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Bill Analysis

Version: As Introduced

Primary Sponsors: Reps. Gross and McClain

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SUMMARY

- Phases out the commercial activity tax (CAT) for all taxpayers over a five-year period, beginning in 2022, until the tax is fully repealed beginning in 2026.

DETAILED ANALYSIS

Commercial activity tax phase-out

The bill phases out the commercial activity tax (CAT) – a privilege tax on the gross receipts of businesses from the sale of property or services in Ohio – over a five-year period. The phase-out begins in 2022 and tax rates are reduced in even one-fifth increments each year until the CAT is fully repealed beginning in 2026.[1]

Under current law, a taxpayer's CAT liability, before tax credits are applied, is computed in two steps. First, a specified minimum amount of tax is levied on the first $1 million of a taxpayer's taxable gross receipts (i.e., all gross receipts from sales sitused to Ohio) based on that taxpayer's total annual taxable gross receipts, as follows:

- $150 in tax, for taxpayers with annual taxable gross receipts of between $150,000 and $1 million (taxpayers with taxable gross receipts of less than $150,000 are exempt from the CAT);
- $800, for annual receipts of between $1 million and $2 million;
- $2,100, for annual receipts of between $2 million and $4 million;
- $2,600, for annual receipts of more than $4 million.

[1] R.C. 5751.02(A).

Secondly, all taxable gross receipts in excess of the first $1 million is taxed at a rate of 0.26%. A taxpayer's total CAT liability is the sum of both the minimum tax and the additional tax applicable to taxable gross receipts above $1 million.

To calculate a taxpayer's CAT liability during the bill's phase-out period, the taxpayer will multiply its total liability, described above, by one of the following phase-out rates:

- For calendar year 2022, 80%;
- For calendar year 2023, 60%;
- For calendar year 2024, 40%;
- For calendar year 2025, 20%.[2]

The resulting product is the taxpayer's CAT liability for that year. The taxpayer may then claim any credits for which the taxpayer qualifies.

Effect on revenue allocation

Under current law, 85% of CAT revenue, after deductions for the costs of administering the CAT, is credited to the GRF, 13% is credited to the School District Property Tax Replacement Fund, and 2% is credited to the Local Government Property Tax Replacement Fund.[3]

The two property tax replacement funds were created when the CAT was enacted in 2005 to reimburse school districts and other local governments for lost tax revenue from the phase-out of the business tangible personal property (TPP) tax that was occurring at the same time. The reimbursement schedule generally provides for a gradual phase-out of these payments over time, but they are still being made.

TPP replacement payments required under continuing law for school districts and other local governments will not be impacted by the repeal of the CAT, however, because continuing law provides that any deficiency in those CAT replacement funds needed to make reimbursement payments will be sourced from the GRF.[4] The net effect of the CAT repeal is that the GRF will bear the total cost of making TPP replacement payments, instead of all or part of that cost being paid directly from CAT receipts.

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[2] R.C. 5751.03.

[3] R.C. 5751.02(C).

[4] R.C. 5751.02(D).

HISTORY

Action	Date
Introduced	03-25-21

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