Commercial Activity Tax

Taxpayer

The CAT is paid by Ohio businesses with taxable gross receipts of $150,000 or more in a calendar year. This includes sole proprietors, partnerships, or corporations, as well as service providers such as medical professionals, attorneys, and accountants, and persons engaged in the sale or rental of any type of property.

The tax also applies to out of state businesses that either: (a) have at least $500,000 in taxable gross receipts in Ohio; (b) have at least $50,000 in real or personal property in Ohio; (c) expend at least $50,000 in payroll for work in Ohio; or (d) have at least 25 percent of their total property, payroll, or gross receipts in Ohio.

Tax Base

The CAT is a business privilege tax measured by gross receipts, defined as 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 of gross receipts include sales, performance of services, and rentals or leases. A taxpayer accounts for gross receipts using the same method of accounting as for federal income tax (i.e., accrual or cash basis).

Rates

The tax was phased in over a period that began July 1, 2005 and ended April 1, 2009, when the current rate of 0.26 percent was reached.

For the semi-annual period between July 1 and Dec. 31, 2005, the minimum tax was $75, and a rate of 0.06 percent applied to taxable gross receipts above $500,000.

For calendar years 2006 and thereafter, taxpayers whose taxable gross receipts are between $150,000 and $1 million are subject to the minimum tax of $150. Receipts above $1 million were taxed at the following effective rates:

- Jan. 1, 2006 to March 31, 2006: 0.0598 percent
- April 1, 2006 to March 31, 2007: 0.104 percent
- April 1, 2007 to March 31, 2008: 0.156 percent
- April 1, 2008 to March 31, 2009: 0.208 percent
- April 1, 2009 and thereafter: 0.26 percent.

Major Exemptions

The CAT does not apply to:

- nonprofit organizations;
- financial institutions;
- insurance companies;
- affiliates of financial institutions and insurance companies;
- dealers in intangibles; and
- certain receipts by public utilities that are subject to the public utility excise tax.

Revenue

(In Millions)

Fiscal Year	Total
2006	$273.4
2007	594.9
2008	961.4
2009	1,179.4
2010	1,342.1

Disposition of Revenue

Beginning in fiscal year 2007, 70 percent of CAT revenue is dedicated to the school district replacement fund and 30 percent to the local government replacement fund. Starting in fiscal year 2012, the percentage devoted to the local government replacement fund will begin to fall – by 5.3 percentage points in 2012 and 2013, and by 3.5 percentage points each year after that – with the remaining revenue dedicated to the General Revenue Fund. In fiscal year 2019, a full 30 percent of CAT revenue will be dedicated to the General Revenue Fund.

Payment Dates

Before filing a return, all persons liable for the CAT must register, either electronically through the Ohio Business Gateway (**obg.ohio.gov**) or by obtaining the CAT-1 registration form available through the department's Web site (**tax.ohio.gov**). Filing and payment schedules vary according to the size of the taxpayer:

- Taxpayers with annual taxable gross receipts of more than $1 million must file quarterly returns, due May 10, Aug. 10, Nov. 10, and Feb. 10. The $150 annual minimum tax is due with the May 10 return.
- For annual taxpayers (generally those taxpayers with taxable gross receipts between $150,000 and $1 million in a year), the minimum tax is due May 10 of each year for the current tax year. An annual return reports the taxable gross receipts for the prior year's activity and prepays the annual minimum tax of $150 for the current calendar year.

Special Provisions and Credits

The following credits may be claimed against CAT liability:

- Job Creation Tax Credit: This refundable credit is available to businesses that create jobs as specified by an agreement with the Ohio Tax Credit Authority.
- Job Retention Tax Credit: This nonrefundable credit is available to businesses that retain at least 500 jobs and meet other criteria through an agreement with the Ohio Tax Credit Authority.
- Credit for Qualified Research Expenses: The nonrefundable credit equals 7 percent of the amount by which a taxpayer's qualified research expense in Ohio during the taxable year exceeds its average annual qualified research expenses in Ohio for the three preceding years.
- Credit for Research and Development Loan Payments: This nonrefundable credit equals the borrower's qualified research and development loan payments made during the calendar year immediately preceding the report year, to include principal and interest.

A credit for unused franchise tax net operating loss deductions can also be claimed beginning in 2010. This credit can be either refundable or nonrefundable, depending on the year in which the taxpayer claims the credit.

Additionally, distribution centers whose annual costs to their suppliers for goods shipped into their facility equal or exceed $500 million and that ship more than 50 percent of their goods out of state are able to exclude the percentage that is shipped outside the state. However, distribution centers that qualify for this exemption must pay a $100,000 annual fee.

Sections of Ohio Revised Code

Chapter 5751.

Responsibility for Administration

Tax Commissioner.

History of Major Changes

2005	The CAT is enacted as part of House Bill 66.
2006	Legislation excludes certain pre-income tax trusts and taxes collected by a taxpayer from a consumer. Also, an exemption is added, effective Jan. 1, 2007, for qualified distribution centers, which are required to pay a $100,000 annual fee.
2007	H.B. 119 permanently devotes 70 percent of CAT revenue into the School District Tangible Property Tax Replacement Fund. Previously, this provision would have expired after FY 2018.
2009	The Ohio Supreme Court reverses a lower appeals court decision and upholds the constitutionality of the CAT by deciding that it is a **privilege tax** and not a **transactional tax** on the sale of food.

Comparisons with Other States

(As of August, 2010)

None of the states selected for comparison in this publication impose a tax which is exclusively measured by gross receipts. The tax most closely resembling the CAT is the Texas franchise tax ("margin tax") which is based on the lesser of three alternative computations: total receipts less costs of goods sold; total receipts less compensation paid; or total receipts multiplied by 70 percent.

See the **Corporation Franchise Tax** chapter for further comparative information on state business taxes.