Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: H.B. 26 of the 130th G.A. **Date**: June 5, 2013

Status: As Introduced **Sponsor**: Rep. Maag

Local Impact Statement Procedure Required: Yes

Contents: Exempts sales of investment metal bullion and investment coins from the sales and use tax

State Fiscal Highlights

STATE FUND	FY 2014	FY 2015	FUTURE YEARS
General Revenue Fund			
Revenues	Potential loss of several millions	Loss of up to $8 million	Loss of $8 million
Expenditures	- 0 -	- 0 -	- 0 -
Other State Funds			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	- 0 -	- 0 -	- 0 -

Note: The state fiscal year is July 1 through June 30. For example, FY 2014 is July 1, 2013 – June 30, 2014.

- The bill reduces the sales and use tax base, and thus decreases sales tax revenue. The potential revenue loss would be dependent on prices and purchases of investment metal bullion and coins.
- State sales tax receipts are deposited in the GRF which would bear the majority of the revenue loss. Any reduction to GRF tax receipts would also reduce the amount distributed to the Local Government Fund (LGF) and Public Library Fund (PLF) as these local funds receive distributions from GRF tax receipts.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2013	FY 2014	FUTURE YEARS
Counties, municipalities, townships, and public libraries (LGF and PLF)			
Revenues	- 0 -	Potential loss	Potential loss
Expenditures	- 0 -	- 0 -	- 0 -
Counties and Transit Authorities			
Revenues	Potential loss	Loss of up to $1.9 million from reduced local sales taxes	Loss of up to $1.9 million from reduced local sales taxes
Expenditures	- 0 -	- 0 -	- 0 -

Note: For most local governments, the fiscal year is the calendar year. The school district fiscal year is July 1 through June 30.

- The bill reduces revenue from local county permissive and transit authority sales taxes. Those taxes share the same base as the state sales and use tax.
- Receipts from the state sales tax are deposited in the GRF. A share of GRF tax revenues is distributed under permanent law to the LGF and PLF. Thus, any reduction to GRF tax receipts would also reduce the amount distributed to the LGF and PLF.

Detailed Fiscal Analysis

H.B. 26 exempts sales of investment metal bullion and investment coins from the sales and use tax. Those sales were made exempt by H.B. 111 of the 118th General Assembly on July 1, 1989. Subsequently, H.B. 66 of the 126th General Assembly reinstated the sales and use tax on these items on July 1, 2005. Thus, H.B. 26 would return the taxation of investment metal bullion and coins to Ohio law prior to H.B. 66.

Using data from the Economic Census, nationwide sales of coins, medals, and other numismatic items[1] at jewelry stores, art stores, used merchandise stores, and miscellaneous store retailers were about $1.52 billion in 2007. Assuming Ohio sales at between 3% and 4% of nationwide sales, taxable sales in Ohio may have been between $46 million and $61 million that year. Like most commodities, the prices of precious metal bullion and coins depend on supply and demand of each metal, monetary conditions, inflation levels, or the expectation of future inflation and, as a result, prices could be very volatile. The taxable base for sales of investment metal bullion and coins will rise and fall with those conditions. An Internet search reveals that prices of various metals, particularly gold and silver, have trended higher in recent years. Price data from the National Mining Association and other sources suggest prices may have more than doubled for certain metals[2] between 2006 and 2012, and annual Ohio taxable sales may be between $125 million and $146 million. Associated tax revenue from the state sales and use tax on those sales would be between $7 million and $8 million. Accordingly, the revenue loss from the bill may be within the same range.

Receipts from the sales and use tax are deposited into the GRF. Under permanent law, a portion of GRF tax receipts are subsequently transferred to the Local Government Fund (LGF) and the Public Library Fund (PLF). Am. Sub. H.B. 153 (the operating budget act for FYs 2012 and 2013) fixed the LGF and PLF transfer amounts at predetermined levels so that any increase (or decrease) in tax receipts during the biennium will affect the GRF only. For FY 2014 and subsequent years, transfers to the LGF and PLF will resume based on a fixed percentage, but the applicable percentage is not yet known. The Tax Commissioner will determine, by July 5, 2013, the ratio of FY 2013 transfers to the respective funds to total FY 2013 GRF tax revenues. Subsequent transfers to the LGF and PLF will be based on those respective ratios.

[1] Sales at Ohio used merchandise stores for product code 20867 were 3.4% of nationwide sales. Ohio's shares of sales at jewelry stores, art dealers, and other miscellaneous store retailers were not available.

[2] Actual growth in prices of all metals in the taxable base (including silver, palladium, platinum, etc.) will vary. For example, gold prices grew from an average of about $445 an ounce in CY 2005 to about $1,667 in CY 2012. However, from December 31, 2012 to May 15, 2013, gold prices have declined about 17%. In the corresponding period, silver prices grew from about $7 to $31, and in 2013 have fallen back to $28.

The bill will also decrease receipts from county permissive and transit authority sales taxes because those local sales taxes share the same tax base as the state sales and use tax. Based on the state's potential sales tax revenue loss, revenue foregone by local governments from reduced permissive and transit authority sales taxes may be between $1.6 million and $1.9 million annually.

Any price declines from current levels in the precious metal markets would also reduce estimated revenue losses to the state and local governments. Also, an unknown share of sales of investment bullion and investment coins occur through remote sales (catalogs, telephone, Internet sales), and that share may be growing. A portion of those remote purchases likely escape sales and use taxes already. For such sales, the bill would not result in a revenue loss. For this reason, it is possible the fiscal note may overstate the potential revenue loss from the bill.

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