



December 2, 2015

**TO: MEMBERS OF HOUSE ECONOMIC AND WORKFORCE
DEVELOPMENT COMMITTEE**

FROM: BRAD COLE, MANAGING DIRECTOR OF RESEARCH

SUBJECT: OPPOSITION TO HB 343

Chair Baker and members of the House Economic and Workforce Committee thank you for the opportunity to speak to you today.

My name is Brad Cole and I am here representing the County Commissioners Association of Ohio (CCAO). CCAO is an opponent to HB 343, legislation which would exempt employment services and employment placement services from the state sales and use tax. The legislature adopted the sales tax on employment services in 1993.

My testimony focuses primarily on the fiscal impact of HB 343 on state and local resources. The Legislative Service Commission fiscal note indicates the following estimated losses to various state and local revenue funds in state fiscal year 2017:

- State General Revenue Fund - \$131 Million
- Counties and Transit Authorities - \$33 Million
- Local Government Fund and Public Library Fund - \$4.6 Million (amount includes impact on both state local government revenue sharing funds)

The state, counties and transit authorities share the same sales tax base. So, any expansion or reduction in the goods and services subject to the state sales tax will have a direct impact on the sales tax revenues collected by the Department of Taxation and distributed to counties and transit authorities. Currently, all 88 counties levy a permissive sales tax and 8 transit authorities also levy a local sales tax.

The sales and use tax is the number one revenue source for the county general fund for the vast majority of Ohio counties. This has been true for several decades, however, I believe within the past 8 years that reliance by counties on sales tax revenue has grown



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significantly. The reason for this increased reliance is twofold: 1) county sales tax revenue has experienced healthy growth in the past few years, and 2) the Great Recession and its aftermath reduced other revenue sources to the county general fund since 2007.

CCAO has generally supported expansion of the state sales tax base for the following reasons:

- A broader base in theory allows for lower sales tax rates
- Broad based sales taxes are inherently more stable than a narrower tax on fewer goods and services
- Expansion of the sales tax base to services allows the sales tax to stay current with the changing nature of the marketplace
- Base broadening allows for revenue growth over time

While our primary focus is on county sales tax collections, CCAO also must pay very close attention to trends in state revenue collections. The reason for this concern is straightforward: history shows that when state revenues decline the state reduces revenue sharing streams to local governments as it endeavors to maintain a balanced budget.

County government is particularly vulnerable to state reductions because counties serve as the administrative agent of the state on many different programs and services. Many state mandated, county delivered programs are jointly funded with state and local resources. Obviously, there is a temptation for the state with jointly funded county programs to withdraw state funds whenever state resources become scarce.

I would note that state reliance on state sales taxes also has grown over the past decade. The increased reliance of the state on sales taxes is consistent with the state tax policy objective of shifting taxation from income taxes to consumption based taxes. HB 343 would appear to be inconsistent with the overall state policy objective of reducing income taxes through increased reliance on sales and other consumption taxes.

Chair Baker and members of the committee that concludes our testimony on HB 343. I would be happy to attempt to answer questions from members of the committee at this time.