

PUBLIC UTILITY EXCISE TAX

The Public Utility Excise tax, a tax for the privilege of doing business in Ohio, is payable by most companies that are classified by statute as public utilities. Companies liable for this tax do not pay the Corporation Franchise tax. Utilities owned by municipal corporations are exempt from the Public Utility Excise tax.

Gross receipts comprise the tax base for the utility classes, with rates of 6.75 percent for pipeline companies and 4.75 percent for all others.

Companies with a preceding year's tax liability of \$1,000 or more (except natural gas companies) are liable during each calendar year for three advance payments — each in an amount equal to one-third of the previous year's certified tax liability. When the current year's total tax liability exceeds the sum of the three advance payments, a final payment is due in November for the difference. A refund is issued if the advance payments exceed the total liability.

Natural gas companies whose annual tax liability exceeds \$325,000 file on a quarterly basis, while natural gas companies whose tax liability is less than \$325,000 file annually.

A total of \$725.6 million in Public Utility Excise taxes was levied for tax year 2001. Electric companies accounted for about 57 percent of total taxes levied, while the telephone industry and natural gas industry, combined, accounted for about 39 percent. These three main industries were responsible for nearly 96 percent of the total excise taxes on public utilities. This is the last year electric companies and rural electric companies will pay the Public Utilities Excise tax.

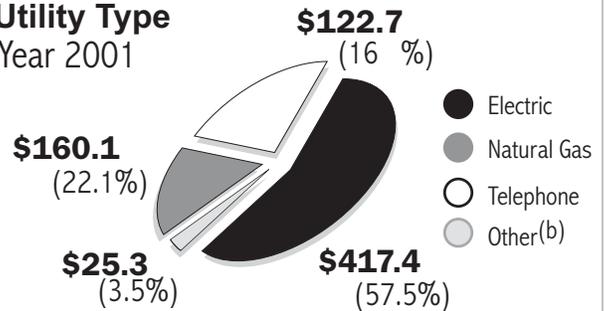
Of the amounts collected, 4.2 percent was distributed to the Local Government Fund, 0.6 percent was distributed to the Local Government Revenue Assistance Fund and 95.2 percent was distributed to the General Revenue Fund.

House Bill 283 (123rd General Assembly, effective June 30, 1999) created many changes to the Public Utility Excise tax as it applies to the natural gas industry. Since May 1, 2000, some natural gas companies have been paying the excise tax quarterly based upon the previous quarter's gross receipts. The first payment on this new tax schedule was November 15, 2000, and was based on receipts from May 1, 2000 to September 30, 2000. Since then, the payments have been based upon the previous quarter's receipts.

Companies that have an annual tax liability of at least \$325,000 have been paying on this quarterly basis. Natural gas companies below this

Public Utility Excise Taxes Levied by Utility Type

Tax Year 2001



Total: \$725.6 million^(a)

(a) Figures may not add due to rounding.

(b) Includes rural electric, waterworks, pipeline, water transportation and others.

threshold have been paying annually, with the tax due 45 days from the last day of the fourth quarter of the previous year (with first payment February 14, 2001). Companies that provide both natural gas and electric services must separate the services from each other so the applicable tax applies. Natural gas companies are also subject to the Mcf (1,000 cubic feet) tax (see **Natural Gas Consumption Tax** chapter).

Amended Substitute Senate Bill 3 (123rd General Assembly, effective October 3, 1999) was the Electric Utility Deregulation Bill and made numerous tax changes to that industry. A utility company's gross receipts of electric services are no longer subject to the Public Utility Excise tax, effective April 30, 2001. Their last payment under the Excise tax schedule was November 2001. The Excise tax has been replaced by a Kilowatt-Hour tax. The new tax is remitted monthly, with the first payment made in June 2001, based upon May 2001's liabilities. Electric utilities will be subject to the Corporate Franchise tax, beginning January 2002. Companies that provide both natural gas and electric services must separate the services from each other so the applicable tax applies. This annual report contains the last Public Utility Excise tax data for electric and rural electric companies, as they will be reported in the new **Kilowatt-Hour Tax** chapter.

TAX BASE (R.C. 5727.01):

Gross receipts for all utilities.

EXEMPTIONS AND DEDUCTIONS (R.C. 5709.35, 5727.05, 5727.33):

1. Exempt Utilities:
 - 1) Municipally-owned utilities;
 - 2) Non-profit water companies;
 - 3) Inter-exchange telecommunications;
 - 4) Railroads.
2. Twenty-five thousand dollars for all companies. Beginning May 1, 2000, natural gas companies that pay quarterly have a \$6,250 deduction on each quarterly return.
3. Amounts attributable to sales of merchandise.
4. Receipts derived wholly from interstate business.
5. Sales to other public utilities for resale.
6. Receipts from business done for the federal government.
7. Receipts from facilities used to convert coal to gaseous, liquid, or solid fuels, for a period of 30 years.
8. Amounts billed on behalf of other entities by telephone companies.
9. Receipts of telephone companies from sales to other telephone companies for resale.
10. Amounts billed on behalf of other entities by natural gas companies.

