



## Sweeping Ohio Tax Reform Enacted

Gov. Bob Taft signed H.B. 66, the biennial state budget bill for fiscal years 2006-2007, into law on June 30. The bill, effective July 1, made a number of significant changes to Ohio's tax code.

These changes affect most Ohio business and Ohio income taxpayers. Below are links to information that details each of these changes. This page will be updated frequently as more information becomes available.

### GENERAL INFORMATION

- ➔ [News Release: Ohio Reforms Tax System - Every Major State Tax is Changing July 1](#)
- ➔ [Ohio Budget Bill \(Fiscal Years 2006-07\): Major Ohio Tax Law Changes](#) <sup>(PDF)</sup>
- ➔ [Ohio Tax Reform: Informational Seminars](#)
- ➔ [Text of H.B. 66](#)
- ➔ [Chart: Tax Law Rate Changes Under H.B. 66](#) <sup>(PDF)</sup>

### COMMERCIAL ACTIVITY TAX -- CAT

- ➔ [General Information Letter](#)
- ➔ [Informational Brochure: Ohio's Commercial Activity Tax and Major Tax Law Changes](#)
- ➔ [Frequently Asked Questions \(FAQs\) - Commercial Activity Tax](#) <sup>(PDF)</sup>
- ➔ **Registering for the CAT** -
  - Most businesses with taxable gross receipts of \$150,000 must register for the Commercial Activity Tax. The deadline is November 15.
  - **On-line registration** is encouraged. There is a \$15 refundable fee charged.
  - Registration is available through the Ohio Business Gateway ([obg.ohio.gov](http://obg.ohio.gov))
  - To access the registration system, you must first register to become an OBG user. There is no cost to register for OBG.
  - **Paper registration** may be done for a \$20 fee. Forms are available by calling 1-800-282-1782.
- ➔ Have a CAT question? Call toll-free **1-888-7CATTAX** (1-888-722-8829)

### TANGIBLE PERSONAL PROPERTY TAX

- ➔ **NEW** [Tangible Personal Property Tax Reimbursement](#) (enacted in H.B. 66)

## What is the Rate of the CAT?

- ◆ Gross receipts between \$150,000 to \$1.0 million: privilege tax of \$150.
- ◆ When the CAT is fully phased in, gross receipts above \$1.0 million: \$150 plus 0.26% on gross receipts in excess of \$1.0 million.
- ◆ Rate is phased in over the next five years in 20% increments (see chart in this brochure for rates and timelines).
- ◆ CAT rate is subject to adjustment by the Tax Commissioner if revenue collections of the tax are 10% or more greater or lesser than projections.

## CAT Exceptions

- ◆ Nonprofit organizations.
- ◆ Financial institutions.
- ◆ Insurance companies.
- ◆ Affiliates of financial institutions and insurance companies.
- ◆ Dealers in intangibles.
- ◆ Certain receipts by public utilities that are subject to the public utility excise tax.
- ◆ Sales of motor fuel are exempted from gross receipts for two years.

## What is a Gross Receipt?

- ◆ The total amount realized, without deduction for the cost of goods sold or other expenses incurred, from activities that contribute to the production of gross income. Examples are:
  - Sales.
  - Performance of services.
  - Rentals or leases.

- ◆ The calculation for gross receipts is based on what the taxpayer is required to use for federal income tax purposes, i.e., accrual or cash basis.
- ◆ There is a deduction for bad debt.

## What is Not a Gross Receipt?

Receipts of:

- ◆ Employee compensation, i.e., wages and benefits.
- ◆ Interest, dividends, federally-defined capital gains, and distributions.
- ◆ Proceeds from loans, stocks, bonds, mutual funds, trusts, pension plans, or certificates of deposit.
- ◆ Damages received from litigation.
- ◆ Property, money, or other compensation received by an agent in excess of commissions or fees.

