



STATE TAXES  
**COMMERCIAL ACTIVITY TAX**

The commercial activity tax (CAT) is a tax imposed on the privilege of doing business in Ohio. It is not a tax on transactions, unlike the sales tax. The CAT is paid either quarterly or annually and is applicable to all business types, located both in Ohio and outside Ohio, that operate in Ohio. The revenue from the CAT replaces the revenue from the phase-out of the corporation franchise tax and the tangible personal property tax. The CAT was enacted in 2005 as part of the tax reform measures contained in House Bill 66, and became effective July 1, 2005.

### **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 base of the CAT is 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 are 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 is being phased-in over a five-year period that began July 1, 2005. By tax year 2010, when the full rate is in effect, the rate is 0.26 percent on annual taxable gross receipts over \$1.0 million.

- The CAT rate for the first tax period from July 1 to December 31, 2005 was 0.06% on taxable gross receipts over \$500,000; the rate for January 1, 2006

STATE TAXES  
COMMERCIAL ACTIVITY TAX

to March 31, 2006 was 0.0598% on gross receipts over \$1.0 million; and the rate for the remainder of 2006 was 0.104%.

- The rate is being phased-in by approximately 20 percent increments over the next three years.
- The rate for January 1, 2007 to March 31, 2007 is 0.104%; the rate from April 1, 2007 to December 31, 2007 is 0.156%.
- The rate from January 1, 2008 to March 31, 2008, is 0.156%; the rate from April 1, 2008 to December 31, 2008 is 0.208%.
- The rate from January 1, 2009 to March 31, 2009 is 0.208%; the rate from April 1, 2009 to December 31, 2009 is 0.26%.
- As of January 1, 2010, the rate of the CAT is 0.26%.
- Annual taxable gross receipts from \$150,001 - \$1.0 million are subject to a minimum \$150 tax (the minimum tax for the first tax period was \$75).
- Businesses with annual taxable gross receipts of \$150,000 or less are not subject to the CAT.

## Major Exemptions

The CAT has a limited number of exemptions, including:

- Nonprofit organizations;
- Financial institutions;
- Insurance companies;
- Affiliates of financial institutions and insurance companies;
- Dealers in intangibles;
- Certain receipts by public utilities that are subject to the public utility excise tax; and
- Sales of motor fuel are exempted from inclusion in gross receipts for two years (*note: expired June 30, 2007*).

## Revenue (in millions)

Fiscal Year	Total
2006	\$273.4



STATE TAXES  
COMMERCIAL ACTIVITY TAX

## Disposition of Revenue

In fiscal year 2006, 22.6% of CAT revenue was dedicated to the School District Tangible Property Tax Replacement Fund. Thereafter, until fiscal year 2018, 70% of the revenue is dedicated to this fund.

***Note:** House Bill 119, the state's fiscal year 2007-2008 budget bill, provides that 70% of CAT revenues will continue to be dedicated to this fund beginning in FY 2019.*

Also in fiscal year 2006, 9.7% of CAT revenue was dedicated to the Local Government Tangible Property Tax Replacement Fund. Thereafter, until fiscal year 2011, 30% of the revenue is dedicated to this fund.

The remainder of CAT revenue in FY 2006 was dedicated to the General Revenue Fund.

Beginning in fiscal year 2007 and for a number of years thereafter, all CAT revenues will be deposited in the school district and local government property tax replacement funds and no revenues will be deposited in the General Revenue Fund.

## Payment Dates

- All businesses liable for the CAT must register online with either the Ohio Business Gateway (**obg.ohio.gov**) or the Ohio Department of Taxation (**tax.ohio.gov**) prior to filing.
- Taxpayers with taxable gross receipts of \$1.0 million or more must file a quarterly return, due 40 days from the end of each calendar quarter (i.e., May 10, August 9, November 9, and February 9).
- Taxpayers with taxable gross receipts of less than \$1.0 million are liable for the annual minimum tax of \$150. Annual returns are due on or before February 9 of the next succeeding year. This annual return will report the taxable gross receipts for the prior year's activity as well as the pay the annual minimum tax for the current year.

## Special Provisions and Credits

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% of their goods out of state are able to exclude the percentage that is shipped outside the state. However, distribu-



STATE TAXES  
COMMERCIAL ACTIVITY TAX

tion centers that qualify for this exemption must pay a \$100,000 annual fee effective January 1, 2007 (this replaced a temporary exemption for qualified foreign trade zone areas that expired December 31, 2006).

The following credits are allowed beginning July 1, 2008:

- Job Creation Tax Credit.
- Job Retention Tax Credit.
- Credit for Qualified Research Expenses.
- Credit for Research and Development Loan Payments.

## Sections of Ohio Revised Code

Sections 5751.01 - 5751.99.

## Responsibility for Administration

Tax Commissioner.

## History of Major Changes

- 2005 • Enacted in House Bill 66.
  - Took effect July 1 at a rate of 0.06% on gross receipts over \$500,000 for the first six months; full rate of 0.26% on gross receipts over \$1.0 million to be phased in, in 20% increments, over five years; full permanent rate scheduled to be reached on April 1, 2009.
  - Rate increased April 1 to 0.104% on gross receipts over \$1.0 million.
  - Legislation enacted to exclude certain pre-income tax trusts and taxes collected by a taxpayer from a consumer; also added exemption for qualified distribution centers and required these centers to pay a \$100,000 annual fee.

## Comparisons with Other States (05/07)

None of the comparison states reflected 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, beginning January 1, 2008, will be 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%.

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