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Proponent Testimony on Senate Bill 9
House Ways & Means Committee

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Good morning Chairman Schaffer, Vice Chairman Scherer, Ranking Member Rogers and members of the House Ways & Means Committee. I am Lora Miller, Director of Governmental Affairs & Public Relations for the Ohio Council of Retail Merchants. I am here today on behalf of our more than 7,500 members in support of Senate Bill 9 to reauthorize an Ohio sales tax holiday the first Friday, Saturday and Sunday of August 2017. Thank you for this opportunity.

Back in 2013, Focus on Ohio's Future, the research arm of the Ohio Council of Retail Merchants, asked the University of Cincinnati Economics Center to examine the impacts of a proposed back-to-school sales tax holiday over the course of one weekend in August. The proposal included clothing and footwear valued at $75 or less per item and school supplies and school instructional materials valued at $20 or less per item. The result of the Economics Center's analysis was an estimate that the state of Ohio coffers would likely "break even."

Ultimately, Senator Bacon's Senate Bill 243 was enacted into Ohio law, which led to Ohio's first sales tax holiday. The holiday was conducted from Friday, August 7 through Sunday, August 9, 2015. Subsequently, we asked the Economics Center to do a post-holiday analysis to determine the actual impact the holiday had on Ohio's economy.

For the Economics Center, the first step in analyzing the impact of the sales tax holiday was to estimate what level of sales and sales tax collections would have occurred in August 2015 in the absence of the holiday. The challenge in conducting any kind of forecast is to get as true a signal as possible, which means eliminating as much noise, that is, any information that does not relate specifically to the topic of the research.

They used a model which incorporates the actual monthly sales data from January of 2000 to June of 2015 from the Ohio Department of Taxation. These data were adjusted for both inflation and seasonality. They then introduced some control variables to reflect macroeconomic conditions, such as the unemployment rate and the national level of retail sales. Controlling for the possible change in consumer disposable income due to an improving labor market and/or larger retail influences such as falling gas prices allowed them to minimize the noise in the forecast so as to achieve a more accurate forecast for what retail sales would have been in August of 2015 without the sales tax holiday.

Because retail sales are reported monthly, it was necessary to impute the amount of sales that occurred during the three-day holiday period. The Massachusetts Department of Revenue reports a ratio of 10.11%, meaning that roughly 10% of the month's revenue was generated during their two-day sales tax holiday period. According to the Economics Center, an obvious imputation from this ratio was to increase it by 50% to account for a three-day, as opposed to a two-day holiday. Given that Friday, a work day, was included in Ohio's holiday period, a more conservative approach was to decrease that increment by half. The result was that of Ohio's August 2015 sales revenue, the Economics Center attributed 12.64% to the three-day holiday period. Applying the model resulted in an estimate of over $46 million of tax-exempt sales made on eligible back-to-school goods.

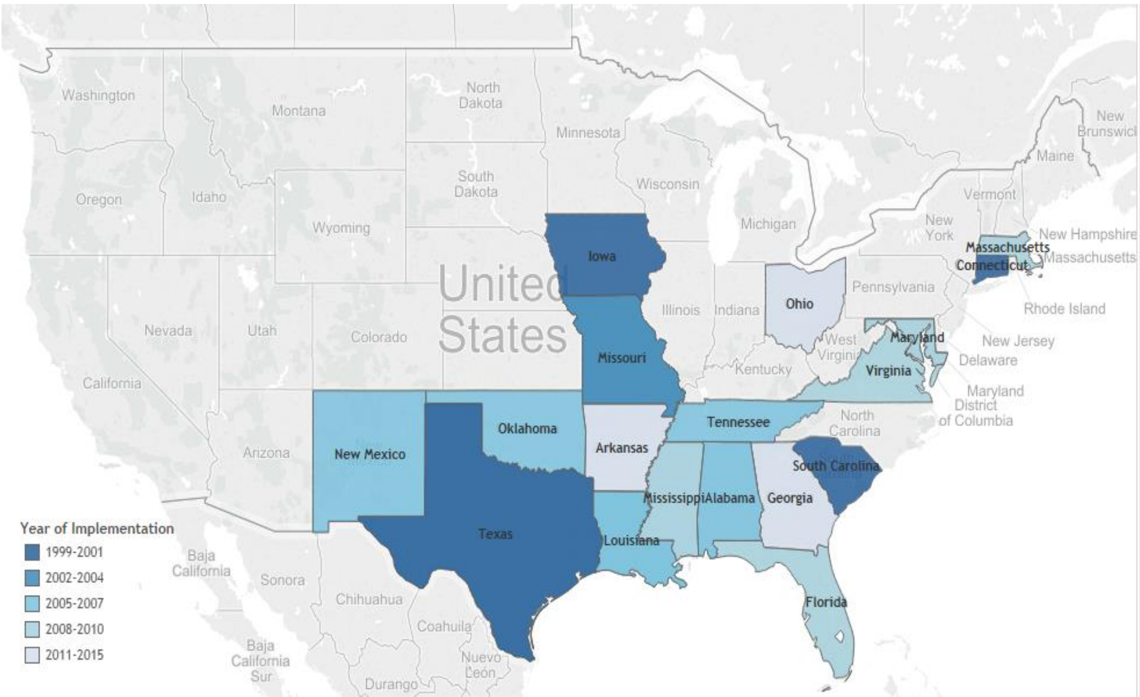
When the Economics Center compared the actual retail sales data from August 2015 to what was forecast for that month, they determined that sales were 6.48% higher than what the model predicted, resulting in a gross increase of $8 million in sales tax collections. This was offset by $3.3 million in tax revenue from exempted items that was lost, leading to a net gain of $4.7 million of additional tax revenue. Note that the $3.3 million offset in state sales tax collections represents a gain to consumers in sales tax savings.

