The Second half of HB 440 deals with Ohio’s tax on staffing services. Prior to 1993 Ohio did not tax employment services. However, because of a state budget shortfall, the General Assembly at that time made the decision to tax staffing employment. Ever since then, Ohio’s businesses have been at a disadvantage compared to the 49 other states. According to the Federation of Tax Administrators’ survey, only ten states (and Washington D.C) have some type of tax on staffing labor. Of those ten, five states tax staffing services as a part of a gross receipts or business tax but not a sales tax. The other five states (and Washington DC), including Ohio, tax staffing services under their sales tax. Of these, Ohio is the only state that subjects the fee for the staffing service and the temporary employee’s compensation to the tax. It is this double taxation that makes Ohio unique among the handful of states that tax staffing services. It should be noted that only two of Ohio’s neighboring states, Pennsylvania and West Virginia, tax staffing employment. But none of the states Ohio traditionally competes against for new and retained manufacturing facilities—Michigan, Indiana, Illinois, North Carolina, South Carolina, Texas, Alabama, Georgia—tax staffing employment.

Ohio’s manufacturers have been traditionally exempted from the sales and use tax for any tangible inputs that go into the manufacturing process. The purpose of this exemption is that a sales tax should only be applies to a finished good. Virtually every state that imposes a sales tax includes such an exemption in some form. There is no greater input in the manufacturing process than the people that go to work each day to produce the goods that we- and the world – all use. Taxing, and in Ohio’s case, double taxing the labor is a detriment to Ohio’s business and manufacturing climate. This issue has cost the state and taxpayers untold millions of dollars as each year disagreements and mistakes in contracting language force parties to settle their differences in court.

This bill would eliminate the out-of-date laws that has been riddled by numerous court battles. Ohio needs good tax policy and clarity in its tax laws. This bill brings both. Mr. Chairman thank you for your time. We would be more than happy to try to answer any questions. We will have other parties coming to testify on the bill who may be more appropriate to answer certain questions.