## When are the CAT Filing and Payment Dates?

- ◆ The initial return covers the period July 1, 2005 through December 31, 2005. The return is due February 10, 2006.
- ◆ In addition, every taxpayer subject to the CAT will be required to file and pay at least the \$150 privilege tax for the calendar year 2006 by May 10, 2006.
- ◆ Subsequent returns are due on a quarterly basis if the taxpayer has receipts over \$1.0 million a year; otherwise returns are due annually (e.g., February 10th).
- ◆ A tax return will be sent to all registered taxpayers before the first return is due.

## Other Changes to Ohio Taxes

- The **corporation franchise tax** is phased out over five years at a rate of 20% per year, beginning in tax year 2006.
- All components of the **tangible personal property (TPP) tax** – inventory, manufacturing machinery and equipment, and furniture and fixtures – are phased out over four years at approximately 25% per year, starting in tax year 2006.
- The **Ohio income tax** is cut by 4.2% in tax year 2005, and cuts continue for four years to total a 21% reduction from 2004 rates.
- **Sales tax:** temporary 6.0% state sales tax is reduced by 0.5% (state rate of 5.5%). Local permissive sales taxes are in addition to that rate.
- **Cigarette excise tax:** excise tax on cigarettes is increased to \$1.25 per pack. Delivery sales of cigarettes, e.g., Internet or catalogue sales to customers in Ohio, are now restricted to prevent the sale of cigarettes to minors.

## Questions?

Get the answers to your CAT questions by calling ODT at:

**1-888-7-CATTAX (1-888-722-8829)**

or,

E-Mail your questions by visiting [tax.ohio.gov](http://tax.ohio.gov) and clicking on the “Contact Us” link.

OHIO'S  
COMMERCIAL ACTIVITY TAX

# CAT

and other

## MAJOR TAX LAW CHANGES

- including -

- Income Tax Rate Cut
- Corporation Franchise Tax Phase-Out
- Tangible Personal Property Tax Phase-Out
  - Sales Tax Rate Cut
  - Cigarette Tax Increase

Ohio Budget Bill  
(Fiscal Years 2006-07)



Bob Taft, Governor  
William W. Wilkins, Tax Commissioner

## Ohio's New Commercial Activity Tax and Other Tax Changes in Ohio

Major changes are happening to Ohio's tax code with the enactment of Am. Sub. H.B. 66. These changes affect most Ohio business and Ohio income taxpayers. The most prominent change is the introduction of the **Commercial Activity Tax (CAT)**, a business privilege tax measured by a business's gross receipts. The CAT is being phased in over five years and replaces the corporation franchise tax and the tangible personal property tax, which are being phased out over a similar time period. Also, all Ohio income taxpayers will see their Ohio income tax rates cut over the next five years by a total of 21%.

This brochure offers a broad outline of many of the changes that most Ohio taxpayers will experience during the next five years. It includes a chart that details the phasing of several taxes. This brochure also provides important information to businesses regarding registration for the CAT.

**Note:** *This brochure is not meant to be a comprehensive description of all tax changes. It should not be taken as a substitute for the law itself.*

## Register Your Business

- ❖ *The effective date of the CAT is July 1, 2005. Companies doing business in Ohio that are liable for the tax (see "Who Pays the CAT?", below) must register by November 15<sup>th</sup> and pay a one-time fee.*
- ❖ *On-line registration is encouraged. Go to the Ohio Business Gateway at [obg.ohio.gov](http://obg.ohio.gov). There is only a \$15 fee for electronic registration.*
- ❖ *Paper registration may be done for a \$20 fee. Forms are available at the ODT web site, [tax.ohio.gov](http://tax.ohio.gov), or by calling 1-800-282-1782.*
- ❖ *Combined or consolidated taxpayers pay a maximum registration fee of \$200.*
- ❖ *The registration fee can be applied toward CAT liability on the first return.*

## What Type of Tax is the CAT?

- ◆ The CAT is a tax on the privilege of doing business in Ohio, measured by gross receipts received in an annual or calendar quarter time period.
- ◆ The CAT is *not* a transactional sales tax.

