



# Natural Gas Distribution Tax

The natural gas distribution tax was enacted by the Ohio General Assembly effective July 1, 2001 as part of a larger series of tax changes involving the natural gas industry. The tax was designed to replace the revenue lost by school districts and local governments when the assessment rate on the personal property of natural gas distribution companies was reduced from 88 percent to 25 percent.

During fiscal year 2010, the tax generated approximately \$66.4 million in total revenue.

## Taxpayer

The tax is paid by companies that distribute natural gas in Ohio.

## Tax Base

(Ohio Revised Code 5727.811)

The base of the tax is the amount of natural gas distributed through the meter of an end user in this state.

## Rates

(R.C. 5727.811)

In most cases, a three-bracket rate schedule applies to the amount of natural gas distributed to each end user, as measured in 1,000 cubic feet (Mcf):

Distribution to end user	Rate per Mcf
First 100 Mcf per month	15.93 cents
Next 101 to 2,000 Mcf per month	8.77 cents
2,001 or more Mcf per month	4.11 cents

## Small distribution companies

A natural gas distribution company with 50,000 or fewer customers may elect to apply the standard rate schedule outlined above to the total amount of natural gas distributed to all its Ohio customers, as if all distribution was made to a single customer. This results in a lower tax rate for the distribution company.

Natural gas distribution companies with 70,000 or fewer customers were granted this same authority effective Oct. 16, 2009 (see **Recent Legislation**).

## Flex customers

The rate on natural gas distributed to flex customers is 2 cents per Mcf. A flex customer is an industrial or commercial facility that consumed more than one billion cubic feet of natural gas a year at a single location during any of the

previous five years, or that purchases natural gas distribution services at a discount as part of:

- a special arrangement subject to review and regulation by the Ohio Public Utilities Commission under R.C. 4905.31;
- a special arrangement with a natural gas distribution company pursuant to a municipal ordinance; or
- a variable rate schedule that permits rates to vary between defined amounts, provided that the schedule is on file with the Public Utilities Commission.

## Exemptions

(R.C. 5727.811)

The natural gas distribution tax does not apply to:

- the distribution of natural gas to the federal government;
- natural gas produced by an end user, consumed by that end user or its affiliates, and not distributed through the facilities of a natural gas company.

## Filing and Payment Dates

(R.C. 5727.82)

Returns and payments are due according to the following schedule:

Quarterly Returns	Due Date
January - March	May 20
April - June	August 20
July - September	November 20
October - December	February 20

## Disposition of Revenue

(R.C. 5727.84 – R.C. 5727.85)

The School District Property Tax Replacement Fund receives 68.7 percent of revenue and the Local Government Property Tax Replacement Fund receives 31.3 percent. When obligations to school districts have been met, excess revenues in the School District Property Tax Replacement Fund are to be transferred by the Office of Budget and Management to the half-mill equalization fund. Amounts in excess of that required to make the payments described in R.C. 3313.18 are then to be transferred to the General Revenue Fund.

## Administration

The Tax Commissioner administers the tax and is responsible for the distribution of revenue.

## Ohio Revised Code Citations

Chapter 5727.

## Recent Legislation

House Bill 1, 128th General Assembly

Change to natural gas aggregation rule – Effective Oct. 16, 2009, H.B. 1 granted natural gas distributors with 70,000 or

fewer customers the authority – currently held by natural gas distributors with 50,000 or fewer customers – to pay the rates specified in R.C. 5727.811 on the aggregate, or total, of the natural gas distributed by the company in Ohio.

**Table**

<b>Natural Gas Distribution Tax Collections and Distributions: Fiscal Years 2006 - 2010</b>			
<b>Fiscal Year</b>	<b>Total Collections</b>	<b>School District Property Tax Replacement Fund</b>	<b>Local Government Property Tax Replacement Fund</b>
2006	\$69,075,391	\$47,454,794	\$21,620,597
2007	69,278,451	47,594,296	21,684,155
2008	69,635,315	47,839,461	21,795,853
2009	70,853,004	48,676,014	22,176,990
2010	\$66,372,536	\$45,597,932	\$20,774,604