CREDITS (R.C. 5727.29, 5727.39, 5727.391, 5727.44):

Telephone companies are allowed a credit against the Public Utilities Excise tax equal to the non-recurring (start-up) costs of a 9-1-1 telephone system (emergency service telephone system). The credit must be claimed in the year that the system becomes available for use. Any excess credit may be carried over to following years until completely used. The total amount of the credit that may be taken (for all companies combined) is limited to 25 percent of the total excise tax levied on telephone companies in 1984. This credit ceiling is adjusted annually for increases in the consumer price index. Once the total credits allowed equal the credit ceiling, no additional credits will be allowed.

A telephone company that provides telephone service to aid the communicatively impaired in accessing the telephone network is allowed a credit against the tax for the cost of providing such service.

Beginning in tax year 1995, electric companies that have installed qualified pollution control devices after tax year 1991 are allowed a credit of \$1 per ton of Ohio coal used to generate electric power at that plant. Effective January 1, 2000, this credit was increased to \$3 per ton.

Natural gas companies that pay quarterly are able to take a credit against their quarterly payments equal to 1/60 of their total estimated payments made in October 1999, March 2000, and June 2000. The credit is to expire when the entire amount of the estimated payments is taken as the credit or 15 years, whichever is first.

Utility Class	Base	Tax Rate
Heating, telegraph, telephone, water transportation, waterworks (R.C.5727.38)	Gross receipts	4.75%
Natural Gas (R.C. 5727.25)	Gross receipts	4.75%
Pipeline (R.C. 5727.38)	Gross receipts	6.75%

There is a minimum tax of \$50 for each tax year (R.C. 5727.25, 5727.38).

TAX REPORTING AND CERTIFICATION DEADLINES:

The following deadlines apply to all utility companies, except for natural gas companies:

Utility Class	Deadline	For
All public utilities ¹ (R.C. 5727.31, 5727.32, 5727.33, 5727.38)	August 1 ² First Monday in November	Company's annual statement to the Tax Commissioner for year ending April 30 (June 30 for telephone and telegraph companies). Commissioner assesses tax and certifies amount to company and Treasurer of State.

¹ Except natural gas companies.

² Subject to extension up to 60 days (R.C.5727.48). A public utility that fails to file a report by the due date is subject to a penalty of \$50 per month for each month or fraction thereafter late, up to \$500 maximum (R.C. 5727.60).

ADVANCE AND FINAL PAYMENT DATES (Except Natural Gas):

Advance Payments — October 15, March 1, and June 1 (R.C. 5727.25 and R.C. 5727.31):

All advance reports and payments are due to the Treasurer of State on the dates specified. These payments will be applied to the tax liability certified to the Treasurer on the first Monday in November. Each advance payment is equal to one-third of the previous year's liability. These reports and payments are due from each utility with an Excise tax liability for the previous year in excess of \$1,000.

Final Payment — 20-30 days from date tax bill is mailed (R.C. 5727.42):

The final payment is equal to total tax certified to the Treasurer of State, less advance payments made (refund is made if advance payments exceed assessment).

FILING AND PAYMENT DATES, NATURAL GAS:

Beginning May 1, 2000, natural gas companies that exceeded \$325,000 in annual liability began paying the Excise tax quarterly. The first payment was based upon receipts from May 1, 2000 to September 30, 2000 and was paid on November 15, 2000. Thereafter, the payments are due 45 days after the end of each calendar quarter. Natural gas companies below the \$325,000 threshold pay annually, with payment made 45 days after the last day of the fourth quarter. The annual filer's first payment was due February 14, 2001.

DISPOSITION OF REVENUE (R.C. 5727.45):

The Local Government Fund receives 4.2 percent, the Local Government Revenue Assistance Fund 0.6 percent, and the General Revenue Fund 95.2 percent of Public Utility Excise tax collections.

House Bill 94 (124th General Assembly, FY 2002/2003 Biennial Budget Bill) temporarily replaces the revenue distribution as described above. During each month of the July 2001-May 2002 period and the July 2002-May 2003 period, the Local Government and Local Government Revenue Assistance Funds will receive the same amount they received during the corresponding month of the July 2000-May 2001 period. In June 2002 and June 2003, the funds will receive the same amount they received in June 2000.

OHIO REVISED CODE CITATIONS:

Chapters 5703 and 5727.

RECENT LEGISLATION:

Substitute Senate Bill 200; Effective September 6, 2002. R. C. 3317.026, 5703.37, 5703.60, 5703.70, 5727.26, 5727.28, 5727.39, 5727.47, 5727.471 –
 Makes general changes to the assessment correction notice and refund language for the natural gas gross receipts; modifies language to recapture overpayments of school aid reimbursements when a petition for reassessment is filed; and standardizes all indexing done by the Tax Commissioner, including the 9-1-1 credit.