## Tax Law Changes under Am. Sub. H.B. 66 \*

Tax Year	Commercial Activity Tax	Tangible Personal Property (TPP) Tax			Corporation Franchise Tax***	Individual Income Tax
		Inventory	Manufacturing Machinery and Equipment (M&E)	Furniture & Fixtures		
2005	$\frac{7/1-12/31}{.06\%}$ (23% x .26%)	23%**	Existing — 25%**	25%**	100% x tax liability	4.2% cut across all brackets from 2004 rates
2006	$\frac{1/1-3/31}{23\% \times .26\%}$ $\frac{4/1-12/31}{40\% \times .26\%}$	18.75%	New M&E: not taxable Existing — 18.75%	18.75%	80% x tax liability	8.4% cut from 2004 rates
2007	$\frac{1/1-3/31}{40\% \times .26\%}$ $\frac{4/1-12/31}{60\% \times .26\%}$	12.5%	New M&E: not taxable Existing — 12.5%	12.5%	60% x tax liability	12.6% cut from 2004 rates
2008	$\frac{1/1-3/31}{60\% \times .26\%}$ $\frac{4/1-12/31}{80\% \times .26\%}$	6.25%	New M&E: not taxable Existing — 6.25%	6.25%	40% x tax liability	16.8% cut from 2004 rates
2009	$\frac{1/1-3/31}{80\% \times .26\%}$ $\frac{4/1-12/31}{.26\%}$	No Tax	No Tax	No Tax	20% x tax liability	21% cut from 2004 rates
2010	.26%	No Tax	No Tax	No Tax	No Tax	21% cut from 2004 rates

\*This chart is not a comprehensive summary of all tax changes. \*\*Same as 2004 rates. \*\*\*Certain companies, such as financial institutions, will continue to pay the full net worth tax.

## Who Pays the CAT?

- ◆ Most types of business (such as sole proprietors, partnerships, or corporations) with taxable gross receipts of \$150,000 or more in a calendar year.
- The CAT applies to:
- ◆ Service providers, such as medical professionals, attorneys, and accountants.

- ◆ Persons engaged in the sale or rental of any type of property.
- ◆ Out-of-state businesses that meet any of the following criteria:
  - have more than \$500,000 in taxable gross receipts in Ohio.
  - have more than \$50,000 in real or personal property in Ohio.
  - expend more than \$50,000 in payroll for work in Ohio.
  - conduct more than 25% of business activity in Ohio.



