



www.lsc.ohio.gov

# OHIO LEGISLATIVE SERVICE COMMISSION

Office of Research  
and Drafting

Legislative Budget  
Office

H.B. 234  
134<sup>th</sup> General Assembly

## Fiscal Note & Local Impact Statement

[Click here for H.B. 234's Bill Analysis](#)

**Version:** As Introduced

**Primary Sponsors:** Reps. Gross and McClain

**Local Impact Statement Procedure Required:** Yes

Jean J. Botomogno, Principal Economist

### Highlights

Fund	FY 2023	FY 2024	Future Years
<b>State General Revenue Fund</b>			
Revenues	Loss of \$446.7 million	Loss of \$832.5 million	Revenue loss increasing each year, to possibly \$2.05 billion in FY 2027
<b>Local Government and Public Library funds (counties, municipalities, townships, and public libraries)</b>			
Revenues	Loss of \$15.5 million	Loss of \$28.6 million	Revenue loss increasing each year, to possibly \$70.4 million in FY 2027
<b>School District and Local Government Property Tax Replacement funds</b>			
Revenues	Loss of \$81.6 million	Loss of \$152.0 million	Revenue loss increasing each year, to possibly \$374.4 million in FY 2027

Note: the state or school district fiscal year runs from July 1 through June 30 and is designated by the calendar year in which it ends. For other local governments, the fiscal year is identical to the calendar year

- The bill phases out the commercial activity tax (CAT) over a five-year period, starting in calendar year (CY) 2022. The revenue loss from the bill would increase each year, from \$543.8 million in FY 2023 to possibly \$2.50 billion in FY 2027, when the tax is fully eliminated.

- Continuing law earmarks CAT revenue for the GRF (85%) and for reimbursing school districts (13%) and other local governments (2%) for the reductions and phase out of local taxes on most tangible personal property. Revenue declines to the GRF from the bill would range from \$462.2 million in FY 2023 to potentially \$2.12 billion in FY 2027. Losses to two state property tax replacement funds would range from \$81.6 million in FY 2023 to \$374.4 million in FY 2027. However, continuing law also specifies that school districts and other local governments due property tax replacement payments would be reimbursed by the state via those funds or the GRF.
- Under codified law, GRF tax revenue is distributed to the Local Government Fund (LGF) and the Public Library Fund (PLF), 1.66% to each fund, while the GRF retains 96.68% of state tax collections. A provision in H.B. 110, the biennium budget act, increases the PLF share to 1.70% in FY 2023, and thus reduces the GRF share to 96.64% in that fiscal year.
- The bill will also reduce CAT receipts credited to the Revenue Enhancement Fund (Fund 2280), which is used by the tax department to defray administrative costs of the CAT and other taxes.

## Detailed Analysis

The bill repeals the commercial activity tax (CAT) starting in CY 2022 and specifies the following for calculation of a taxpayer's liability: for CY 2022, 80% of the tax; for CY 2023, 60%; for CY 2024, 40%; for CY 2025, 20%; and for CY 2026, 0%, which means the tax would generate zero revenue in FY 2027.

For purposes of this fiscal note, LBO assumes the bill would be effective on April 1, 2022.<sup>1</sup> Payments for this tax generally are based on a company's gross receipts in the previous calendar quarter. So, for example, in the second calendar quarter of CY 2022, the tax rate on taxable gross receipts (effectively) would be a reduced rate of 0.208% (0.26% x 80%), with the revenue loss realized in the third calendar quarter (and first fiscal quarter of FY 2023). The reduced tax rate of 0.208% would also apply to taxable gross receipts in the third and fourth quarters of CY 2022. In CY 2023, taxable gross receipts in the first quarter would be taxed at a rate of 0.156% (0.26% x 60%), with the associated revenue loss realized in the April to June 2023 period (in FY 2023), and the same tax rate would also apply to taxable gross receipts in the remaining quarters in CY 2023. The bill eliminates the tax in CY 2026, thus the CAT would yield no revenue in FY 2027.

