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STATE SALES TAX

AS OF: June 26, 2003

General sales tax provisions:

- The statewide sales tax rate increases to 6 percent, effective July 1.
- Some additional services become taxable Aug. 1 (see “Base-broadening...,” below).
- Due to recently-enacted piggyback taxes in three counties, the sales tax increases from 6 to 7.5 percent in Champaign County, from 5.5 to 6.75 percent in Hancock County and from 5.25 to 6.5 percent in Stark County.
- The items taxable by local piggyback taxes are the same items taxable by the state.
- This increase is part of the state budget package, House Bill 95, enacted June 20 by the General Assembly. It must be signed by the governor in order to become law. He can veto all or a portion of it.
- Total revenue increases from all sales tax provisions in H.B. 95 are estimated at \$1.32 billion in FY 04 (including \$189.2 million from base-broadening) and \$1.38 billion in FY 05 (including \$206.5 million from base-broadening).
- The last sales tax increase occurred in November 1981, making permanent a temporary 5 percent rate adopted in January 1981.

Examples of currently taxable items/services, which continue to be taxable July 1:

- In general, sales tax applies to the sale of an item, unless the item is specifically exempt by law.
- Major current exemptions are food for consumption off the premises where sold, prescription drugs, newspapers, magazine subscriptions, and local telephone and cable TV service.
- Most services are exempt from the sales tax and will remain so. However, some services are currently taxed, including lawn care and landscaping, employment services and employment placement services, private investigation, and physical fitness facility memberships.

Base-broadening to include new services affects the following, effective Aug. 1:

- Storage facility service
- Personal care (e.g., manicures; pedicures; tanning; massages – unless prescribed or performed by a doctor or chiropractor –; skin care; application of cosmetics; hair removal; tattooing; body piercing; but NOT haircuts or perms)

- Satellite broadcasting service (audio and video)
- Dry cleaning and laundry (NOT coin operated)
- Delivery charges (by a vendor in connection with the sale of personal property, e.g., delivery of furniture after purchase)
- Intrastate transportation (of people, such as taxis, limousines and helicopter rides, but NOT public transit systems or commercial airlines)
- Vehicle towing
- Snow removal service (if annual earnings from the service are \$5,000 or more)
- **Provision of all these services requires a county vendor's license, except for satellite and snow removal, which require a service vendor's license**

Also effective July 1:

- The exemption of sales tax for vanpooling is repealed.
- The exemption of sales of tangible personal property used in mine reclamation is repealed.
- The exemption of the sale of 800, WATS, and Private Communications Service is repealed, except for sales of these telephone services to call centers

H.B. 95 makes several changes to the tax code to conform with the Streamlined Sales Tax Agreement:

- The Agreement is comprised of a consortium of more than 40 states and the District of Columbia which developed uniform standards for the tax base, tax returns and remittances of sales taxes among participating states.
- The long-term effect of these changes will produce additional sales tax revenue and increase compliance among vendors and consumers. While some provisions will result in revenue losses in the short term, these losses are expected to be off-set by the increase in collections of sales tax by out-of-state sellers from Ohio customers.

Sales tax provisions in accordance with the Streamlined Sales Tax Agreement:

- Expand the definition of exempt food to mean any item of nutritional value, including bottled water and chewing gum
— (effective July 1, 2004, with an estimated revenue loss in FY 05 of \$21.4 million)
- Expand the definition of exempt prescription drugs to include any medications prescribed or dispensed by a physician
— (effective July 1, 2003, with estimated revenue losses of \$7.5 million in FY 04 and \$8.8 million in FY 05)
- Expand the definition of exempt medical equipment to include some ambulatory aids
— (effective July 1, 2003, with estimated revenue losses of \$100,000 in both FY 04 and FY 05)
- Replace current sales tax brackets with 5/4 up/down rounding
— (effective Jan. 1, 2006, no lost revenue in either FY 04 or FY 05) and FY 05)

Miscellaneous sales tax provisions, effective July 1:

- Exempt parts and services used in repairing and maintaining aircraft with fractional share ownership (private aircraft whose ownership is shared by a group of people)
— (estimated revenue loss of \$400,000 in both FY 04 and FY 05)
- Cap the sales tax on fractional shares of aircraft to a maximum of \$800 on each fractional share
— (estimated revenue loss of \$2.1 million in FY 04 and \$2.2 million in FY 05)
- Increase the threshold for accelerated sales tax payment by businesses from \$60,000 in annual taxes collected (annual liability) to \$75,000 in annual liability
— (estimated revenue loss of \$4 million in FY 04, none in FY 05)

- Temporary increase (to June 30, 2005) in vendors' discount from .75 percent to 0.9 percent (for timely payment on or before the due date)
— (estimated revenue loss of \$9.0 million in FY 04 and \$10.2 million in FY 05)

Other tax provisions in H.B. 95 eliminate some exemptions for local telephone companies (to create greater uniformity in the taxation of local, long-distance and wireless telecommunications companies):

- Removes local telephone companies from the public utility excise (gross receipts) tax, effective July 1, 2004
- Requires local telephone companies to collect sales tax, effective Jan. 1, 2004
- Makes local telephone companies subject to corporate franchise tax in tax year 2004
- Makes local telephone companies subject to municipal income tax in tax year 2004