OHIO LEGISLATIVE SERVICE COMMISSION

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Fiscal Note & Local Impact Statement

Bill: S.B. 65 of the 132nd G.A. **Status:** As Introduced

Sponsor: Sen. Brown **Local Impact Statement Procedure Required:** Yes

Subject: Annual sales tax holiday for Energy Star-labeled appliances and other items

State & Local Fiscal Highlights

STATE FUND	FY 2018	FY 2019	FUTURE YEARS
General Revenue Fund			
Revenues	Loss of up to $4.9 million	Loss of up to $5.0 million	Loss of up to $5.1 million
Local Government and Public Library Funds (counties, municipalities, townships, and public libraries)			
Revenues	Loss of $0.2 million	Loss of $0.2 million	Loss of $0.2 million
Counties and transit authorities			
Revenues	Loss of up to $1.2 million	Loss of up to $1.3 million	Loss of up to $1.4 million

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

- The bill creates an annual three-day sales tax holiday, starting with the first Friday in April, of Energy Star-labeled appliances and heating and cooling equipment.
- The bill reduces the sales and use tax base, and thus decreases state sales tax revenue and revenue from local county permissive and transit authority sales taxes.
- The state sales tax revenue loss would be shared by the state General Revenue Fund (GRF, 96.68%), the Local Government Fund (LGF, 1.66%), and the Public Library Fund (PLF, 1.66%). Funds deposited into the LGF and PLF are distributed to counties, municipalities, townships, and public libraries according to statutory formulas and decisions by county budget commissions.

Detailed Fiscal Analysis

The bill authorizes an annual three-day "sales tax holiday" for Energy Star-labeled appliances and heating and cooling equipment. The tax holiday, during which sales of the qualifying items are exempt from state, county, and transit authority sales and use taxes, begins on the first Friday in April. To qualify for exemption, an item must carry the Energy Star label, which indicates that the item meets the energy efficiency criteria of the Energy Star Program administered by the U.S. Environmental Protection Agency and Department of Energy. Under the program, "appliances" include washers and dryers, refrigerators, freezers, dishwashers, air purifiers, and dehumidifiers. "Heating or cooling equipment" includes air conditioners, furnaces, boilers, heat pumps, ventilation fans, and ductless heating and cooling systems.

The bill is estimated to reduce state revenue from the sales and use tax by up to $5.1 million in FY 2018 and $5.2 million in FY 2019. The GRF receives 96.68% of the revenue from the state sales and use tax, while 1.66% of the receipts are transferred to the Local Government Fund (LGF, Fund 7069) and an identical share to the Public Library Fund (PLF, Fund 7065); funds in the LGF and PLF are for distribution to counties, municipalities, townships, and public libraries. Based on the potential loss above, sales tax revenue to the GRF would decline by up to $4.9 million in FY 2018 and $5.0 million in FY 2019, and distributions to the LGF and PLF would be reduced by a total of about $0.2 million each fiscal year.

The bill will also reduce the tax base for permissive county and transit authority sales taxes. Those local permissive taxes share the state sales and use tax base. The potential revenue loss to local governments from local sales taxes, at approximately 24.5% of state sales tax revenues, would be up to $1.2 million in FY 2018 and $1.3 million in FY 2019. Thus, total revenue reductions for local governments, including reduced LGF and PLF distributions, may be up to $1.5 million each year.

The estimates are based on data primarily from the 2012 U.S. Economic Census for Ohio. Sales of major household appliances were estimated at $1.24 billion that year,[1] with the potential value of qualifying items estimated at about $742 million. The share of appliances qualifying for the Energy Star rating varies greatly by type of appliance according to the U.S. Department of Energy (for example, 4% of units for water heaters to 84% of units for dishwashers, in 2015). This Fiscal Note assumes that energy-efficient appliances would average 60% of the total appliance sales. However, if the overall market share of energy-efficient appliances is higher than assumed, then the revenue loss would be higher. This Fiscal Note also utilizes U.S. Department of Energy shipment data to estimate the potential qualifying sales tax base for sales of central air conditioning units, furnaces, and water heaters that would be made exempt by the bill. Based on nationwide shipments of energy-efficient appliances and Ohio's population, qualifying annual Ohio sales were estimated at $120 million, $47 million, and $4 million, respectively for central air conditioning units, furnaces, and water heaters, so qualifying sales of those products were estimated at about $171 million. Please note that this latter estimate is subject to considerable uncertainty.

Summing the estimates for appliances and for heating and cooling equipment, annual sales of Energy Star-labeled products would have totaled $914 million, or a monthly average of $76 million in 2012. The latter amount was inflated at 2.5% per year, based on the average growth in consumer spending for household appliances between

[1] The U.S. Census' definition of household appliances includes certain items that would not qualify for the sales tax exemption under the bill.

2012 and 2015, to obtain estimated average monthly qualifying sales of $88 million in 2018, the first year the bill would be in effect, $90 million in 2019, and $93 million in 2020.

Consumers may opt to shift their purchases by delaying or accelerating their purchases into the tax holiday period. The estimates include temporal substitution effects of up to four weeks. Estimates of the revenue loss to the state multiply the monthly figures above by the 5.75% statewide sales tax rate. If these effects are larger than presumed, the revenue loss could be greater. Though most additional sales during the tax holiday weekend would be delayed or accelerated purchases to take advantage of the exemption, other economic factors are at play. They include price and income substitution effects, cross-border sales effects, and a shift of some sales from remote to store sales during the holiday weekend. The lack of precise empirical data regarding the magnitude of such factors makes this fiscal analysis more complex, though the bill would result in a fiscal loss of state and local government sales tax revenue.

Price and substitution effects

The temporary sales tax exemption would effectively decrease prices of the tax-exempt items by a percentage equal to the combined state and local sales tax rates. A share of those savings may result in added purchases. Also, lower prices enhance consumer "real" income or purchasing power. This additional income from the sales tax exemption is likely to be spent on both taxable and nontaxable items, and some additional tax revenues may be collected.

Cross-border sales

Two cross-border effects are likely to take place with this bill. It is probable that some Ohioans already purchase items exempted under the bill in other states and do not pay Ohio sales tax on those purchases. Such cross-border sales may remain in Ohio during the sales tax holiday. Also, Ohio stores may increase sales to residents of neighboring states. Therefore, cross-border effects may be present, although impossible to quantify based on available data. Thus, the total cross-border effect on tax revenue is positive, but uncertain.

Shift from remote sales to store sales

A number of consumers purchase appliances through mail order and the Internet, in part as a tax avoidance strategy. Therefore, the bill would reduce the appeal of such remote purchases, and thus transfer some of the remote sales to store sales in Ohio. This shift from remote to store sales would result in a positive, but uncertain, fiscal impact.

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