Policy Matters Ohio

TESTIMONY
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Tax & Budget

Testimony on HB 430 before the Senate Ways & Means Committee

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Good morning, Chairman Eklund, Vice Chair Terhar, Ranking Member Williams, and members of the Senate Ways and Means Committee. My name is Wendy Patton and I am a senior project director at Policy Matters Ohio, a nonprofit, nonpartisan organization with the mission of creating a more prosperous, equitable, sustainable and inclusive Ohio. Thank you for the opportunity to testify on House Bill 430, which would expand the sales tax exemption for oil and gas production companies in Ohio.

Under current law, companies that produce oil and gas in Ohio already enjoy an exemption from the sales tax for purchase of tangible personal property "directly used in production" of oil and gas. House Bill 430 removes the qualification that property be used "directly" in the production of crude oil or natural gas in order for its sale to be tax-exempt. This is a key definition long used in other sales tax exemptions, like the manufacturing tax exemption, which are intended to prevent a pyramiding effect of sales tax in products that are sold to final consumers. In vetoing a similar provision in Senate Bill 235 of the 131st General Assembly, Governor Kasich noted that the expanded exemption the oil and gas industry would enjoy as a result of this bill would create an uneven playing field and cautioned this could invite other industries like manufacturing and agriculture to also seek a broader exemption from Ohio's sales tax.

Though it notes that "the effect of the scope of the exemption is not clearly apparent," the Legislative Service Commission has estimated this expanded tax break would cost the state, local governments and libraries more than $50 million in Fiscal Year 2019 because it is retroactive to 2010, and $5.1 million a year after that. This is special-interest legislation granting new tax benefits to an industry that already pays a fraction of what it should in taxes. In the 2018-19 budget bill, the General Assembly once again did not embrace the Governor's recommendation for a conventional severance tax. The oil and gas industry in Ohio pays one of the lowest severance taxes in the nation on production. As the Governor noted at the time of his veto, continued growth of the industry's production in Ohio even in the face of declining prices is evidence that the tax climate is no barrier to exploration or production. His observation 16 months ago is still true today. We urge you not to pass HB 430 into law.