Amended Substitute House Bill 94; Effective September 6, 2001 (Biennial Budget Bill). R.C. 5727.25-5727.26, et al., effective January 1, 2003 –
 Transfers previous responsibilities regarding tax filing and payments of natural gas companies from the Treasurer of State to the Tax Commissioner.

Section 140 (Temporary Law) –
 Temporarily freezes the revenue distribution to the Local Government and Local Government Revenue Assistance Funds.

House Bill 9; Effective June 6, 2001. R.C. 5727.01-5727.02 –
 Subjects natural gas suppliers and governmental aggregators to Public Utility Commission certification, and authorizes certain competitive services.

Senate Bill 235; Effective May 5, 2001. R.C. 4927.01 –
 Changes the definition of “basic local exchange service” under alternative telephone regulation law, and also under telephone company merger law, which relies on the same definition.

Substitute House Bill 152; Effective September 21, 2000. R.C. 4931 –
 Provides additional funding methods for 9-1-1 services in certain areas that previously lacked funding.

House Bill 640; Effective June 15, 2000. R.C. 5727, et. al. –
 Harmonizes Sub. S.B. 3 (Electric Utility Restructuring Bill) with the natural gas provisions found in Am. Sub. H.B. 283 (Biennial Budget Bill).

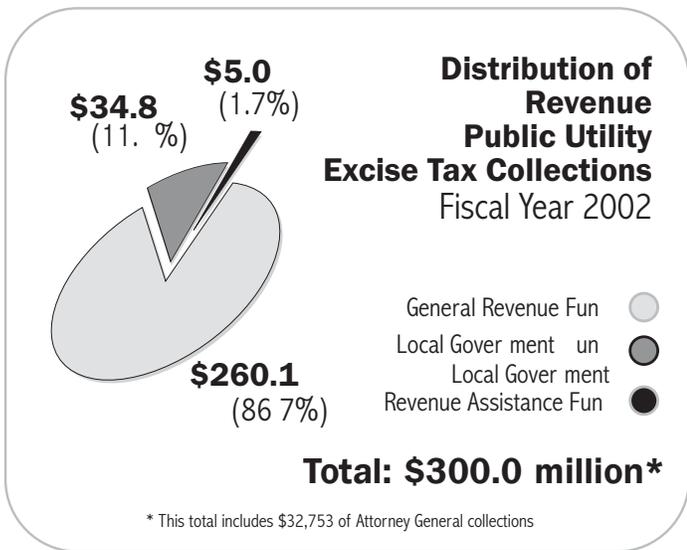
House Bill 262; Effective June 8, 2000. R.C. 5727 and R.C. 5733 –
 Expands the definition of electric utility compliance facility that is able to take the increased \$3 per ton coal credit granted under H.B. 384.

Substitute Senate Bill 3; Effective October 5, 1999 (Electric Restructuring Bill). R.C. 5727.38 –
 Among the many provisions of this bill is the removal of electric and rural electric companies from the Public Utility Excise tax, effective with the November 2001 payment.

R.C. 5727.80 – Effective May 2001.
 The Excise tax on electric and rural electric companies is replaced with either a consumption or a price-based tax.

House Bill 283; Effective June 30, 1999. (Biennial Budget Bill). R.C. 5727.25 –
 A provision in the Biennial Budget Bill changes the current payment schedule and measurement periods for natural gas companies and the natural gas business of combined natural gas and electric companies, effective May 1, 2000.

House Bill 384; Effective November 24, 1999. R.C. 5727.391 –
 Increases the coal credit from \$1 to \$3 per ton effective January 1, 2000. This credit will transfer to the Corporate Franchise tax beginning May 1, 2001. The bill also removes certain limitations. It is set to sunset December 31, 2004.



**Table
Public Utility Excise Taxes Levied By Class of Utility
Tax Years 1997-2001^(a)**

Primary Class of Utility	Number of Utilities	Tax Rate 2001	Calendar Year				
			1997	1998	1999	2000 ^(c)	2001
Electric	16	4.75%	\$435,441,740	\$432,592,127	\$441,075,733	\$448,574,349	\$417,378,610
Natural Gas	27	4.75	124,902,926	115,770,927	97,098,365	119,050,766	160,127,228
Telephone	70	4.75	107,893,555	107,667,967	115,496,646	119,030,209	122,746,743
Rural Electric	27	4.75	17,183,490	17,409,371	18,220,554	18,778,490	20,347,758
Waterworks	23	4.75	2,633,123	2,724,205	2,918,562	2,926,060	3,007,909
Pipe Line	21	6.75	485,963	495,472	732,449	277,701	313,530
Other	(b)	4.75	(b)	(b)	(b)	(b)	(b)
Total			\$690,005,625	\$678,023,457	\$676,926,173	\$710,255,734	\$725,598,129

(a) Amount of tax certified for collections.
 (b) Includes water transportation and heating. Taxes levied are included in the column totals.
 (c) There are two combined electric-natural gas companies for 2000 and one combined company for 2001. Taxes levied are separated by the utility type in 2000 and thereafter.

