COST
COUNCIL ON STATE TAXATION

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Senator Jerry C. Cirino, Chair
Senator Brian M. Chavez, Vice Chair
Senator Paula Hicks-Hudson, Ranking Member
Ohio Senate Finance Committee

Re: COST Opposes Repeal of Business Input Sales Tax Exemptions in H.B. 96

Dear Chair Cirino, Vice Chair Chavez, Ranking Member Hicks-Hudson, and Members of the Committee:

On behalf of the Council On State Taxation (COST), we urge you to reject the repeal of business-to-business sales tax exemptions in H.B. 96. This base expansion to business-to-business transactions (business inputs) violates several principles of sound tax policy and is counter to a fair, efficient, and well-designed sales tax focused on taxing end user (final) consumption. Repealing the business inputs exemptions in H.B. 96 contravenes an ideal sales tax system by increasing Ohio's sales/use tax on business inputs. This creates more tax pyramiding and it lacks transparency to both consumers and policy makers. Further, repealing the business inputs sales/use tax exemptions will significantly reduce Ohio's economic competitiveness and growth as it will place Ohio's businesses at a competitive disadvantage.

About COST

COST is a non-profit trade association based in Washington, DC. COST was formed in 1969 as an advisory committee to the Council of State Chambers of Commerce and today has an independent membership of approximately 500 major corporations engaged in interstate and international business, many of which have significant business activities in Ohio. COST's objective is to preserve and promote the equitable and non-discriminatory state and local taxation of multijurisdictional business entities.

COST Opposes Sales Taxes on Business Inputs

The COST Board of Directors has adopted a formal policy position opposing the imposition of sales taxation on business inputs.[1] That policy position provides:

[1] See "Sales Taxation of Business Inputs;" available at: www.cost.org/globalassets/cost/state-tax-resources-pdf-pages/cost-policy-positions/sales-taxation-of-business-inputs.pdf.

> *Imposing sales taxes on business inputs violates several tax policy principles and causes significant economic distortions. Taxing business inputs raises production costs and places businesses within a State at a competitive disadvantage to businesses not burdened by such taxes. Taxes on business inputs, including taxes on services purchased by businesses, must be avoided.*

Imposing sales tax on business inputs specifically violates the tax policy principles of neutrality, equity, simplicity, and transparency and causes economic distortion. This distortion results primarily from tax pyramiding. Pyramiding occurs when a tax is imposed at multiple levels and thereby imposes a hidden effective tax rate that exceeds the retail sales tax rate. The hidden rate creates a lack of transparency for both the consumer and the legislature. Tax pyramiding forces companies to either pass these increased costs on to consumers or reduce their economic activity in the State to remain competitive with other service providers that do not bear the burden of increased taxes. The economic burden of taxes on business inputs inevitably shifts to consumers through higher prices or to labor in the State through lower wages and fewer jobs. To put it simply, although this tax is a direct tax on businesses, the vast majority of the tax will be passed along to Ohio citizens through higher prices and/or stagnating wages.

Tax on Business Inputs Will Undermine Ohio's Competitiveness

While we normally think of the sales tax as a tax on individual consumers, approximately 42.8 percent of the national sales tax base falls on business inputs. Ohio's tax on business inputs represents approximately 41 percent of its tax base, putting it slightly below the national average.[2] However, two of Ohio's neighboring states' sales taxes on business inputs are much lower: Indiana is only 32% and Michigan is at 36%. Additionally, the repeal of some of these sales tax exemptions fails to account for some businesses, such as agriculture, that are subject to regional and national agricultural pricing which will likely result in their absorption of the additional tax because they cannot pass it on to others. Other businesses, such as call centers, will need to evaluate whether it's best to relocate their business operations to another state not taxing business inputs.

Conclusion

For the foregoing reasons, COST strongly urges members of this Committee to reject the repeal of business input sales tax exemptions as a "pay for" to provide personal income tax breaks. Imposing additional sales taxes on business inputs will make Ohio a less attractive location for businesses to conduct their operations.

Respectfully,

Fredrick J. Nicely

cc: COST Board of Directors
Patrick J. Reynolds, COST President & Executive Director

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[2] See COST/EY "The Impact of Imposing Sales Taxes on Business Inputs" study available at: www.cost.org/globalassets/cost/state-tax-resources-pdf-pages/cost-studies-articles-reports/1903-3073001_cost-ey-sales-tax-on-business-inputs-study_final-5-16.pdf.