



Interested Party Testimony – House Bill 430

Senate Ways and Committee

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Good morning Chair Eklund, Vice Chair Terhar, and Ranking Member Williams. My name is Jon Honeck, and I am a Senior Policy Analyst with the County Commissioners Association of Ohio. I am here today to offer Interested Party testimony on House Bill 430, which modifies the application of the sales and use tax to items and equipment that are used in the exploration and production of oil and natural gas. My testimony is also supported the County Auditors Association of Ohio (CAAO).

As you know, counties may levy a local sales tax in addition to the state rate. For most counties, the sales tax is the largest single source of revenue. Our main concern is that the bill contains a retroactive clause in Section 3. The clause applies to cases pending and transactions occurring after June 30, 2010. An eight-year “look-back” in tax law is highly unusual and likely will have unforeseen consequences. We have spoken with the Ohio Department of Taxation and the Ohio Oil and Gas Association, and there are a number of pending tax audits and court cases that could be affected by this language. The department provided an estimate to the LSC of \$9.3 million revenue loss to counties due to the retroactive application of the bill. It is likely that most of the fiscal effects will be concentrated in eastern Ohio. It is unclear if there are taxpayers who voluntarily paid the sales tax on certain items and could be entitled to a refund if the bill passes, so this number may go higher.

Due to the retroactive clause in the bill, if taxpayers are owed refunds, counties may be forced to remit amounts that they spent a number of years ago. These counties would not have known at the time that the sales tax revenue in question had been levied on specific oil and gas production equipment. Revenues distributed by the state back to the county are not accompanied by a detailed explanation. In addition, at the time these revenues were received, there was no specific direction from the state that tax policy may be changed retroactively years later.

Consequently, we respectfully request an amendment to the bill that would make the state responsible for all financial obligations arising out of taxpayer refunds due to the bill’s retroactive application. Thank you for the opportunity to share our concerns with the bill. I would be pleased to answer any questions that you may have.