Ohio's Taxes-Introduction

Ohio's Taxes, A Brief Summary of Major State and Local Taxes in Ohio, provides a concise but comprehensive description of each state and local tax, including for each the:

- Taxpayer
- Tax base
- Rates
- Major Exemptions
- Revenue for the most current five years
- Disposition of revenue
- Payment dates
- Special provisions and credits
- Primary sections of pertinent Ohio Revised Code
- Responsibility for administration
- History of major changes
- Comparison to similar taxes in other states

The 12 states selected for comparison are either neighboring states to Ohio or are considered to be large, economically important states.

Ohio Tax Reform

Fiscal Year 2005 saw the most sweeping reform of Ohio's tax code in over 30 years. The changes were enacted in House Bill 66, the biennium budget bill for fiscal years 2006-2007. The law took effect July 1, 2005, the beginning of Fiscal Year 2006.

The major tax components of H.B. 66 provided for tax relief and a significant restructuring of the business tax code. These reforms were designed to improve the climate for business investment and job creation in Ohio. The existing state income and sales tax rates were cut, while other tax provisions were modernized. On the business tax side, the bill phases out two major taxes — **corporation franchise** and **tangible personal property** — and phases in the new **commercial activity tax (CAT)**.

The new **CAT** is a tax on the privilege of doing business in Ohio, structured with a broad base and a low rate. The tax is applied against taxable gross receipts received in an annual or calendar quarter time period. The CAT is being phased-in over five years beginning July 1, 2005. It is imposed on taxable gross receipts in excess of $150,000 accrued in a calendar year.

The CAT rate depends on the amount of gross receipts:

- Businesses with annual gross receipts of $150,000 or less are not subject to the CAT.
- Annual gross receipts from $150,001 - $1.0 million are subject to a minimum $150 tax.
- Those with annual gross receipts over $1.0 million are subject to the full rate of the CAT. When the tax is fully phased in by tax year 2010, the rate will be 0.26%.

As the CAT is being phased-in, it is replacing two existing taxes on business:

- The **corporation franchise tax** is phased-out in equal increments over five years beginning in tax year 2006, when the rate will be 80% times the liability. The last year of payment of the tax, at a rate of 20% times the liability, will be 2009.
- The **tangible personal property (TPP) tax** on most businesses' inventory, manufacturing machinery and equipment, and furniture and fixtures is phased-out over four years at about 25% of the rate annually beginning in tax year 2006, when the total rate will be 18.75%. Most new manufacturing machinery and equipment that would have been first taxable in tax year 2006 and thereafter will not be subject to TPP tax. The last year of payment of the tax, at a total rate of 6.25%, will be 2008.

Tax reforms in H.B. 66 also included individual taxpayer and consumer relief:

- The **individual income tax** rate was cut for all tax brackets in increments of 4.2% for tax year 2005 (from 2004 rates) and an additional 4.2% each year through 2009 for a total cut of 21%. Annual incomes of $10,000 or less are exempt from tax.
- The state **sales tax** rate was cut from 6.0 to 5.5 %. Vendors can still receive a 0.9% discount, however, for timely filed and paid sales tax returns.

Other provisions of H.B. 66 increased business real property taxes and the cigarette tax, while providing partial relief to estate taxpayers:

- The **10% property tax rollback** on most commercial and industrial real property was eliminated. The rollback remains in effect for residential and agricultural real property.

- A **cigarette excise tax** increase of $.70 was enacted, bringing the total tax to $1.25 per pack of 20 cigarettes. Cigarette wholesalers and retailers must pay the additional 70 cents per pack on cigarettes that were previously taxed but still in inventory at the end of business on June 30, 2005.
- Ohio's **additional estate tax (sponge tax)** was eliminated. The Ohio basic estate tax remains in effect.

A description of the impact of H.B. 66 on each of the current business and other taxes is contained in the appropriate chapters of this publication.

Streamlined Sales Tax Progress

Ohio's participation in the Streamlined Sales Tax Project (SSTP) continued in 2005. Ohio was approved as an Associate Member State on July 1, 2005, effective as of October 1, 2005, and will become a full member once certain sourcing provisions are completely phased-in. The SSTP is a multi-state initiative to capture sales tax lost to out-of-state and Internet vendors that are exempt under federal law from collecting state sales tax. Ohio loses an estimated $500 million each year in sales tax revenue.

Significant changes to specific Ohio taxes in 2005 are highlighted in the appropriate chapters.

The Ohio Department of Taxation welcomes comments regarding our publications. Please address comments and questions about this booklet to:

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