Remember that the Economics Center estimated that 12.64% of August's sales could be attributed to the three-day holiday period. Anecdotally, Friday—the first day of that three-day window—appeared to have experienced a fairly high volume of sales, suggesting that their estimates may have been too conservative.

There are several factors that could influence the impact of a sales tax holiday, including one that was predicted in their 2013 study—that consumers would alter the timing of their purchases, spending more in August, but less in July and/or September. According to the data, there were no appreciable reductions in retail activity in the months bookending the sales tax holiday, indicating that this spending transfer did not occur.

Another explanation for the higher-than-anticipated revenue collections could be that consumers increased their expenditures on non-exempt items as a result of the effective increase in their disposable income. While the Economics Center could not quantify this effect directly, they indicated that it conforms to economic theory and is an expected result.

Finally, as you can see from the following map, the incidence of sales tax holidays is primarily concentrated in the southern tier of states, extending up to the Mid-Atlantic states. What is notable about this map is the virtual island that is Ohio.



As with technological change, the first adopter often enjoys a competitive advantage for the period of time they are the lone occupant of a market. That certainly seems to be the case in Ohio, as there was a significant differential effect of the sales tax holiday on sales tax revenue by county. Those counties that border other states that do not have a sales tax holiday experienced a 15.48% increase in county sales tax collections, compared to an increase of 4.56% in non-border counties.

From all accounts, Ohio's 2015 sales tax holiday was a tremendous success for consumers, retailers and the state of Ohio. Many retailers reported sales increases across all lines, all departments, not just on tax-exempt items. Retailers that don't even sell items that were exempt from the tax reported a boost in business.

We have received preliminary data from the University of Cincinnati Economics Center concerning Ohio's 2016 sales tax holiday. Given the lower than projected state and local sales tax revenues reported during the first six months of FY 2017, it came as no surprise that the Economics Center determined that non-exempt sales did not offset exempt sales in any appreciable way during the three-day holiday. The revenue differential between taxable sales and tax-exempt sales was not statistically different from zero. They did, however, conclude that Ohio households saved approximately $2.4 million as a result of last year's sales tax holiday. We should be able to provide you with the final version of the study before the next hearing.

In addition to the many retailers that support Senate Bill 9, Ohio's sales tax holiday has the support of the Ohio Chamber of Commerce, NFIB/Ohio, Ohio Grocers Association, Ohio Restaurant Association, Catholic Conference of Ohio and Congressman Bill Johnson, who was an advocate for an Ohio sales tax holiday before ever becoming a member of Congress.

Chairman Schaffer, Vice Chairman Scherer, Ranking Member Rogers and members of the committee, I appreciate the opportunity to appear before you today in support of Senator Bacon's Senate Bill 9 to reauthorize an Ohio sales tax holiday in 2017. Our thanks to the committee and our special thanks to Senator Bacon for his continued leadership toward making Ohio's sales tax holiday permanent. I am happy to answer any questions you may have.