

COMMERCIAL ACTIVITY TAX: Number of Taxpayers and Tax Return Data, Fiscal Year 2007

The commercial activity tax (CAT) went into effect on July 1, 2005. It is a privilege tax measured by gross receipts from activities in this state. The tax is a key component of the 2005 tax reform package enacted by Am. Sub. House Bill 66 (126th General Assembly). The major business tax components of the tax reform act consist of the phase-out of both the tangible personal property tax and the corporate franchise tax and the phase-in of the commercial activity tax.

The commercial activity tax was first reported and paid in February 2006, based on taxable gross receipts realized during the July 1, 2005 through December 31, 2005 period. The February 2006 returns consisted of: (1) taxpayers whose taxable gross receipts were between \$75,000 and \$500,000 and were therefore subject only to the \$75 minimum tax, and (2) taxpayers whose taxable gross receipts were over \$500,000 and were therefore subject to the \$75 minimum tax plus a 0.06% tax on gross receipts exceeding \$500,000. (Note: For purposes of this explanation, "taxpayer" means not only a separate business entity but also a combined or consolidated group of entities.) Taxpayers with July 1-December 31, 2005 gross receipts below \$75,000 (with the exception of consolidated groups) were not subject to the tax.

With the exception of the temporary six-month calendar year 2005 period explained above, the tax is levied on a quarterly or annualized basis. Taxpayers with annual taxable gross receipts above \$1 million must report and pay the tax quarterly. Taxpayers whose annual taxable gross receipts are between \$150,000 and \$1 million are considered annual taxpayers and are subject only to the \$150 minimum tax. Taxpayers with annual gross receipts below \$150,000 are not subject to the commercial activity tax. As a consequence, two groups of taxpayers filed returns in May 2006: (1) calendar year 2006 annual filers that paid only the \$150 annual minimum tax; and (2) quarterly filers that paid the \$150 annual minimum tax and the 0.06% tax on their January 1, 2006 through March 31, 2006 receipts in excess of \$250,000.

The attached CAT-1 and CAT-2 tables reflect information reported on tax returns that were due and filed during fiscal year 2006, specifically on returns that were due and filed in February 2006 and May 2006. Additional factors affecting the data in these tables are explained below.

- Only nine cumulative months of gross receipts (July 2005 through March 2006) and associated tax are reflected in these tables. The CAT-1 and CAT-2 tables produced in future fiscal years will reflect a full twelve months' of activity so the gross receipts and tax liability figures will be considerably higher than the fiscal year 2006 tables.
- The attached tables reflect the initial 0.06% tax rate. Ohio law phases in the commercial activity tax rate over a five-year period. The next rate increase to 0.104% will take effect April 1, 2006 for the following 12-month period (impacting fiscal year 2007 tax revenues). The fully phased-in 0.26% tax rate will take effect on April 1, 2009 (impacting fiscal year 2010 tax revenues).
- Each combined and consolidated taxpayer group is shown as a single entity for purposes of these tables. In the CAT-1 table, the combined or consolidated group is reported under the primary filer's industry code. In the CAT-2 table, the entire group's gross receipts determine the size category in which the

As shown in these tables, the total reported commercial activity tax liability for fiscal year 2006 was \$260.2 million. Of this amount \$33.0 million was attributable to the minimum tax and \$227.2 million was attributable to the 0.0598% tax rate. Taxable gross receipts amounted to \$427.7 billion but the exclusion available on each return (\$500,000 on the February 2006 return and \$250,000 on the May 2006 return) reduced taxable receipts by \$49.1 billion, or 11.5% of total receipts; thus resulting in net taxable gross receipts of \$378.7 billion.

Table CAT-1 shows tax return information for 19 industrial sectors. The industrial sector data is based on each taxpayer's reported primary industrial code, using the North American Industry Classification System (NAICS). The Retail sector comprises the largest group of taxpayers, accounting for 13.9% of all taxpayers. This is followed by Unclassified (11.5%) and Construction (10.7%) taxpayers. In terms of tax liability, Manufacturers account for the largest share at 27.5% of the total. The Retail (18.7%) and Wholesale sectors (10.8%) account for the next largest shares of total liability.

