

Who Pays the Hamilton County Sales Tax?

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INTRODUCTION

At the request of the Cultural Facilities Task Force, the Economics Center at the University of Cincinnati investigated how much of Hamilton County's sales tax is paid by Hamilton County residents. As a part of this examination, the Economics Center examined data from a variety of sources and developed estimates based on its analysis. These findings are briefly described here.

The State of Ohio taxes retail sales of most tangible personal property, as well as the rental of such property and the sales of a range of specified services. In addition to the state sales tax (currently 5.75%), counties are authorized to levy a tax on the same goods and services. Sales taxes are paid by anyone other than government and non-profit entities making these purchases. In 2013, Hamilton County received nearly \$139 million in sales tax revenue from an estimated \$14.0 billion in taxable sales.

Hamilton County estimated taxable sales	\$14,027,287,713
Hamilton County sales tax revenue (net of 1.0% administration fee)	\$138,870,148

Source: Economics Center and Ohio Department of Taxation

Who Pays the Sales Tax?

In general, Hamilton County sales taxes are paid by anyone making taxable purchases that occur in Hamilton County (with the exception of motor vehicle purchases, which are treated as occurring in the county of residence of the purchaser). Consequently, part of Hamilton County's \$139 million in sales tax revenue comes from purchases made by residents of neighboring counties and other visitors who make purchases from Hamilton County businesses.

To determine the proportion of the tax that is paid by Hamilton County residents, the Economics Center drew upon data from the Consumer Expenditure Survey (CES), the only Federal survey to provide information on the complete range of consumers' expenditures. This survey classifies expenditures into different categories that the Economics Center used to determine the amount of taxable expenditures of Hamilton County residents.

Income vs. Spending

Based on responses to the Consumer Expenditure Survey, the Bureau of Labor Statistics (BLS) produces tables about the income and expenditures of households and other consumer units by income, region, and selected metropolitan areas, as well as other characteristics. Because most households save a portion of their income and pay taxes, they do not spend all of their income on goods and services. Based on its own analysis of the BLS consumer expenditure data, the Economic Center estimates that Hamilton County residents spend an average of 75.5 percent of their income.

Taxable vs. Non-Taxable Expenditures

The Economics Center made a distinction between taxable expenditures and those that are non-taxable (such as food consumed at home, most shelter costs, most non-auto transportation, education, insurance, and certain services). This distinction is based on the Economics Center's analysis of Ohio's sales tax legislation. Through this research, the Economics Center determined that \$8.26 billion dollars of Hamilton County resident expenditures in 2013 were taxable, 42.4 percent of all spending by County residents.

Leakage

Leakage occurs when Hamilton County residents spend their income in counties outside of their home county. The Economics Center identified three categories of leakage: normal, travel, and tax avoidance.

- **Normal Leakage:** This results from typical consumer spending patterns, such as a resident of Hamilton County travelling outside of the county in order to go to a restaurant or to purchase goods from a store in another county. The Economics Center determined that approximately one-fourth of all households live in ZIPs adjacent to or crossing Hamilton County boundaries with other Ohio counties, which provides convenient access to additional business establishments. In addition, many residents can easily get to stores in Northern Kentucky¹. In most expenditure categories, normal leakage accounts for 5% or 10% of all spending by County residents.
- **Travel Leakage:** This results from Hamilton County residents making purchases while on business or leisure trips, including vacations. Travel leakage is estimated to account for 5% or 7% of expenditures in categories such as food and drink, transportation (except vehicle purchases), and entertainment, while hotel spending by County residents is considered to occur entirely outside of Hamilton County.
- **Tax Avoidance:** This results from Hamilton County residents travelling across state lines to avoid high excise taxes, particularly on tobacco and related products. Due to Hamilton County being a border county, it is particularly susceptible to this type of leakage.

Summary of Taxable Spending

The following table summarizes the taxable expenditures by Hamilton County residents in 2013. The middle column shows that taxable spending by County residents in all 17 categories totaled \$8.26 billion². The far right column presents the amount of resident spending in each category that occurred in Hamilton County. The difference between the two numbers is the total leakage of

¹ Estimates of normal leakage were based in part on research conducted by Telenav, Inc., which found that consumers are willing to travel 3 to 9 miles for a wide variety of shopping categories.

² This represents 42.4% of all spending by Hamilton County residents. The other 57.6% of their spending was for goods and services that are not subject to state and local sales taxes.

resident expenditures. This leakage ranges from 100 percent for hotels to 0 percent for vehicle purchases. The overall average leakage rate is 9.85 percent, resulting in a total of \$7.45 billion in Hamilton County resident spending occurring within the County.

Expenditures by Hamilton County Residents in 2013 (Thousands of Dollars)		
Expenditure Categories	Total Spending	Spending in Hamilton Co.
Food and drink		
Food away from home	\$997,039	\$852,468
Alcoholic beverages	\$175,264	\$149,851
Shelter		
Dwelling maintenance	\$452,718	\$430,082
Household services	\$260,155	\$247,147
Housekeeping supplies	\$235,824	\$224,033
Household furnishings and equipment	\$587,956	\$529,160
Hotels, etc.	\$80,747	\$0
Transportation		
Vehicle purchases (net outlay)	\$1,289,814	\$1,289,814
Gasoline and motor oil	\$1,088,080	\$981,992
Vehicle maintenance, repair, and rental	\$449,590	\$405,755
Other		
Apparel and services	\$627,260	\$564,534
Entertainment, except admissions	\$767,030	\$642,004
Medical supplies	\$77,084	\$73,230
Personal care products and services	\$229,407	\$206,466
Telephone	\$461,889	\$438,795
Tobacco products and smoking supplies	\$136,762	\$98,469
Miscellaneous	\$345,515	\$310,964
Total	\$8,262,134	\$7,444,764

Source: Consumer Expenditure Survey, U.S. Bureau of Labor Statistics, September 2013, and Economics Center analysis.

Conclusion

When the figure for local spending by Hamilton County residents (\$7,444,764,000) is divided by the total estimated Hamilton County taxable sales (\$14,027,287,713), **53 percent of the Hamilton County sales tax is paid by County residents.** The remaining 47 percent of Hamilton County sales taxes are paid by other consumers.

Methodological Note

Because of a decreased sample size, the Bureau of Labor Statistics has not published consumer expenditure figures for the Cincinnati area since its 2006 report of findings from the 2003 and 2004 surveys. Consequently, the Economics Center created 2013 estimates for the Cincinnati metro area based on this earlier data and statistics for the Midwest region and the Cleveland MSA from 2012 and 2004.

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About the Economics Center

The Research and Consulting division of the Economics Center provides the knowledge building blocks that help clients make better policy and economic development decisions. Our dynamic approach and critical data analysis empower leaders to respond to changing economic conditions, strengthen local economies and improve the quality of life for their communities.