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Testimony of Dr. Julia Heath
University of Cincinnati Economics Center
Before the House Ways and Means Committee

October 10, 2017

Chairman Schaffer, Vice Chairman Scherer, Ranking Member Rogers, and members of the House Ways and Means Committee, please accept this written testimony to provide additional context around House Bill 61, which would exempt from sales and use tax the sale of tampons and other hygiene products related to menstruation.

Of the eight states that specifically exempt feminine hygiene products from their sales taxes, Pennsylvania's has been in place the longest (since 1991), but detailed data do not exist going back that length of time. Of the seven remaining, New Jersey's exemption, dating from 2005, provides the best comparable data for the longest period of time. The tax revenue data for New Jersey are presented below:

Sales Tax Revenue for New Jersey			
<u>Fiscal Year</u>	<u>YTD Revenue (<i>millions</i>)</u>	<u>YTD Growth</u>	
Oct-03	\$ 1,525	4.30%	
Oct-04	\$ 1,594	4.50%	
Oct-05	\$ 1,676	5.18%	
Oct-06	\$ 1,716	2.34%	
Oct-07	\$ 1,989	15.94%	
Oct-08	\$ 2,162	8.67%	
Oct-09	\$ 2,091	-3.28%	
Oct-10	\$ 1,938	-7.28%	
Oct-11	\$ 1,976	1.94%	
Oct-12	\$ 2,029	2.65%	

While there are many factors that influence a state's sales tax revenue (one can see the recession's effects in 2009 and 2010), there does not appear to be an obvious and/or substantial negative effect from this specific exemption.

The gross impact of a sales tax exemption on tax revenues in Ohio is straightforward and is presented as follows.

		<u>Annually</u>
Tampon Expense (36 pack at generic drugstore)	\$	46.67
Panty Liner Expense (36 pack at generic drugstore)	\$	11.67
Number of Ohioan Women (approx. ages 13-51)		2,942,481

Ohioan Women x Annual Cost			
	<u>Tampons</u>	<u>Liners</u>	<u>Both</u>
	\$ 137,325,588	\$34,338,753	\$171,664,342
Ohio Sales Tax	\$ 7,896,221	\$ 1,974,478	\$ 9,870,700
Average County Sales Tax	\$ 1,373,256	\$ 343,388	\$ 1,716,643

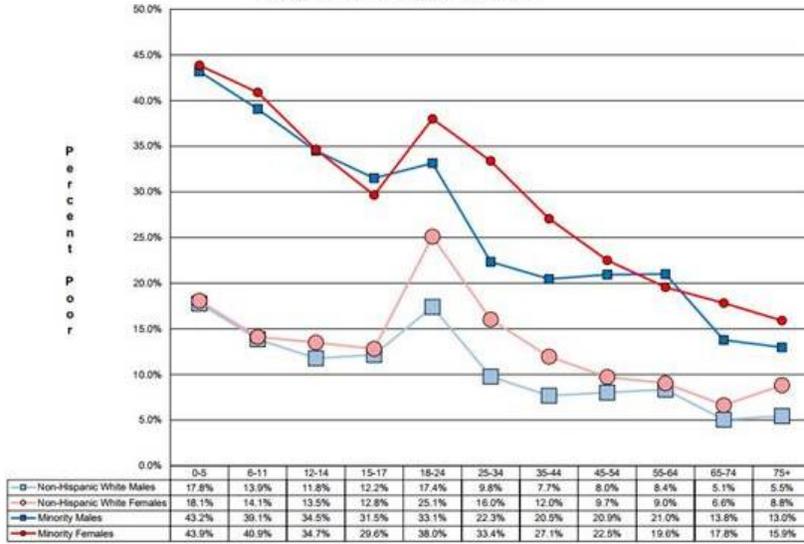
The gross reduction in state tax revenue can reasonably be estimated to be \$9.9 million. Of course, this gross decrease in state tax revenue is also an increase in consumer income. Consumers do not spend 100% of additions to disposable income; assuming that 75% is spent, the tax savings amounts to an increase of \$7.4 million of spending in the state's economy.

In addition, any increase in spending results in more economic activity than is captured by the direct spending itself as the spending works its way through the economy. That is, an increase in spending leads to increases in business income, in turn, flowing down to their own purchases of products and labor, and investment. In the retail industry, the appropriate multiplier to capture that increase in economic activity is 1.7, which means that the \$7.4 million in additional spending as a result of these products being tax exempt results in \$12.58 million in total spending.

Applying the state income tax rate to this number yields an offset to the \$9.9 million in lost tax revenue of \$723,000, or a net reduction in tax revenues of \$9.2 million. These rough estimates come with two caveats. First, some of the increase in spending will not be spent within the state, leaving the state in the form of online sales, etc. This would mean that this estimate of increased spending is overstated. Second, exempting these products from taxes might encourage residents in border states to come to Ohio to purchase these items, thereby increasing out-of-state spending in Ohio. In addition, other purchases would likely be made at the same time, further increasing this spending. To the extent that this is the case, the increase in spending is understated.

The differential effects of the tax exemption should not be overlooked. Sales taxes are regressive, and the removal of the tax on feminine hygiene products would disproportionately benefit low and moderate income women. As seen in the following graph, non-Hispanic-white and minority women are more likely to be impoverished than their male counterparts. The rate for minority females is particularly high, and providing an exemption for these products would provide a outsized benefit to them.

Poverty Rates in Ohio, 2014-2015
by Age Group, Sex and Minority Status



Source: U.S. Census Bureau

In sum, eliminating the sales tax on feminine hygiene products would reduce state tax revenue collections by approximately \$9.9 million. A portion of this reduction would be offset by the addition to tax revenue brought about by the resulting increase in consumer income. This increase in consumer income would be particularly meaningful for women in poverty.

Note: the methodology used in this analysis is necessarily the simplest approach to estimating the true effects of the elimination of this tax, due to time constraints. More sophisticated approaches have their own drawbacks. The estimates presented here should be seen as the maximum effect on revenue, with the understanding that the true effect is likely to be substantially lower.