Table CAT-2 provides tax return information based on the size of each taxpayer's taxable gross receipts (prior to the exclusion). Filers whose fiscal year 2006 taxable gross receipts were \$1 million or below accounted for 81.4% of all returns but only 10.8% of the total liability (mostly in minimum tax). Filers with taxable gross receipts above \$100 million comprised only 0.3% of all returns but accounted for 47.5% of total tax liability.

Data contained in these tables is derived from commercial activity tax returns filed by taxpayers with the Ohio Department of Taxation.

Fiscal Year 2006 Commercial Activity Tax:
 February 2006 & May 2006 Tax Returns, by Industrial Classification (a), (b)
Dollar amounts are in thousands

Industrial Classification	NAICS Code Ranges	Number of Taxpayers	Taxable Gross Receipts	Exclusion (c)	Net Taxable Gross Receipts	Tax at 0.06% Rate	Annual Minimum Tax (d)	Total Tax Due: 0.06% Tax and Minimum Tax (e)
Agriculture, Forestry, and Fishing	111100-115310	5,711	\$3,460,398	\$1,142,977	\$2,317,422	\$1,390	\$1,141	\$2,531
Mining	211110-213110	758	2,991,339	264,099	2,727,240	1,636	148	1,785
Utilities (excluding telecommunications)	221100-221300	126	13,812,915	50,405	13,762,510	8,258	25	8,282
Construction	236110-238900	18,192	26,029,682	5,577,157	20,452,525	12,272	3,510	15,781
Manufacturing	311110-339900	14,651	120,530,164	6,063,266	114,466,898	68,680	2,831	71,511
Wholesale Trade	423100-425120	8,853	47,627,407	3,523,404	44,104,003	26,462	1,718	28,181
Retail Trade	441110-454390	23,691	81,258,293	7,582,451	73,675,842	44,206	4,553	48,758
Transportation and Warehousing	481000-493100	4,867	9,736,615	1,471,875	8,264,740	4,959	926	5,884
Information (including telecommunications)	511110-519100	1,708	19,146,193	539,195	18,606,998	11,164	325	11,489
Finance and Insurance	522110-525990	5,478	7,185,946	1,230,186	5,955,760	3,573	1,066	4,639
Real Estate, and Rental & Leasing of Property	531110-533110	14,377	11,715,864	3,405,136	8,310,728	4,986	2,806	7,792
Professional, Scientific and Technical Services	541110-541990	15,145	21,005,783	3,953,095	17,052,688	10,232	2,940	13,171
Management of Companies (Holding Companies)	551111-551112	917	15,721,857	438,057	15,283,800	9,170	178	9,348
Administrative & Support Services, and Waste Management & Remediation Services	561110-562000	4,382	5,993,384	1,170,584	4,822,800	2,894	843	3,736
Education, Health Care and Social Assistance	611000-624410	12,790	13,353,896	4,118,029	9,235,867	5,542	2,531	8,072
Arts, Entertainment, and Recreation	711100-713900	1,692	1,547,299	398,442	1,148,857	689	325	1,015
Accommodation and Food Services	721110-722410	8,903	7,915,134	2,372,870	5,542,263	3,325	1,711	5,036
Other Services	811110-812990	8,759	4,923,947	1,971,822	2,952,125	1,771	1,708	3,479
Unclassified	n/a	<u>19,660</u>	<u>13,779,228</u>	<u>3,787,682</u>	<u>9,991,547</u>	<u>5,995</u>	<u>3,717</u>	<u>9,712</u>
TOTAL		170,660	\$427,735,344	\$49,060,731	\$378,674,613	\$227,205	\$32,999	\$260,204

- (a) The total tax liability shown in this table does not match actual commercial activity tax revenues in fiscal year 2006. This is due to several reasons. For one thing, this table reflects reported tax liability, not actual payments made. Furthermore, the table reflects information from tax returns on the computer system as of the dates when the February 2006 and May 2006 return data was extracted; any subsequently filed tax returns or subsequent corrections made to the tax returns are not reflected in this table.
- (b) Table reflects nine months of gross receipts: July 2005 - March 2006. In future years, this table will reflect 12 months of activity. This will result in significantly higher dollar amounts for this table (except for the "minimum tax", which should go down in fiscal year 2007).
- (c) On a quarterly basis, each taxpayer's first \$250,000 in taxable gross receipts is excluded from the 0.06% tax. For the July-December 2005 period the exclusion was \$500,000. The total exclusion on returns filed in fiscal year 2006 was \$750,000.
- (d) The July-December 2005 minimum tax was \$75 (due in February 2006); the calendar year 2006 minimum tax was \$150 (due in May 2006).
- (e) Tax due before the registration fee credit.

