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Senate Ways and Means Committee
House Bill 513 Sponsor Testimony
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CROSS: Chairman Blessing, Vice Chairman Roegner, Ranking Member Martin, and Members of the Senate Ways and Means Committee, thank you for the opportunity to testify on House Bill 513. This bill makes a minor change that is of minimal fiscal consequence to the state, but will go a long way to help Ohio wholesalers – specifically those who supply cigarettes and tobacco products to small retailers. This language was previously part of another bill introduced in the 131st General Assembly.

Wholesalers play a crucial role in Ohio’s supply chain, and in an environment as competitive as markets today, Ohio’s wholesalers need every tool at their disposal to efficiently and effectively get products to store shelves. Statewide, there are over 100 of these wholesalers in operation, accounting for approximately 700 to 1,000 jobs. Last fiscal year, the State of Ohio collected \$127 million in tax revenue from this slice of the economy. Unfortunately, there are some circumstances in which wholesalers have to deal with “bad debt” that occurs

when they do not recoup costs from the retailers selling their product. As part of these costs, wholesalers are also paying Ohio excise taxes up front, namely on tobacco products. While this is not the only product these wholesalers provide to retail stores, it is the most common, and one of a select few products on which we place a specific excise tax in Ohio. We therefore have an opportunity to provide relief to wholesalers experiencing bad debt, which brings us to this bill.

ROEMER: House Bill 513 creates a “bad debt refund” for tobacco wholesalers, similar to the current sales tax refund for retail bad debt. In other words, for wholesalers experiencing this bad debt from tobacco sales, this bill would enable them to claim a refund from the state for the tax they pay up front. While this would not cover the entirety of the bad debt, it would partly reduce it and thereby soften the blow for the wholesaler.

Under the bill, “bad debt” refers only to the debt itself – not to interest or penalties on the debt nor expenses incurred in attempting to collect it. To apply for a refund, a wholesaler must – within the first three years after the debt became uncollectable – submit to the Department of Taxation a copy of the original invoice, and evidence that (1) the order was filled, (2) the retailer did not pay the wholesaler for the cigarettes, and (3) the wholesaler attempted to collect the debt using reasonable collection practices. The bill also gives the Tax Commissioner

discretionary authority to allow the claimant to claim a tax credit equal to the amount of the bad debt.

It should be noted that it would not be mandatory for wholesalers to file for this refund – it is merely a tool they would have at their disposal. Based on uptake in other states that have passed similar language into law, we do not anticipate it will be utilized in every circumstance. 2014 estimates from the Ohio Wholesale Marketers Association found a likely fiscal impact of less than \$200,000, and a maximum of under \$1 million. Therefore, we also do not anticipate that this legislation would significantly constrain the state budget, and we believe these dollars would best be put to use if kept in the private sector.

Chairman Blessing and members of the committee, thank you again for the opportunity to testify on House Bill 513. We welcome any questions you may have.