Fiscal Note & Local Impact Statement

127 th General Assembly of Ohio

Ohio Legislative Service Commission
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BILL: **Sub. H.B. 157** DATE: **November 14, 2007**

STATUS: **As Reported by Senate Ways & Means** SPONSOR: **Rep. Hughes**

LOCAL IMPACT STATEMENT REQUIRED: **No — No local cost**

CONTENTS: **To require a box on personal income tax returns that a taxpayer may check to authorize a paid tax preparer to speak to the Department of Taxation about certain matters concerning the return, to exempt property used to provide electronic publishing services from sales and use taxation, to incorporate changes in the Internal Revenue Code since December 28, 2006, into Ohio's tax law, and to revise the date by which title insurance agents or agencies must have independent reviews made of certain accounts**

State Fiscal Highlights

STATE FUND	FY 2008	FY 2009	FUTURE YEARS
General Revenue Fund			
Revenues	Up to $4.7 million loss from the sales tax exemption	Up to $4.7 million loss from the sales tax exemption	Up to $4.7 million loss from the sales tax exemption
Expenditures	- 0 -	Possible increase	Possible increase

Note: The state fiscal year is July 1 through June 30. For example, FY 2008 is July 1, 2007 – June 30, 2008.

- Adding a check-box to the personal income tax return may increase administrative, programming, and printing costs. The sales and use tax exemption decreases the sales and use tax taxable base. Revenues from the state sales and use tax are distributed to the General Revenue Fund (GRF, 94.1%). Thus, the bill decreases GRF receipts.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2008	FY 2009	FUTURE YEARS
Counties and municipalities			
Revenues	Up to $1.3 million loss from the sales tax exemption	Up to $1.3 million loss from the sales tax exemption	Up to $1.3 million loss from the sales tax exemption
Expenditures	- 0 -	- 0 -	- 0 -

- The sales and use tax exemption decreases the sales and use tax taxable base and receipts. Revenues from the state sales and use tax are distributed to the Local Government Fund (LGF, 3.68%), and the Library and Local Government Support Fund (LLGSF, 2.22%). Accordingly, the bill decreases distributions to the two funds.

- Under current law, the state sales and use tax base is the same as that of local county permissive and transit authority taxes. Thus, the bill also reduces the taxable base of local county permissive and transit authority taxes and decreases receipts from those taxes.

Detailed Fiscal Analysis

Check-box on personal income tax return

The bill requires the Tax Commissioner to include on personal income tax returns a box that a taxpayer may check to authorize a paid income tax preparer to speak to the Department of Taxation about certain matters concerning the return. To accommodate the new check-box, the personal income tax return would need to be redesigned and changes would need to be made in the Department's computer programs. These changes may increase the Department's administrative, programming, and printing costs.

Sales tax exemption for property used in electronic publishing

The bill creates a sales and use tax exemption for property used in electronic publishing. It also exempts from taxation sales between subsidiaries of an affiliated group in the industry. Electronic publishing is defined as a means of providing access or selling various information and materials in an electronic form to customers. The sales and use tax exemption covers property necessary for the acquisition, formatting, editing, storage, and dissemination of data or information that is the subject of a sale. The bill reduces the sales and use tax taxable base and decreases the revenue from the tax. The state revenue loss is estimated to be up to $5.0 million per year. Revenues from the state sales and use tax are distributed to the General Revenue Fund (GRF, 94.1%), the Local Government Fund (LGF, 3.68%), and the Library and Local Government Support Fund (LLGSF, 2.22%). Accordingly, the revenue loss to the GRF would be up to $4.7 million. The LGF and the LLGSF would bear losses of $0.2 million and $0.1 million, respectively. Under current law, the state sales and use tax base is the same as that of local county permissive and transit authority taxes. Thus, the bill also decreases the taxable base of local county permissive and transit authority taxes. Revenue foregone from those local taxes may be up to $1.0 million per year.

Under current law, electronic information service providers are granted a 25% refund of sales and use taxes paid on purchases of qualified tangible personal property (computers, computer peripherals, software, telecommunication equipment, and related equipment) and on purchases of services of installing, repairing, or maintaining the property. The property must be used primarily to acquire, process, or store information for business customers or to disseminate information to such customers.

The estimates of revenue loss are based primarily on information on requests for refunds of sales tax paid on property purchased by electronic information service providers. They assume that a full sales tax exemption provided by this amendment does not create outsized purchases of property or services compared to recent trends. LSC assumes that the property or service necessary to acquire and disseminate information for sale by electronic publishers is essentially similar to that which provides for the current 25% refund under current law. Finally, LSC has not found data on sales between subsidiaries of affiliated groups in electronic publishing. To the extent those sales are substantial and are currently taxed, the revenue loss from the bill might be larger than the estimates above.

Annual review of accounts of title insurance agents

The bill also revises the date by which and time period for which title insurance agents or agencies must have an annual independent review made of their escrow, settlement, closing, and security deposit accounts. This provision has no fiscal effect.

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