government Fund (LGF) and the Public Library Fund (PLF), with each local fund receiving 1.66% of GRF tax revenue. However, a temporary provision of Am. Sub. H.B. 64 of the 131st General Assembly increased the PLF share to 1.70% for FY 2016 and FY 2017.

The GRF revenue loss from the sales tax exemption is estimated at $16.1 million and $18.0 million, respectively in FY 2017 and FY 2018; and the LGF and PLF losses would total up to $0.6 million each in FY 2017 and FY 2018. The revenue loss is likely to grow in future years, depending on growth in spending for items exempted by the bill. These estimates assume the bill takes effect July 1, 2016.

Local permissive county and transit authority sales taxes share the same tax base as the state sales tax. Thus, the bill would reduce permissive county and transit authority sales tax revenue. Revenue losses to those local governments are estimated at $4.4 million and $4.6 million, respectively, in FY 2017 and FY 2018.

Underlying data for these estimates are retail sales of prescription glasses and lenses (product codes 20491 and 20492) in the 2012 Economic Census for Ohio, totaling approximately $279 million. That amount was inflated based on growth in sales of therapeutic appliances and equipment as predicted by Global Insight's March 2016 forecast of consumer spending for health care. Though LSC had not found reliable data on the share of sales that would exceed the threshold of $500 in the bill, available information appears to suggest that a very small fraction of total sales would exceed the threshold specified in the bill. Please note that the revenue loss estimates assume sales of nonprescription eyewear and all other nonprescription optical goods and accessories that do not correct human vision, including those sold by physicians, optometrists, or other persons authorized to dispense optical aids, will be taxed as in current law. If not, the potential revenue loss from the bill would be understated.

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