

AN OVERVIEW OF MAJOR OHIO TAX LAW CHANGES

Governor Bob Taft approved Am. Sub. H.B. 66, the biennial budget bill, on June 30, 2005 which authorized a new commercial activity tax in Ohio as well as made significant changes to several existing taxes. This article is meant to advise you of only the more substantial tax changes made in that legislation. Many of the details are still not known and forms have not yet been developed. The Ohio Department of Taxation will issue future guidance providing more specific details of the tax changes at a later date, and once a technical corrections bill is approved.

TAX CHANGES: Effective July 1, 2005

- **NEW — COMMERCIAL ACTIVITY TAX (CAT)** – most businesses in Ohio will be subject to the commercial activity tax, a broad-based, low rate business privilege tax measured by gross receipts. The CAT is a tax on Ohio gross receipts in excess of \$1,000,000. Gross receipts will not include interest income and dividend income. The CAT – when fully phased-in after five years – will be levied at a rate of 0.26% on gross receipts in excess of \$1,000,000. Businesses with Ohio receipts of \$150,000 - \$1 million will pay a minimum tax of \$150. Businesses with receipts of less than \$150,000 will be exempt. The CAT applies to all business and entity types except banks, insurance companies, fuel sales, and some tax exempt entities. The new tax is being phased in over 5 years, and the effective rate in the first year is .06%. Quarterly estimated payments will be required, as well as an annual filing, which will be due in February. Details and forms are not yet available on these payments and filings.

Registration: Ohio businesses (including sole proprietors with taxable gross receipts of \$150,000 or more) must register by November 15, 2005 and pay a one-time fee of \$15 or \$20 for most taxpayers. *Note – the CAT will be applied to gross receipts received on and after July 1, 2005.* Additional registration information will be available shortly.

- **SALES TAX:** the state sales tax rate will decrease from 6.0% to 5.5%. The vendor discount will remain .9% for timely filed and paid returns. Local sales tax rates are not affected by this bill. Check with your county if you are unsure of the local rate.

OTHER TAX CHANGES: Effective with Enactment of Am. Sub. H.B. 66

- **PERSONAL INCOME TAX:** the rate will be cut 4.2% for all tax brackets for tax year 2005 (retroactive to January 1, 2005) and an additional 4.2% (from 2004 rates) in each of the years 2006-09 for a total rate cut of 21%. The tax on trust income has been made permanent.
- **CORPORATION FRANCHISE TAX:** this tax is being phased-out over five years at a rate of approximately 20% per year starting in tax year 2006 (taxable year 2005).
- **TANGIBLE PERSONAL PROPERTY TAX (TPP):** this tax will begin a four-year phase-out starting in tax year 2006 and ending with no tax due in 2009. This phase-out applies to most businesses and includes furniture & fixtures, machinery and equipment, and inventory. Purchases of machinery and equipment made after July 1, 2005 will not be subject to personal property tax.
- **REAL PROPERTY:** the 10% rollback is eliminated for certain real property used

in business (the 10% rollback remains for residential and agricultural real property).

- **ESTATE TAX:** Ohio's additional estate tax (sponge tax) is eliminated. The Ohio basic estate tax remains in effect.

Ohio's overall tax structure has changed drastically with this legislation. We anticipate additional guidance on the overall tax base and the required filings for the CAT within the next few months. We will keep you informed of new information as it becomes available. Please see Table 1 which outlines the changes in the various tax rates as the new taxes phase in or out over the next 5 years.

This article was prepared by Clark, Schaefer, Hackett & Co.'s State and Local Tax Group and reviewed by members Clark, Schaefer, Hackett & Co.'s Tax Committee. For more information on "An Overview of Major Ohio Tax Law Changes" please contact one of our five locations for a professional near you.



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Tax Law Changes under Am. Sub. H.B. 66*

Tax Year	Commercial Activity Tax	<u>Tangible Personal Property (TPP) Tax</u>			Corporation Franchise Tax	Individual Income Tax
		<u>Inventory</u>	<u>Manufacturing Mach & Equip</u>	<u>Furniture & Fixtures</u>		
2005	<u>7/1 – 12/31</u> .06% (23% x .26%)	23% **	Existing – 25% ** 25% **		100% x tax liability	4.2% cut across all brackets from 2004 rates
2006	<u>1/1 – 3/31</u> 23% x .26%	18.75%	New M&E: not taxable	18.75%	80% x tax liability	8.4% cut from 2004 rates
	<u>4/1 – 12/31</u> 40% x .26%		Existing – 18.75%			
2007	<u>1/1 – 3/31</u> 40% x .26%	12.5%	New M&E: not taxable	12.5%	60% x tax liability	12.6% cut from 2004 rates
	<u>4/1 – 12/31</u> 60% x .26%		Existing - 12.5%			
2008	<u>1/1 – 3/31</u> 60% x .26%	6.25%	New M&E not taxable	6.25%	40% x tax liability	16.8% cut from 2004 rates
	<u>4/1 – 12/31</u> 80% x .26%		Existing – 6.25%			
2009	<u>1/1 – 3/31</u> 80% x .26%	No tax	No Tax	No Tax	20% x tax liability	21% cut from 2004 rates
	<u>4/1 – 12/31</u> .26%					
2010	.26%	No tax	No Tax	No Tax	No Tax	21% cut from 2004 rates

*This chart is not a comprehensive summary of all tax changes. **Same as 2004 rates.
 ***Certain companies, such as financial institution, will continue to pay the full net worth tax.