



November 12, 2019

## SENATE FINANCE COMMITTEE

S.B. 188 -- Opponent Testimony (written only)

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Good afternoon, Chairman Dolan, Vice Chair Burke, Ranking Minority Member Sykes, and members of the Senate Finance Committee. My name is Jon Honeck. I am a Senior Policy Analyst with CCAO. Thank you for allowing me the opportunity to explain CCAO's concerns with Senate Bill 188, legislation which would allow a vendor to receive a sales tax refund for unpaid and uncollectible private label credit card account debt.

CCAO is opposed to this bill because of the ongoing revenue loss it creates for counties and because it undermines a long-established principle in sales tax law that a vendor may only claim a refund for bad debt that it keeps on its own books. SB 188 will cause annual sales tax revenue losses for counties of \$3.2 million, based on current charge-off rates for bad debt. During an economic downturn, charge-off rates will grow significantly higher, leading to an even larger revenue loss for counties at a time when their overall sales tax revenue is declining. In this way, the bill will intensify the revenue losses that counties experience during a recession.

As pointed out in the LBO fiscal note and LSC bill analysis, the bill allows vendors to claim a refund for bad debts regardless of the reporting period in which the debt became uncollectible. Due to this "look back" provision, LBO states that it "cannot rule out the potential for this revenue loss from refunds to be several tens of millions of dollars." In order to make sales tax refunds to vendors, the Ohio Department of Taxation withholds refund amounts from current distributions of sales tax revenue to counties. Thus, if the bill passes, counties will be faced with unexpected and potentially large reductions in revenue during the first several years after the bill becomes effective. Counties are currently finishing their budget process for 2020 and would have no way to anticipate how the "look back" provision in SB 188 might impact them. Commissioners faced with a large unexpected revenue gap would have make unplanned reductions in services or utilize rainy day budget reserves that they had planned to save for a recession.



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Aside from its revenue impact, SB 188 would establish a harmful precedent for sales tax law by allowing vendors to claim refunds for uncollectible debts kept on the books of lenders. Sales tax refunds should be made available to entities that have actually incurred losses and kept those losses on their books. This is a clear, understandable rule that Ohio has used for decades and should not be undermined.

We urge the Senate Finance Committee not to support SB 188 in its current form. Thank you for allowing me the opportunity to share the views of CCAO on this issue. We would be pleased to discuss this issue in greater detail with the committee and the bill sponsors.