
Detailed Fiscal Analysis

Repeal of destination-based sourcing for certain vendors

Ohio's sales and use tax sourcing rules have been amended occasionally over the preceding several years in an effort to conform Ohio's rules to the sourcing rules of the multi-state Streamlined Sales and Use Tax Agreement (SSUTA).

Until recently, the SSUTA required destination-based sourcing, where a sale generally occurs where the customer receives the goods or services. Under origin-based sourcing, a sale generally occurs where the vendor is located or the order is received. In December 2007, the SSUTA was amended to permit member states with local taxing jurisdictions (such as Ohio) to apply origin-based sourcing to transactions occurring within the state (i.e., when a sale is by a vendor in the same state where the purchaser receives the property or service). It appears the SSUTA amendment does not apply to inter-state transactions.

Under current law, vendors with delivery sales below \$30 million were allowed to continue sourcing sales under the origin-based sourcing system through December 31, 2007 (H.B. 294, 126th General Assembly, and H.B. 119, 127th General Assembly). The bill authorizes vendors that had not yet converted to destination-based sourcing to continue to use origin-based sourcing. The bill also authorizes certain vendors currently required to use destination-based sourcing to revert back to using origin-based sourcing on the effective date of the bill, but those vendors would be allowed to continue destination-based sourcing.

County compensation

Under current law, counties with a 2000 census population of less than 75,000 people (designated "impacted counties") that incur sales tax revenue losses of at least 4% due to the implementation of destination-based sourcing are entitled to compensation from the General Revenue Fund. The compensation is paid from sales and use tax revenue received by other counties ("windfall counties") experiencing revenue gains from the conversion.

The Tax Commissioner must determine the amount of sales tax revenue collected in a county in accordance with the destination-based sourcing law and compare that amount to the revenue the county would have received if the origin-based sourcing law had applied. If a county is an impacted county and the amount the county would have received under origin-based sourcing is at least 4% greater than the amount it actually received under destination-based sourcing, the county is entitled to compensation in such an amount that it would receive 98% of the estimated revenue it would have received under origin-based sourcing. If the Commissioner determines that a county collected more taxes under the destination-based sourcing law than it would have collected if taxes had been paid under the origin-based sourcing law, the county's monthly sales and use tax disbursement is reduced.

Based on information provided by the tax department, several counties had losses due to the change to destination-based sourcing for sales, and Holmes County was the only county that received compensation under current law. The bill terminates the compensation for impacted counties, the required offsets for windfall counties, and all related vendor-reporting requirements effective May 1, 2009.

Fiscal effect

The overall fiscal effect of the bill on state and local government revenues is expected to be minimal. The bill does not generally change total sales tax collections, although it potentially redistributes sales tax collections between counties. The bill would affect counties differently based on the relative number of vendors with delivery sales within the county, the net inter-county flows of delivery sales and associated tax collections, and the number of vendors with delivery sales under \$30 million who revert to origin-based sourcing. The fiscal impact of the bill on each county would depend on all those variables.

Depending on the number of vendors who revert to origin-based sourcing, the bill might increase revenue from the local permissive and additional sales taxes to certain counties (including impacted counties), which previously had losses from destination-based sourcing. Conversely, the bill might reduce revenues from certain windfall counties that had gains from destination-based sourcing.

LSC assumes that for certain counties that had losses from destination-based sourcing, the bill would reduce or eliminate the revenue loss. For another group of counties, the bill may reduce or eliminate the gain from destination-based sourcing. For the last group of counties, the bill may have no effect on tax revenues. LSC is unable to determine the impact of the bill on each individual county. Also, LSC assumes that elimination of the county compensation program would not adversely impact Holmes County as the revenue gain from the bill may offset compensation received under current law.

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