Fiscal Year 2006 Commercial Activity Tax:
 February 2006 & May 2006 Tax Returns, by Size of Taxable Gross Receipts (a)
Dollar amounts are in thousands

Size of Taxable Gross Receipts, as reported on combined February 2006 and May 2006 returns (b)	Number of Taxpayers	Taxable Gross Receipts	Exclusion (c)	Net Taxable Gross Receipts	Tax at 0.06% Rate	Annual Minimum Tax (d)	Total Tax Due: 0.06% Tax and Minimum Tax (e)
\$1,000,000 and below (f)	138,946	\$29,905,582	\$27,193,474	\$2,712,108	\$1,627	\$26,596	\$28,223
\$1,000,001 - \$2,000,000	12,576	17,876,169	8,460,912	9,415,257	5,649	2,471	8,120
\$2,000,001 - \$3,000,000	5,516	13,443,560	3,817,868	9,625,692	5,775	1,119	6,895
\$3,000,001 - \$4,000,000	2,843	9,803,121	1,978,476	7,824,645	4,695	579	5,273
\$4,000,001 - \$5,000,000	1,907	8,476,615	1,328,197	7,148,418	4,289	390	4,679
\$5,000,001 - \$10,000,000	4,043	28,227,600	2,842,983	25,384,617	15,231	835	16,066
\$10,000,001 - \$25,000,000	2,787	42,806,058	1,973,086	40,832,972	24,500	579	25,079
\$25,000,001 - \$50,000,000	965	32,987,077	689,735	32,297,342	19,378	202	19,581
\$50,000,001 - \$100,000,000	544	37,940,028	391,500	37,548,528	22,529	116	22,645
Over \$100,000,000	<u>533</u>	<u>206,269,535</u>	<u>384,500</u>	<u>205,885,035</u>	<u>123,531</u>	<u>113</u>	<u>123,644</u>
TOTAL	170,660	\$427,735,344	\$49,060,731	\$378,674,613	\$227,205	\$32,999	\$260,204

- (a) The total tax liability shown in this table does not match actual commercial activity tax revenues in fiscal year 2006. This is largely because the table reflects reported tax liability, not actual payments made. Furthermore, the table reflects information from tax returns on the computer system as of the dates when the February 2006 and May 2006 return data was extracted; any subsequently filed tax returns or subsequent corrections made to the tax returns are not reflected in this table.
- (b) Table reflects nine months of gross receipts: July 2005 - March 2006. In future years, this table will reflect 12 months of activity. This will cause some taxpayers to shift to a higher taxable gross receipts category and also result in significantly higher dollar amounts for this table (except for the "minimum tax", which should go down in fiscal year 2007).
- (c) On a quarterly basis, each taxpayer's first \$250,000 in taxable gross receipts is excluded from the 0.06% tax. However, for the one-time 6-month reporting period during July-December 2005, the exclusion was \$500,000. The total combined exclusion on returns filed during fiscal year 2006 was \$750,000.
- (d) The July-December 2005 minimum tax was \$75 (due in February 2006); the calendar year 2006 minimum tax was \$150 (due in May 2006).
- (e) Tax due before the registration fee credit.
- (f) The taxable gross receipts of most May 2006 minimum taxpayers are not included. This is because the May 2006 return required such taxpayers to report only their \$150 tax liability. In addition, there were \$2.7 billion in net taxable gross receipts for this category because some of the taxpayers had taxable gross receipts over \$500,000 on their February 2006 return, had over \$250,000 on their May 2006 return, or both, and thus were subject to the 0.06% tax on such receipts.