Ohio Legislative Service Commission

Bill Analysis

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H.B. 510

130th General Assembly
(As Introduced)

Reps. Brenner, Butler, Becker, Hood, J. Adams, Terhar, Retherford, Roegner

BILL SUMMARY

- Gradually reduces the rate of the commercial activity tax (CAT) by 25% over five years.
- Gradually decreases the percentage of CAT revenue allocated to the General Revenue Fund (GRF) and increases the proportion allocated for school districts and local governments that receive reimbursement for the prior repeal of taxes on business personal property.

CONTENT AND OPERATION

Commercial activity tax

Over five fiscal years, the bill gradually reduces the rate of the CAT by 25% and gradually and proportionately redistributes CAT revenue from the GRF to any local governments and school districts that are still being reimbursed for the repeal of business tangible personal property taxes. Ultimately, by the fifth fiscal year, the rate reductions and revenue redistribution effectively causes the proportionate amount of CAT revenue allocated to the GRF to decrease by approximately 50% and the amount allocated to such local governments and school districts to remain the same as under current law.

The CAT is an annual excise tax imposed on businesses for the privilege of doing business in Ohio that is based on a business' taxable gross receipts. Taxable gross receipts are derived from a business' "gross receipts," which is defined broadly to include all amounts realized that contribute to the production of gross income. There are over 35 other categories of receipts that are at least partly excluded from the gross receipts base from which taxable gross receipts is derived.

Rate reduction

The current CAT rate equals 0.26%. This rate applies to a taxpayer's taxable gross receipts in excess of $1 million. Beginning in fiscal year 2014, the bill reduces the CAT rate in equal proportions over five fiscal years to 0.195% by fiscal year 2019—a 25% reduction.[1]

Minimum tax reduction

In addition to the bill's decrease in the basic CAT rate, the bill decreases by 25% the CAT due on a taxpayer's first $1 million in taxable gross receipts for taxpayers that have more than $1 million in taxable gross receipts. Under continuing law, businesses with less than $150,000 in taxable gross receipts are excluded from paying the CAT. All other businesses owe a minimum tax on the first $1 million in taxable gross receipts plus 0.26% of receipts in excess of $1 million. Under current law, the minimum tax ranges from $150 to $2,600, depending on a business' total taxable gross receipts. Beginning in fiscal year 2014, the bill reduces these amounts in equal proportions over five fiscal years by 25% so that they will range from $112.50 to $1,950 by fiscal year 2019.[2]

Revenue allocation

The bill also reduces the percentage of CAT revenue allocated to the GRF, while increasing the percentage, but not necessarily the amount, allocated to pay local governments and school districts that still qualify for reimbursement for the prior repeal of business personal property taxes. Current law allocates 50% of CAT revenue to the GRF; 35% to school districts; and 15% to local governments. Beginning in fiscal year 2014 and continuing in equal proportions over the next five fiscal years, the bill reduces the percentage allocated to the GRF and increases the percentage allocated to such local governments and school districts by 33.3%. By fiscal year 2019, the bill allocates 33.3% of CAT revenue to the GRF; 46.7% to school districts; and 20% to local governments.[3]

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[1] R.C. 5751.03(A) and 5751.031.

[2] R.C. 5751.03(B).

[3] R.C. 5751.20.

In effect, these percentages hold the school districts and local government shares of the tax harmless against the CAT rate reduction; any revenue reduction resulting from the tax rate reduction is borne by the GRF.[4]

HISTORY

ACTION	DATE
Introduced	04-01-14

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[4] Although continuing law segregates CAT revenue into three funds according to the percentages specified above, another continuing provision ensures that the school district and local government reimbursements are payable from the GRF if the specified percentage of the revenue is insufficient to pay those reimbursements. Conversely, if the percentages produce more revenue than needed to pay the reimbursements, the excess is transferred to the GRF. R.C. 5751.21(G) and (H) and 5751.22(D) and (E).