## MAJOR TAX CHANGES IN OHIO TAX LAW

TAX	DESCRIPTION	TIME FRAME
Personal Income Tax	<ul style="list-style-type: none"> <li>• Implements a 21% across-the-board tax cut (4.2% cut per year)</li> <li>• Reduces the top state tax rate from the current rate of 7.5% to 5.925%</li> <li>• Eliminates lowest two tax brackets; No tax on incomes less than \$10,000</li> <li>• Eliminates the state higher education tuition tax deduction, in favor of a direct grant-in-aid state higher education grant program.</li> <li>• Imposes a permanent state tax of trusts</li> <li>• Suspends tax bracket indexing until January 1, 2009.</li> </ul>	<ul style="list-style-type: none"> <li>• Effective July 1, 2005.</li> <li>• First rate cut of 4.2% effects income earned from January 1, 2005 to December 1, 2005.</li> <li>• Full implementation of 21% across-the-board tax cut by January 1, 2009</li> </ul>
Tangible Personal Property Tax	<ul style="list-style-type: none"> <li>• Beginning January 1, 2005, all NEW investments in Machinery and Equipment (M&amp;E) are exempt from taxation.</li> <li>• Eliminates the tangible personal property tax as of January 1, 2008 – tax is reduced over 4-years at 25% percent per year, beginning January 1, 2005</li> </ul>	<ul style="list-style-type: none"> <li>• Effective July 1, 2005.</li> <li>• All new M&amp;E investments made as of January 1, 2005 are EXEMPT</li> <li>• Full implementation by January 1, 2008</li> </ul>
Corporate Franchise Tax	<ul style="list-style-type: none"> <li>• Eliminates the corporate franchise tax</li> <li>• Continues existing taxes bank, financial institutions, and other financial-related business to a corporate franchise tax.</li> </ul>	<ul style="list-style-type: none"> <li>• Effective July 1, 2005</li> <li>• First rate cut of 20% effects income earned in Tax Year 2006.</li> <li>• Full implementation by Tax Year 2010</li> </ul>
Estate Tax	<ul style="list-style-type: none"> <li>• Aligns state law with Federal law.</li> </ul>	Effective July 1, 2005
Commercial Activity Tax	<ul style="list-style-type: none"> <li>• Implements the commercial activity tax (CAT) on the gross proceeds (or receipts) generated by sales in Ohio.</li> <li>• Employs a low tax rate of 0.26% on all gross receipts in excess of \$1 million.</li> <li>• Exempts the first \$150,000 in gross receipts from taxation while subjecting the first \$1 million in gross receipts to a minimum tax of \$150.</li> <li>• All sales to individuals, or firms, located outside of Ohio, by Ohio-based companies, are exempt.</li> </ul>	<ul style="list-style-type: none"> <li>• Effective July 1, 2005</li> <li>• Phase-in of new tax rate at 20% per year over five year time frame</li> <li>• Full implementation on all gross receipts earned after April 1 of Tax Year 2009</li> </ul>
Real Property Tax	<ul style="list-style-type: none"> <li>• Eliminates the 10% rollback on all property intended for use primarily in business.</li> </ul>	Effective July 1, 2005
Excise "Sin" Tax	<ul style="list-style-type: none"> <li>• Raise the state excise tax on cigarettes to a new rate of \$1.25 per pack.</li> </ul>	Effective July 1, 2005
Sales and Use Tax	<ul style="list-style-type: none"> <li>• Reduces the state sales and use tax by 0.5%, from the current rate of 6.0% to a rate of 5.5%.</li> <li>• DOES NOT change current county and transit sales and use tax structure</li> </ul>	Effective July 1, 2005



## TANGIBLE PERSONAL PROPERTY TAX

### Facts

- ALL NEW INVESTMENTS IN MACHINERY AND EQUIPMENT MADE SINCE JANUARY 1, 2005 ARE EXEMPT FROM TAXATION.
- As of January 1, 2008, all three classes of tangible personal property are removed from the tax base:
  - ⇒ Manufacturing machinery and equipment
  - ⇒ Inventories
  - ⇒ Furniture and fixtures
- Phase-out over 4-years at 25% percent per year:
  - ⇒ January 1, 2005 to December 31, 2005 (*Tax Year 2006*):
    - 25% reduction in tax liability.
  - ⇒ January 1, 2006 to December 31, 2006 (*Tax Year 2007*):
    - 50% reduction in tax liability.
  - ⇒ January 1, 2007 to December 31, 2007 (*Tax Year 2008*):
    - 75% reduction in tax liability.
  - ⇒ January 1, 2008 (*Tax Year 2009*) and each year thereafter:
    - 100% reduction.
- Local governments (school districts, counties, cities, villages, townships, and special districts) will be “held-harmless” and compensated for the loss of this revenue source.



