

Fact sheet: Tax reform in Ohio

Since 2005, Ohio has been gradually phasing in a series of changes to its tax laws intended to make the Buckeye State a friendlier place to do business. These changes also have significantly reduced the amount of taxes that individuals and businesses in Ohio pay each year.

Overall, the reforms now underway are the single largest set of changes to Ohio's tax laws since the 1930s. The phased in changes highlighted below represent a net annual savings to taxpayers of approximately \$3.5 billion.¹

Phase out: Tangible personal property tax

What it is: The tangible personal property tax is a property tax on business machinery, equipment and inventory. Rates are set by the same local property tax levies that apply to land and buildings.

When it began: Tangible personal property used in business has been subject to property taxation in Ohio since 1846.

Phase out plan: The plan is to gradually reduce the percentage of true value at which personal property is listed for tax purposes. Before 2005, personal property was listed at 25 percent of its true value. H.B. 66 called for this "listing percentage" to fall to 18.75 percent of true value for 2006, 12.5 percent for 2007, 6.25 percent for 2008 and zero percent for 2009 and thereafter.

Where it stands: For the vast majority of businesses, the tangible personal property tax is history. Final tax returns and payments were due in September, 2008.

Exceptions: For telephone companies, the tax is being phased out according to a different schedule with final bills due in 2010. Also, public utilities are not subject to the phase out.

Savings to taxpayers: The phase out represents an annual savings of approximately \$1.6 billion starting in fiscal year 2010.



Phase out: Corporation franchise tax

What it is: A tax on all corporations, measured either by net worth or profits, depending on which yields the greater tax. The net worth rate is 4 mills (0.4 percent); the net income rate is 5.1 percent on the first \$50,000 of net income and 8.5 percent on remaining net income. Financial institutions pay a separate 13 mill (1.3 percent) tax on their net worth.

When it began: The tax dates back to 1902, when the "Willis Law" imposed a 1 mill tax on corporations' net worth. The net income base was added in 1971.

Phase out plan: During the phase out, corporations have completed their tax returns (or "reports") much as usual, then paid a declining percentage of the tax that would otherwise have

¹ This \$3.5 billion estimate applies only to the phased in changes outlined in this fact sheet. It does not include tax provisions of House Bill 66 that took immediate effect, such as an increase in the cigarette tax rate and a permanent change in the state sales tax rate to 5.5 percent. When these changes are also considered, the annual savings to taxpayers is approximately \$1.8 billion per year (meaning collections to all funds) or \$1.7 billion (net to the state's General Revenue Fund). This estimate, and others in this document, are drawn largely from the analysis of House Bill 66 contained on page B-4 of the "Blue Book" ([Executive Budget for Fiscal Years 2010 and 2011](#)). Where applicable, these estimates also assume the temporary postponement of the final 4.2 percent income tax reduction originally scheduled for 2009.

been due. Corporations paid 80 percent for the 2006 report year, 60 percent for 2007, 40 percent for 2008 and 20 percent for 2009.

Where reform stands: For corporations that received a filing extension, the last returns are due on Oct. 15, 2009.

Exceptions: The phase out does not apply to a small number of corporations – primarily financial institutions, which will continue to pay a 13 mill tax on their net worth.

Savings to taxpayers: The annual savings is approximately \$1.6 billion.

Phase in: Commercial activity tax (CAT)



What it is: The CAT is a tax on businesses, measured by gross receipts. Businesses with annual gross receipts between \$150,000 and \$1 million pay a flat annual tax of \$150. A rate of 0.26 percent applies to gross receipts in excess of \$1 million.

When it began: The CAT was enacted in 2005 as a partial replacement for both the corporation franchise tax and the tangible personal property tax. Revenue from the CAT is currently being used to hold school districts and local governments harmless from the elimination of the tangible personal property tax.

Phase in plan: The rate has gradually increased from an initial rate of 0.0598 on gross receipts in excess of \$1 million to its final full rate of 0.26 percent.

Where reform stands: The full rate of 0.26 percent took effect on April 1, 2009.

Exceptions: The CAT does not apply to certain types of entities that pay other business taxes, such as insurance companies, financial institutions and public utilities.

Cost: The tax was expected to generate approximately \$1.6 billion per year starting in fiscal year 2010² – about half the amount of revenue generated by the

corporation franchise and tangible personal property taxes that it replaces.

Reduce rates: Ohio individual income tax

What it is: A tax on personal income,

When it began: In 1912, voters approved an amendment to the Ohio Constitution explicitly permitting the taxation of income on a graduated basis. Ohio's first income tax was enacted in 1971.

Rate reduction plan: A schedule enacted mid-2005 called for rates to be reduced across the board in five annual increments of 4.2 percent each, for a total rate reduction of 21 percent.

Where reform stands: Four rate reductions are now fully in effect. Rates are 16.8 percent lower than they were in 2004, resulting in an annual savings of about \$357 for a family of four that earns \$60,000. On Sept. 30, Governor Ted Strickland proposed temporarily postponing the fifth and final 4.2 percent rate reduction in order to avoid deep reductions in state aid to schools.

Savings to taxpayers: Assuming legislative action on the governor's proposal, the net annual savings is approximately \$1.8 billion in fiscal years 2010 and 2011.

² This reflects the "Blue Book" estimate from early 2009, listed here for the sake of consistency. Actual CAT collections are estimated to be about \$1.4 billion for fiscal year 2010.