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## OHIO BUDGET BILL (FISCAL YEARS 2006-07): MAJOR OHIO TAX LAW CHANGES

Pending Governor Bob Taft's approval of Am. Sub. H.B. 66, the biennial budget bill, and starting July 1, 2005, a new commercial activity tax applies in Ohio as well as significant changes to several existing taxes. This notice is meant to advise taxpayers of only the more substantial tax changes made in that legislation and will be updated as needed. The Ohio Department of Taxation will be issuing future information releases providing more specific details of the tax changes.

### TAX CHANGES: Effective July 1, 2005

- **SALES TAX:** the state sales tax rate will decrease from 6.0% to 5.5%. The vendor discount will remain .9% for timely filed and paid returns.
- **CIGARETTE EXCISE TAX:** the state excise tax on cigarettes will increase from \$.55 per pack (of 20 cigarettes) to a \$1.25 per pack.  
**Alert: Wholesale and Retail Cigarette Dealers:** previously taxed but unsold cigarettes held in inventory will be subject to a Floor Tax of \$.70 per pack based on existing inventory at the end of business on June 30, 2005.
- **NEW — COMMERCIAL ACTIVITY TAX (CAT)** – most companies doing business in Ohio will be subject to the commercial activity tax, a broad-based, low rate business privilege tax measured by gross receipts. The CAT – when fully phased-in\* after five years – will be levied at a rate of 0.26% on gross receipts in excess of one million dollars. Businesses with receipts of \$150,000 - \$1 million will pay a minimum tax of \$150. Businesses with receipts of less than \$150,000 are not subject to the CAT.  
**Registration:** Ohio businesses (including sole proprietors with taxable gross receipts of \$150,000 or more) must register by November 15, 2005 and pay a one-time fee of \$15 or \$20 for most taxpayers. *Note – the CAT will be applied to gross receipts received on and after July 1, 2005.* Additional registration information will be available shortly.

### OTHER TAX CHANGES: Effective with Enactment of Am. Sub. H.B. 66

- **INCOME TAX:** the rate will be cut 4.2% for all tax brackets for tax year 2005 and an additional 4.2% (from 2004 rates) in each of the years 2006-09 for a total rate cut of 21%. The tax on trust income has been made permanent.

- **CORPORATION FRANCHISE TAX:** this tax is being phased-out over five years at a rate of approximately 20% per year starting in Tax Year 2006 (taxable year 2005).
- **TANGIBLE PERSONAL PROPERTY TAX (TPP):** this tax will begin a four-year phase-out starting in tax year 2006 and ending with no tax due in 2009. This phase-out applies to most businesses and includes furniture & fixtures, machinery & equipment, and inventory. New manufacturing machinery & equipment first reportable on the 2006 and subsequent return(s) is not subject to the TPP.
- **REAL PROPERTY:** the 10% rollback is eliminated for certain real property used in business (the 10% rollback remains for residential and agricultural real property).
- **ESTATE TAX:** Ohio's additional estate tax (sponge tax) is eliminated. The Ohio basic estate tax remains in effect.

\* Please see accompanying chart for scheduled rate changes

## 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 & Equipment (M&E)	Furniture & Fixtures		
2005	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	1/1—3/31 23% x .26%	18.75%	New M&E: not taxable	18.75%	80% x tax liability	8.4% cut from 2004 rates
	4/1 — 12/31 40% x .26%		Existing — 18.75%			
2007	1/1 — 3/31 40% x .26%	12.5%	New M&E: not taxable	12.5%	60% x tax liability	12.6% cut from 2004 rates
	4/1 — 12/31 60% x .26%		Existing — 12.5%			
2008	1/1 — 3/31 60% x .26%	6.25%	New M&E: not taxable	6.25%	40% x tax liability	16.8% cut from 2004 rates
	4/1 — 12/31 80% x .26%		Existing — 6.25%			
2009	1/1 — 3/31 80% x .26%	No Tax	No Tax	No Tax	20% x tax liability	21% cut from 2004 rates
	4/1 — 12/31 .26%		No Tax			
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 institution, will continue to pay the full net worth tax.