The bill may reduce CAT all funds revenue (net of administrative costs) by about \$543.8 million and \$1.01 billion in FY 2023 and FY 2024, respectively. Continuing law earmarks CAT revenue for the GRF (85%) and for reimbursing school districts and other local governments for the reductions and phase out of local taxes on most tangible personal property (TPP). These reimbursements are made through the School District Tangible Property Tax Replacement Fund (Fund 7047, 13%), and the Local Government Tangible Property Tax Replacement Fund (Fund 7081, 2%). Of the decline in total CAT revenue above, the GRF would bear losses of

---

<sup>1</sup> Presumably, taxpayers may be able to request refunds for excess taxes remitted at the higher rate of 0.26% for taxable gross receipts in the January to March period. Thus, revenue losses in FY 2023 may be higher than estimated due to refunds potentially totaling about \$105.5 million.

\$462.2 million and \$861.1 million, respectively, in FY 2023 and in FY 2024. Distributions to Fund 7047 would decline by \$70.7 million and \$131.7 million, and distributions to Fund 7081 would fall by \$10.9 million and \$20.3 million, in FY 2023 and FY 2024, respectively. Please note that actual annual revenue losses may depend on the CAT credits applicable for that fiscal year.<sup>2</sup> Also note that school districts and other local governments ultimately are not impacted by the repeal of the CAT because continuing law provides that any deficiency in TPP replacement funds needed to make the reimbursement payments will be sourced to the GRF.

A share of GRF tax revenue from the CAT is distributed to the Local Government Fund (LGF) and the Public Library Fund (PLF), 1.66% to each fund under codified law, while the GRF retains 96.68% of tax receipts. A provision in H.B. 110 increases the PLF share to 1.70% for FY 2023. Thus, based on revenue reductions to the GRF in the preceding paragraph, combined losses from the bill to the LGF and PLF would total \$15.5 million in FY 2023 and \$28.6 million in FY 2024. Thus, the GRF losses from the bill would be \$446.7 million and \$832.5 million in FY 2023 and FY 2024, respectively.

The Revenue Enhancement Fund (Fund 2280), to which 0.65% of all CAT collections is credited and used by the tax department to defray administrative costs of the CAT and other taxes, would experience revenue decreases of \$3.6 million and \$6.6 million, respectively, in FY 2023 and FY 2024.

Annual CAT revenue losses would increase each year, to possibly total \$2.50 billion in FY 2027, including a GRF tax loss of \$2.12 billion when the CAT is fully phased out. Distributions to Fund 7047 and Fund 7081 may decrease by \$324.5 million and \$49.9 million, respectively, in FY 2027. Reductions to the LGF and PLF would total \$70.4 million. The revenue reduction to Fund 2280 is estimated to rise to about \$16.3 million in FY 2027. These estimates are based on LBO's revenue forecast for H.B. 110 for FY 2023, and an annual growth rate of 3.5% for CAT revenue from FY 2024 through FY 2027.

## **The commercial activity tax**

Generally, business entities with annual taxable gross receipts below \$150,000 are exempt from the CAT, and those with annual taxable gross receipts above \$150,000 and less than \$1 million pay the minimum tax of \$150 by May 10. Taxpayers with taxable gross receipts between \$1 million and \$2 million pay \$800 plus 0.26% of the taxable gross receipts in excess of \$1 million, those with taxable gross receipts between \$2 million and \$4 million pay \$2,100 plus 0.26% of the taxable gross receipts in excess of \$1 million, and those with taxable gross receipts in excess of \$4 million pay \$2,600 plus 0.26% of the taxable gross receipts in excess of \$1 million. The other CAT taxpayers generally pay the CAT each quarter. Many business credits may be claimed under more than one Ohio tax, however, the majority of tax credits are claimed against the CAT.<sup>3</sup> GRF CAT receipts were \$1.66 billion in FY 2021, or about 6.3% of total GRF taxes, and the Office of Budget and Management (OBM) has estimated revenue of \$1.80 billion in FY 2022.

HB0234IN/zg

---

<sup>2</sup> Tax credits under the CAT have varied widely over the years. FY 2020 CAT tax returns suggest nonrefundable tax credits of about \$58 million and refundable tax credits totaling about \$126 million.

<sup>3</sup> Of a total of \$291 million in business tax credits in FY 2020, estimated CAT tax credits were between \$184 million and \$206 million. Data are from the Department of Taxation.