



Tax Incentive Review Committee Testimony

April 11, 2018

In our efforts to keep Ohio's businesses competitive, allow me to explain our position on one of the items before you. Over the years, Ohio has enacted an array of tax deductions, exemptions and credits. Most of them fall under one of the following rationales:

- They are constitutionally required;
- They exclude a "necessity" such as food, from taxation;
- They enhance Ohio's incentives to invest in manufacturing equipment, locate businesses in targeted economic development areas, etc.
- They limit double taxation/pyramiding.

One or more of these criteria explains or constitutes a plausible reason for the enactment of most of the tax expenditures. For our purposes, the largest tax expenditure in the entire Tax Expenditure Report is the sales tax exemption for the sale of tangible personal property (TPP) (1.04) primarily used in manufacturing, with the state estimated to be foregoing over \$2.2 billion in revenue per year per the most recent Tax Expenditure Report. Originally enacted in 1935 when Ohio was a manufacturing powerhouse, the exemption was intended to protect Ohio manufacturers from having to pay a 3% sales tax (now between 6%

to 8%) on items of TPP that are ultimately incorporated into the completed product being manufactured.

This exemption has had the effect of preventing the pyramiding of that 6-8% sales tax at each stage of the manufacturing process and is especially important, for obvious competitiveness reasons, to the state's manufacturing sector and overall economy where many Ohio manufacturers are part of a multi-tier supply chain. The very act of preventing the pyramiding of the sales tax on Ohio manufactured goods is critically important to the continued health and competitiveness of Ohio jobs and Ohio's economy. The sales tax manufacturing exemption clearly provides critical support for an essential part of Ohio's business health – and is undeniably worth the price.

Therefore, the Ohio Chamber of Commerce fully supports the necessity for and value of this exemption and urges its continuation.