



House Ways & Means Committee  
House Bill 19 – Written Opponent Testimony

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Chairman Schaffer, Vice Chair Lipps, Ranking Member Rogers, and members of the House Ways and Means Committee, thank you for the opportunity to write in opposition to House Bill 19.

The sales tax is the largest single source of revenue for the general fund of most counties. The average county receives 52 percent of its general fund revenue from the sales tax, which makes most counties more dependent upon the sales tax than even the state. The tax's performance impacts the ability of counties to fund critical services such as public safety, the court systems and child protective services.

All 88 counties in Ohio levy "piggyback" sales taxes of up to 1.5 percent. This is in addition to the 5.75 percent state sales tax. Counties and the state share a common sales tax base; thus, new sales tax exemptions decrease revenue for counties and not the state alone.

CCAO opposes legislation which creates new exemptions and narrows the sales tax base. HB 19 would create a new sales tax exemption which would exempt the sale of feminine hygiene products from the sales and use tax.

The LSC fiscal note for HB 19 indicates that counties and transit authorities would lose between \$800,000 to \$1 million annually should HB 19 be enacted. While these losses may initially appear small, viewed in the broader context of county revenue losses, the importance of preserving the sales tax base become more apparent.



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Beginning in 2017, the federal government forced the state to cease applying the sales tax to payments made to Medicaid Managed Care Organizations (MCOs). While the state developed a different Medicaid fee structure to backfill its revenue losses, counties did not benefit from this replacement fee, resulting in a permanent loss of \$166 million in sales tax revenue annually. While counties were provided transition funds to help soften these losses, counties will have to absorb these losses on a permanent ongoing basis once transition funds have been exhausted.

The most recent tax expenditure report details 60 sales tax exemptions. While many of these exemptions serve a justifiable purpose, all existing, new or proposed expansions of exemptions deserve intense scrutiny. The 60 exemptions total nearly \$6 billion in forgone state revenue in FY19. While forgone revenue to counties due to these exemptions is smaller, the growing list of exemptions only adds further budgetary pressure to counties.

During the previous general assembly session, several new tax expenditures were created. Senate Bill 8 expanded an existing exemption which will now exempt prescription eyeglasses and contact lenses effective July 1, 2019. LSC estimates that the county and transit authority sales tax revenue losses will total \$6.0 million annually (state loss of \$23.2 million) due to this change. Also enacted was a new exemption for audio purchases from digital juke boxes and the establishment of a permanent sales tax holiday, both creating additional revenue losses to counties.

Looking forward, Ohio's "grandfather clause" permitting Ohio to apply the sales tax to internet access will expire at the end of fiscal year 2020. The resulting revenue losses to counties beginning in fiscal year 2021 will likely be significant.

In total, Ohio's sales tax base is under constant pressure for further narrowing. While many new exemptions have noble and defensible intentions, the revenue losses and resulting budgetary pressures placed on counties by these exemptions cannot go unrecognized.

If HB 19 is to move forward, one option to remedy local losses is state reimbursement to counties for losses incurred by the new exemption. Such a structure would hold county budgets harmless while still achieving the intended tax outcome.

An additional policy option to improve Ohio's sales tax system would be to establish bright line thresholds for remote vendor sales tax collection. As internet sales become more widespread, Ohio and other states have lost significant amounts of revenue because consumers rarely report use tax that is due on out-of-state purchases where sales tax was not collected and the vendor lacks physical presence. Following the June 2018 U.S. Supreme Court Decision in *South Dakota v. Wayfair*, the previous physical presence rule has been overturned and states can legally enforce remote vendor collection. According to the National Conference of State Legislatures, 28 states and the District of Columbia have implemented remote sales tax collection. Ohio should join

these states and pass legislation similar to South Dakota's statute which would ensure that sales tax is collected on out-of-state sales. This has the potential to provide the state and counties with significant revenue gains without raising taxes.

I thank you for your consideration of our position and please feel free to contact CCAO should you have any questions.