

**Testimony of the Manufacturing Policy Alliance
by Thomas M. Zaino, JD, CPA
Tax Expenditure Review Committee
April 11, 2018**

Chairman Oelslager and fellow distinguished members of the Tax Expenditure Review Committee, my name is Tom Zaino, and I am Managing Member of Zaino Hall & Farrin LLC. I am here today on behalf of the Manufacturing Policy Alliance (MPA). The Manufacturing Policy Alliance (MPA) is a group of large manufacturers around the state of Ohio who operate in all eighty-eight counties. Combined, MPA has an annual payroll of \$2.5 billion and spends approximately \$11 billion with suppliers around the state.

MPA was formed to provide an effective voice on critical policy matters that affect the competitiveness of Ohio and its large manufacturing companies. We strive to work with the General Assembly and the Governor to help sustain a healthy and vibrant economy. I am here today to speak to the Committee with regard to its review of the sales and use tax exemption for manufacturing and packaging. These exemptions are critical to manufacturers. Therefore, my testimony is to express support for the continuing exemption of the following:

- The transfer of things used primarily in a manufacturing operation to produce tangible personal property for sale under R.C. 5739.02(B)(42)(g); and
- Machinery, equipment, and material for use primarily in packaging tangible personal property produced for sale under R.C. 5739.02(B)(15).

I will discuss the impacts of these two exemptions using the Committee's standards of review.

Who receives the direct benefit or consequences of the exemptions?

Manufacturers of tangible personal property receive the direct benefit of both of these exemptions. The employees and suppliers of manufacturers also receive a consequential benefit by insuring the strength of Ohio's manufacturing industry. The packaging exemption also benefits other important industries in Ohio.

What is the fiscal impact of the exemptions on state and local taxing authorities?

The Ohio Department of Taxation and Legislative Service Commission is best situated to provide the Committee this information.

What public policy objectives support the exemptions?

MPA believes that elimination of pyramiding and competitiveness are the major public policy goals of these two exemptions:

Eliminate Pyramiding: According to the Report of the 1994 Commission to Study the Ohio Economy and Tax Structure, "the concept behind the sales tax as a consumption tax leads to the conclusion that all business purchases should be exempt and only the sale to the final consumer should be taxed. This approach results in

no pyramiding of the tax.” The two exemptions do not totally eliminate pyramiding for manufacturers as described by the Commission. However, the exemptions certainly mitigate pyramiding.

Ensure Competitiveness: According to the 2003 Report of the Committee to Study State and Local Taxes, “the tax system is a meaningful part of a state’s living, working, and business environment. It should not impose an excess burden on taxpayers, particularly as compared to the tax systems of other states and, more and more, as compared to other parts of the world.” Forty-five states impose a sales and use tax. Of those, only four provide no exemption for manufacturing machinery & equipment and for raw materials. Five other states provide no or only a partial exemption for machinery & equipment. Only six states provide no or only a partial exemption for packaging of manufacturers. If Ohio were to “disarm” and eliminate or narrow these two exemptions, it would place Ohio at a competitive disadvantage to most states and further deteriorate our competitiveness with other parts of the world.

Do the exemptions successfully accomplish any of the intended public policy objectives?

Pyramiding: Somewhat. The manufacturing exemption goes a long way, but does not totally eliminate pyramiding of the sales and use tax for manufacturers. Many purchases by manufacturers continue to be subjected to sales and use tax, including employment services deployed on manufacturing lines, safety equipment not physically attached to machinery (i.e., safety glasses, respirators, etc.), equipment used before manufacturing begins and after manufacturing ends, and packaging. Of course, the packaging exemption separately exempts packaging equipment and material of manufacturers.

Competitiveness: Yes. The manufacturing and packaging exemptions broadly keep Ohio on a level playing field for overall competitiveness among major states because almost all state with a sales tax provide a manufacturing and packaging exemption.

Could the public policy objectives be accomplished successfully without the expenditure or with less cost to state and local governments?

No. The MPA is not aware of any other practical method of achieving the public policy objectives without the exemption or with less cost to state and local governments.

Could the intended public policy objectives identified be accomplished successfully through a program that requires legislative appropriations for funding?

No. The MPA is not aware of any other practical method of achieving the public policy objectives through a program that requires legislative appropriations for funding.

Does the tax expenditure provide unintended benefits to individuals, organizations, or an industry other than those the general assembly intended or created an unfair competitive advantage for its recipient with respect to other businesses in the state?