## CORPORATE FRANCHISE TAX

### Facts

- Eliminated beginning Tax Year 2010
- Phase-out over 5 years at 20% reduction per year:
  - ⇒ Beginning Tax Year 2006:
    - 20% reduction in tax liability.
  - ⇒ Beginning Tax Year 2007:
    - 40% reduction in tax liability.
  - ⇒ Beginning Tax Year 2008:
    - 60% reduction in tax liability.
  - ⇒ Beginning Tax Year 2009:
    - 80% reduction in tax liability.
  - ⇒ Beginning Tax Year 2010:
    - Full Implementation.
- Tax credits are simplified with the elimination of 36 tax credits beginning Tax Year 2010.
- Four existing credits against the corporate franchise tax are transferred to the commercial activity tax:
  - ⇒ Job Creation Tax Credit;
  - ⇒ Job Retention Tax Credit;
  - ⇒ Qualified Research Expenses Tax Credit;
  - ⇒ Research and Development Loan Tax Credit





## PERSONAL INCOME TAX

### Facts

- 21% across-the-board reduction in all rates.
- Reduced over 5-years at 4.2-percent per year:
  - ⇒ January 1, 2005 to December 31, 2005:
    - 4.2% reduction in tax liability.
  - ⇒ January 1, 2006 to December 31, 2006:
    - 8.4% reduction in tax liability.
  - ⇒ January 1, 2007 to December 31, 2007:
    - 12.6% reduction in tax liability.
  - ⇒ January 1, 2008 to December 31, 2008:
    - 16.8% reduction.
  - ⇒ January 1, 2009 and each year thereafter:
    - FULL IMPLEMENTATION; 21.0% reduction.
- Since rate reductions are across-the-board, they will help TAXPAYERS IN ALL TAX BRACKETS.
- Approximately 300,000 small businesses (*i.e., s-corporations, LLCs, partnerships, etc..*) will receive the benefit of this rate reduction.
- Removes from the tax rolls approximately 550,000 taxpayers with Ohio Taxable Income under \$10,000.
- State tax on trusts is made permanent.
- Enacts a new Higher Education Direct Grant Program and eliminated the tuition tax deduction. Program shifts from a passive reimbursement to upfront cost reduction for qualifying households.



## COMMERCIAL ACTIVITY TAX

### Facts

- ALL SALES TO INDIVIDUALS, OR FIRMS, LOCATED OUTSIDE OF OHIO, BY OHIO-BASED COMPANIES, ARE EXEMPT.
- The commercial activity tax (CAT) is a business privilege / consumption tax on the gross proceeds (receipts) generated by sales to Ohio based persons, institutions (public and private), not-for-profits, and for-profit business operations.
- Tax falls on all business, whether large or small; manufacturing-based or service-based, which transact business either solely within or into the State of Ohio. The tax IS NOT imposed on the consumer.
- Basis of tax = gross receipts, including receipts from trade or business, with limited exceptions and exemptions.
- Tax Rate = 0.26-percent (0.0026)
- Tax Rate Schedule:
  - ⇒ Gross receipts under \$150,000 are tax-free.
  - ⇒ Gross receipts under \$1 million = \$150 minimum tax.
  - ⇒ Gross receipts over \$1 million = \$150 minimum tax, PLUS 0.26-percent of gross receipts in excess of \$1 million.
- Phase-in over 5 years at, approximately, a 20% per year:
  - ⇒ July 1 to December 31 of Tax Year 2005:
    - \$88 on first \$500,000 of taxable gross receipts, plus 0.06% on taxable gross receipts in excess of \$500,000.
  - ⇒ January 1 to March 31 of Tax Year 2006:
    - 23% of the CAT tax as normally computed.
  - ⇒ April 1 of Tax Year 2006 to March 31 of Tax Year 2007:
    - 40% of the CAT tax as normally computed.
  - ⇒ April 1 of Tax Year 2007 to March 31 of Tax Year 2008:
    - 60% of the CAT tax as normally computed.
  - ⇒ April 1 of Tax Year 2008 to March 31 of Tax Year 2009:
    - 80% of the CAT tax as normally computed.
  - ⇒ April 1 of Tax Year 2009:
    - FULL IMPLEMENTATION; 100% of the CAT tax as normally computed.