



Mark Flanders
Director

OHIO LEGISLATIVE SERVICE COMMISSION

Larry Obhof, Chair

Edna Brown
Randy Gardner
Gayle Manning

Scott Oelslager
Bob Peterson
Kenny Yuko

Clifford A. Rosenberger, Vice-Chair

Nicholas J. Celebrezze
Sarah LaTourette
Thomas F. Patton

Dorothy Pelanda
Kirk Schuring
Fred Strahorn

Memorandum

R-132-3221

To: The Honorable Scott Oelslager
Ohio Senate

From: Jean J. Botomogno, Principal Economist *JJB*

Date: April 10, 2018

Subject: Tax Expenditure Review Committee, second meeting

You requested that LSC staff provide background information on the first five sales tax expenditures listed in the Department of Taxation's Tax Expenditure Report. This memorandum provides background information on when each tax break was created and its fiscal cost.

One of the committee's charges, as specified in Am. Sub. H.B. 9 of the 131st General Assembly, is to determine whether each tax expenditure successfully accomplishes its objectives. We are unable to state why a tax exemption was enacted or the extent to which it is meeting its original intent because language in the Ohio Revised Code enacting tax exemptions in general does not include intent or specific measurable goals, though it may occur in specific instances. Thus, the lack of specific metrics in tax law precludes an assessment of the success of most tax expenditures. However, LSC is able to provide the year of enactment and an estimate of the cost of the requested expenditures. Those are included in the table below. The sales tax was originally enacted by H.B. 134 of the 90th General Assembly. Information in the column of the table labeled "Enactment" includes major legislative changes since enactment, but may not identify every legislative change since enactment.

Estimates of the fiscal impact of each tax expenditure on the state GRF are from the Tax Expenditure Report dated January 2017. This report is produced by the Department of Taxation in connection with the introduction of the executive budget every two years. The Department of Taxation does not, however, include revenue losses from permissive county and transit authorities' sales and use taxes. Those local sales

taxes share the same sales tax base as the state, so state tax expenditures also reduce permissive local sales taxes. I have estimated the fiscal cost to counties and transit authorities at about 24.5% of the state's revenue loss. Losses in the table are in millions of dollars. It may be worth noting that exemption 1.04, for tangible personal property used primarily in manufacturing, is the largest single tax expenditure listed in the Tax Expenditure Report.

I hope this memorandum has been helpful. If you have additional questions, please call me at (614) 644-7758.

| Code Used in Tax Expenditure Report | Description | Authority | Enactment | Estimated Revenue Loss (\$ in millions) | | | |
|-------------------------------------|---|------------------------|---|---|-----------|----------------------------------|---------|
| | | | | State GRF | | Counties and Transit Authorities | |
| | | | | FY 2018 | FY 2019 | FY 2018 | |
| 1.01 | Sales to churches and certain other nonprofit organizations | R.C. 5739.02(B)(12) | H.B. 134, 90th G.A., (1934) (enacted the sales tax) | \$600.1 | \$614.2 | \$147.0 | \$150.5 |
| 1.02 | Sales to the state, any of its political subdivisions, and to certain other states | R.C. 5739.02(B)(1) | H.B. 134, 90th G.A., (1934) H.B. 715, 120th G.A., (1994) | \$122.9 | \$122.9 | \$30.1 | \$30.1 |
| 1.03 | Sales by churches and certain types of nonprofit organizations | R.C. 5739.02(B)(9) | H.B. 374, 104th G.A., (1962) | \$45.7 | \$47.6 | \$11.2 | \$11.7 |
| 1.04 | Tangible personal property used primarily in manufacturing tangible personal property | R.C. 5739.02(B)(42)(g) | H.B. 121, 91st G.A., (1935) H.B. 531, 118th G.A., (1990) (codified various case law) | \$2,210.7 | \$2,299.9 | \$541.6 | \$563.5 |
| 1.05 | Packaging and packaging equipment | R.C. 5739.02(B)(15) | H.B. 374, 104th G.A., (1962) | \$255.2 | \$264.7 | \$62.5 | \$64.9 |