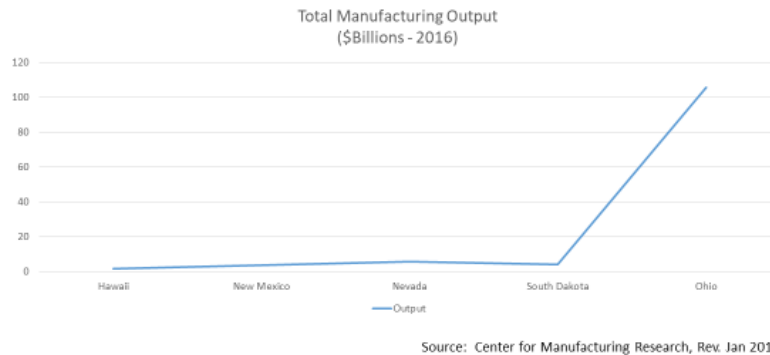
No. MPA does not believe the exemptions provide unintended benefits to individuals, organization or an industry other than those the general assembly intended, not do they create an unfair advantage for its recipients with respect to other business in Ohio.

What negative effects would terminating the exemptions have taxpayers that currently benefit from the exemption?

Terminating the exemptions would have devastatingly negative effects on Ohio and manufacturing jobs. According to the Center for Manufacturing Research, manufacturing accounted for 16.9 per cent of Ohio’s total economic output and employed 687,400 individuals in 2016. This was approximately 12.5% of nonfarm employment. Ohio would risk losing these manufacturing jobs to all the other states that provide these exemptions or do not have a sales tax.

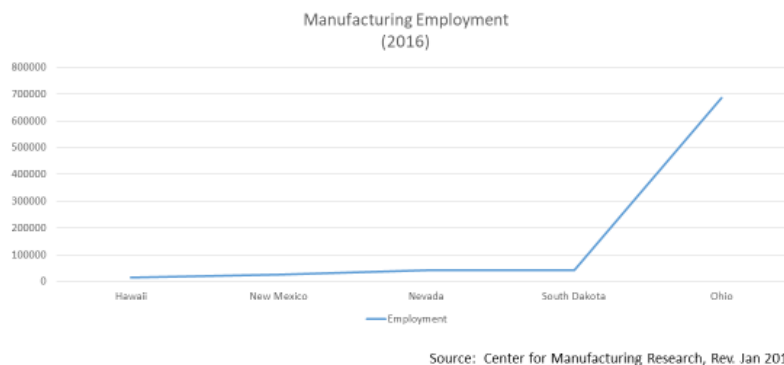
States with a sales tax that do not have an exemption for manufacturing also have no major manufacturing in their state. These states are Hawaii, Nevada, New Mexico, and South Dakota. Using 2016 data from the Center for Manufacturing and Research, the following chart compares the manufacturing output of states with no manufacturing exemptions with Ohio.

Comparing Output of States With No Manufacturing Exemption to Ohio



This next chart compares manufacturing employment in those states with no manufacturing exemptions with Ohio.

Comparing Mfg. Employment of States With No Manufacturing Exemption to Ohio



While the comparisons are obviously dramatic and the causality may be suspect, these charts certainly point out that Ohio should not eliminate its manufacturing exemptions and only compete with Hawaii, New Mexico, Nevada and South Dakota for manufacturing jobs.

What are the negative or positive effects on the state's employment and economy as a result of the tax expenditure?

Devastatingly negative. See the discussion and charts above.

What is the feasibility of modifying the tax expenditure to provide for adjustment or recapture of the proceeds of the tax expenditure if the objectives of the tax expenditure are not fulfilled by the recipient of the tax expenditure?

None. The exemptions could not be modified in any practical way to recapture benefits if the objectives are not achieved.

Suggestions

The Ohio's sales and use tax manufacturing exemption and the packaging exemption have a very significant impact on manufacturers and is an important tool for Ohio to maintain its competitiveness to attract and retain manufacturing. MPA suggests that the Committee recommend continuation of the manufacturing or packaging exemptions.

The current manufacturing exemption and the Manufacturing Rule (O.A.C. 5703-9-21) has been very successful since its enactment in 1990 because it was the result of joint efforts by ODT and businesses. However, manufacturing has changed significantly in the last twenty eight years and MPA encourages the Committee to recommend that the Ohio Department of Taxation sponsor a broader dialogue on Ohio's manufacturing exemption and the 35 page rule in an effort to ensure Ohio's competitiveness for attracting and retaining manufacturing. Concerns that could be discussed include the lack of exemption for safety equipment in light of more modern efforts to ensure workers' safety, as well as the lack of an exemption from the imposition of sales tax on employment services which includes the wages of workers on the manufacturing line. MPA stands ready to assist policy makers with keeping Ohio's manufacturing industry healthy and competitive.

Mr. Chairman, this concludes my testimony. I would be happy to answer any questions you or members of the Committee may have.