

51st House District
Portions of Butler County, including
Hamilton and Fairfield, Ross
Township and portions of Fairfield,
Hanover and St. Clair townships

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Committees

-Finance-
-Finance Subcommittee on
Transportation-
-Health-
-Primary & Secondary Education-

Commissions/Councils/Boards

-Commission on Infant Mortality-
-Early Childhood Advisory Council-
-Ohio Children's Trust Fund-
-Ohio Arts Council-

House Bill 440 Sponsor Testimony
House Ways & Means Committee
January 28, 2020

Chairman Merrin, Vice Chairman LaRe, Ranking Member Rogers and members of the House Ways & Means Committee, thank you for the opportunity to speak on House Bill 440. I would also like to thank my joint sponsor, Representative Miranda. House Bill 440 is a straightforward bill that accomplishes two important and helpful aims of Ohio's manufacturers. First, it qualifies janitorial equipment, supplies, and services used to clean and maintain manufacturing equipment for the manufacturing sales and use tax exemption, and second, the bill repeals the sales tax on manufacturing staffing services.

Ohio is the third largest manufacturing state in the nation trailing only California and Texas. Over 700,000 Ohioans are employed in manufacturing and it is Ohio's largest industry sector measured by economic contribution, which is more than \$108 billion annually in GDP.

A sales tax is intended to be a tax on the ultimate consumption of a good; it is not intended to apply to business inputs. Applying sales and use tax to transactions essential to the manufacture of a good – or the investment in manufacturing machinery and equipment – increases the costs of the goods that are produced, negatively impacts economic decisions, and places Ohio at a disadvantage compared to other states when it comes to economic development. Taxing manufacturing inputs is poor tax policy and anticompetitive for Ohio.

House Bill 440 brings clarity and consistency to two of the more confusing aspects of Ohio's sales tax when it comes to manufacturing. Currently, Ohio taxes industrial janitorial services, supplies, and janitorial and maintenance equipment for the vast majority of manufacturers. Prior to last summer's passage of House Bill 166, only dairy food manufacturers received this exemption. House Bill 166 brought some parity to the law by extending that provision to all food manufacturers. However, the rest of manufacturing still falls outside the exemption. Manufacturers' production facilities and the equipment used in their production processes require continuous maintenance and repair. Without the required cleaning, repairs and maintenance, the machinery breaks down and fails to produce acceptable products for sale to consumers. Cleaning industrial assets is essential to the manufacturing process, regardless of the product produced. It is a necessary business input, and therefore, should fall under the sales tax exemption for personal property and services used to clean and maintain manufacturing

equipment. This change will bring clarity and consistency to the way auditors and taxpayers interpret the law. Often manufacturers and auditors fight over what exactly is considered maintenance and what is considered cleaning. A consistent statutory change will alleviate what is often a contentious disagreement. We would argue it's an unnecessary disagreement.