Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: H.B. 357 of the 130th G.A.

Date: May 27, 2014

Status: As Introduced

Sponsor: Rep. Becker

Local Impact Statement Procedure Required: Yes

Contents: Exempts from the sales and use tax credits for "core" charges

State Fiscal Highlights

STATE FUND	FY 2015	FY 2016	FUTURE YEARS
General Revenue Fund			
Revenues	Loss of up to $20 million	Loss of up to $20 million	Loss of up to $20 million annually
Expenditures	- 0 -	- 0 -	- 0 -

Note: The state fiscal year is July 1 through June 30. For example, FY 2014 is July 1, 2013 – June 30, 2014.

- The bill exempts from sales tax sales the value assigned to a "core" charge included in the price of a purchased item.
- The bill decreases state sales tax receipts. Sales tax revenue is distributed to the state GRF, the Local Government Fund (LGF), and the Public Library Fund (PLF). Thus, the bill would reduce the amounts distributed to all three funds.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2014	FY 2015	FUTURE YEARS
Counties, municipalities, townships, and libraries (LGF and PLF)			
Revenues	Potential Loss	Loss of up to $0.7 million	Loss of up to $0.7 million annually
Expenditures	- 0 -	- 0 -	- 0 -
Counties and transit authorities			
Revenues	Potential loss	Loss of up to $4.6 million	Loss of up to $4.6 million annually
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 sales tax exemption will also reduce revenue from county permissive and transit authority sales taxes. Those local permissive taxes share the state sales and use tax base.

- A share of GRF tax revenues is distributed under permanent law to the LGF and the PLF. LGF revenues are distributed to counties, municipalities, and townships, while PLF revenues are distributed to libraries. Thus, any reduction to GRF sales tax receipts would also reduce the amount distributed to the LGF and PLF.

Detailed Fiscal Analysis

The bill excludes the value of a "core" charge from the sales and use tax. A core charge is a charge within the price of an item purchased to replace a used or broken item that is returned to the seller for the purpose of recycling or remanufacturing the item. Under current law, sales and use tax applies to the amount paid for an item regardless of whether the payment is by cash, credit, property, or services. Accordingly, a core charge is included in the taxable "price" of the purchased item (because it represents the part of the purchase price to be paid in the form of property if a core is exchanged).

The bill instead provides that, when a vendor accepts a core as part of the purchase price of an item, the taxable price of the item must be reduced by the value of the core offered in exchange for the new item. When the core is exchanged at the time of the purchase, the taxable price of the new item must be reduced at the time of sale. If the core is not exchanged at the time of purchase, the taxable price of the new item is not reduced, but the consumer may receive a refund of the sales tax paid with respect to the core when the core is received later.

The most common example of the use of core charges is in the after-market auto parts industry. A customer may purchase a part, such as a brake caliper, to replace a worn or damaged caliper. The customer pays cash for the caliper, and a component of that price is a core charge. The core charge is returned to the customer only if and when the customer returns the worn or damaged caliper (the "core").

Fiscal impact

The bill will reduce revenue from the state sales and use tax. The reduction in sales tax revenue would potentially range from $15 million to $20 million per year, starting in FY 2015. Under permanent law, the GRF receives 96.68% of the revenue from the sales and use tax, while 1.66% of the receipts are transferred to each the Local Government Fund (LGF, Fund 7069) and the Public Library Fund (PLF, Fund 7065) for distribution to counties, municipalities, townships, and libraries. Thus, sales tax revenue to the GRF would potentially decline between $14.5 million and $19.3 million yearly, and distributions to the LGF and PLF would be reduced by an amount between $0.5 million and $0.7 million.

The bill will also reduce the tax base for county permissive 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 23%

of state sales tax revenues, would roughly be between \$3.5 million and \$4.6 million each fiscal year. Thus, total revenue reductions for local governments, including reduced LGF and PLF distributions, may be between \$3.9 million and \$5.3 million each year.

The revenue loss estimate in this Fiscal Note is based primarily on a fiscal estimate from the Oklahoma Tax Commission on a sales tax exemption for core charges. That estimate was adjusted for the difference in sales tax rates between Ohio and Oklahoma, and for the difference between the two states in the number of automobiles and licensed drivers from data from the U.S. Bureau of Transportation Statistics. Thus, this Fiscal Note assumes that taxpayers' behavior relative to redeeming cores for credit would be similar in the two states.

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