Ohio Legislative Service Commission

Jean J. Botomogno

Fiscal Note & Local Impact Statement

Bill: H.B. 603 of the 130th G.A. **Date**: August 25, 2014

Status: As Introduced **Sponsor**: Reps. Beck and Adams

Local Impact Statement Procedure Required: Yes

Contents: Exempts sales of Internet access service used in business from the sales tax

State Fiscal Highlights

STATE FUND	FY 2015	FY 2016	FUTURE YEARS
General Revenue Fund			
Revenues	Loss of $22.6 million	Loss of $47.1 million	Loss of $48.9 million
Expenditures	- 0 -	- 0 -	- 0 -

Note: The state fiscal year is July 1 through June 30. For example, FY 2015 is July 1, 2014 – June 30, 2015.

- The bill exempts from the sales and use tax sales of Internet access services for transactions occurring on or after January 1, 2015. Under current law, sales of Internet access services to businesses are taxable.
- 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	- 0 -	Loss of $1.6 million	Loss of $1.7 million
Expenditures	- 0 -	- 0 -	- 0 -
Counties and transit authorities			
Revenues	- 0 -	Loss of $11.2 million	Loss of $11.6 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 sales tax exemption will 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 exempts from the sales and use tax sales of Internet access services for transactions occurring on or after January 1, 2015. Under current law, the charges for Internet service (online access to information stored in a computer) for use in business are subject to Ohio sales and use taxes, while charges for Internet service for individuals are tax exempt. The bill will reduce revenue from the state and local sales and use taxes. State revenue losses are estimated at $23.4 million in FY 2015, $48.7 million in FY 2016, and $50.6 million in FY 2017. The potential revenue loss to local governments from local sales taxes is approximately 23% of state sales tax revenue losses. Thus, revenue losses from county permissive and transit authority sales and use taxes are estimated at $10.8 million in FY 2015, $11.2 million in FY 2016, and $11.6 million in FY 2017.

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 each to 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 decline by $22.6 million in FY 2015, $47.1 million in FY 2016, and $48.9 million in FY 2017; distributions to the LGF and PLF would be reduced by $0.8 million in FY 2015, $1.6 million in FY 2016, and $1.7 million in FY 2017.

Spending on Internet access that would be exempted by the bill was projected to be $814.0 million in FY 2015, $846.5 million in FY 2016, and $880.4 million in FY 2017. The estimates are based on nationwide total revenue for sales of wired and wireless Internet access services by telecommunications carriers. Data were from the U.S. Census Bureau's Annual and Quarterly Service Survey. Then, personal consumption expenditures for Internet access data, published by the U.S. Bureau of Economic Analysis (BEA, Gross Domestic Product and Personal Income data), was subtracted from the previous estimate to arrive at nationwide spending by businesses for Internet access. Census and BEA estimated spending on Internet access in 2012, the latest data available, were inflated at 4% per year to project nationwide business spending for FYs 2015 through 2017, and Ohio business spending was assumed to be 2% of nationwide business (or nonpersonal) expenditures for Internet access services.[1] The Fiscal Note assumed nontaxable business spending (governments and other entities that

---

[1] This assumption is based on Ohio's Gross Domestic Product (GDP) for broadcasting and telecommunications as a percentage of nationwide GDP for this industry. The estimates were 2.20% in 2010, 2.18% in 2011, and 1.71% in 2012.

are tax exempt) at 15% of total business spending. Please note that, to the extent that spending grew faster than assumed in this Fiscal Note, the revenue loss from the bill would be understated.

The Internet Freedom Tax Act

Separately, U.S. congressional action may affect Ohio's ability to continue the sales and use tax on purchases of business Internet access services. First enacted in 1998, the Internet Freedom Tax Act (IFTA) prohibits most states from imposing new taxes on Internet access. IFTA's moratorium, which has been renewed several times over the years, allows Ohio (and seven other states[2]) to continue existing taxes on certain electronic information services for use in business and access to the Internet, as those state taxes preceded the moratorium ("grandfather clause"). The latest amendment to the IFTA in 2007 expires November 2014. The U.S. House of Representatives ended the "grandfather clause" and approved a permanent ban July 15, 2014. If the U.S. Senate agrees, the fiscal result of the congressional action on Ohio would be identical to the fiscal effect of H.B. 603 (if enacted).

HB0603IN.docx / lb

[2] Hawaii, New Mexico, North Dakota, South Dakota, Texas, Washington, and Wisconsin.