Commercial Activity Tax

Taxpayer

The commercial activity tax (CAT) is paid by Ohio businesses with taxable gross receipts of $150,000 or more in a calendar year. This includes sole proprietors, partnerships, or corporations, as well as service providers such as medical professionals, attorneys, and accountants, and persons engaged in the sale or rental of any type of property.

The tax also applies to out of state businesses that either: (a) have at least $500,000 in taxable gross receipts in Ohio; (b) have at least $50,000 in real or personal property in Ohio; (c) expend at least $50,000 in payroll for work in Ohio; or (d) have at least 25 percent of their total property, payroll, or gross receipts in Ohio.

Tax Base

The CAT is a business privilege tax measured by gross receipts, defined as the total amount realized, without deduction for the cost of goods sold or other expenses incurred, from activities that contribute to the production of gross income. Examples are sales, performance of services, and rentals or leases. A taxpayer accounts for gross receipts using the same method of accounting as for federal income tax (i.e., accrual or cash basis).

Rates

The tax is being phased in over a five-year period that began July 1, 2005.

For the semi-annual period between July 1 and Dec. 31, 2005, the minimum tax was $75, and a rate of 0.06 percent applied to taxable gross receipts above $500,000.

For calendar years 2006 and thereafter, taxpayers whose taxable gross receipts are between $150,000 and $1 million are subject to the minimum tax of $150. Receipts above $1 million are taxed at the following effective rates:

Effective Date			Rate
Jan. 1, 2006	to	March 31, 2006	0.0598 percent
April 1, 2006	to	March 31, 2007	0.104 percent
April 1, 2007	to	March 31, 2008	0.156 percent
April 1, 2008	to	March 31, 2009	0.208 percent
April 1, 2009		and thereafter	0.26 percent.

Major Exemptions

The CAT does not apply to:

- Nonprofit organizations;
- Financial institutions;

- Insurance companies;
- Affiliates of financial institutions and insurance companies;
- Dealers in intangibles; and
- Certain receipts by public utilities that are subject to the public utility excise tax.

Additionally, the provision exempting gross receipts derived from the sale of motor fuel expired on June 30, 2007.

Revenue (in Millions)

Fiscal Year	Total
2006	$273.4
2007	594.9
2008	961.4

Disposition of Revenue

During fiscal year 2006, 22.6 percent of CAT revenue was dedicated to the School District Tangible Property Tax Replacement Fund, 9.7 percent of CAT revenue was dedicated to the Local Government Tangible Property Tax Replacement Fund, and the remainder was dedicated to the General Revenue Fund.

Beginning in fiscal year 2007, 70 percent of CAT revenue is dedicated to the school district replacement fund and 30 percent to the local government replacement fund. Starting in fiscal year 2012, the percentage devoted to the local government replacement fund will begin to fall by about 3.5 percent per year through fiscal year 2018, with the remaining revenue dedicated to the General Revenue Fund. In 2019, a full 30 percent of CAT revenue will be dedicated to the General Revenue Fund.

Payment Dates

- Before filing a return, all businesses liable for the CAT must register, either electronically through the Ohio Business Gateway (**obg.ohio.gov**) or by obtaining the CAT-1 registration form available through the department's Web site (**tax.ohio.gov**).
- Taxpayers with taxable gross receipts of $1 million or more must file quarterly returns, due 40 days from the end of each calendar quarter (that is, May 10, Aug. 9, Nov. 9, and Feb. 9).
- For annual taxpayers (those taxpayers with less than $1 million in annual taxable gross receipts), the minimum tax is due Feb. 9 of each year for the current tax year. An annual return reports the taxable gross receipts for the prior year's activity and prepays the minimum tax for the current year.

Special Provisions and Credits

The following credits are allowed beginning July 1, 2008:

- Job Creation Tax Credit (refundable).
- Job Retention Tax Credit (nonrefundable).
- Credit for Qualified Research Expenses (nonrefundable).
- Credit for Research and Development Loan Payments (nonrefundable).

A credit for unused franchise tax net operating loss deductions may be claimed beginning in 2010. This credit can be either refundable or nonrefundable, depending on the year in which the taxpayer claims the credit.

Additionally, distribution centers whose annual costs to their suppliers for goods shipped into their facility equal or exceed $500 million and that ship more than 50 percent of their goods out of state are able to exclude the percentage that is shipped outside the state. However, distribution centers that qualify for this exemption must pay a $100,000 annual fee effective Jan. 1, 2007 (this provision replaces a temporary exemption for qualified foreign trade zone areas that expired Dec. 31, 2006).

Sections of Ohio Revised Code

Chapter 5751.

Responsibility for Administration

Tax Commissioner.

History of Major Changes

2005 The CAT is enacted as part of House Bill 66.

2006 Legislation excludes certain pre-income tax trusts and taxes collected by a taxpayer from a consumer. Also, an exemption is added, effective Jan. 1, 2007, for qualified distribution centers, which are required to pay a $100,000 annual fee.

2007 H.B. 119 permanently devotes 70 percent of CAT revenue into the School District Tangible Property Tax Replacement Fund. Previously, this provision would have expired after FY 2018.

Comparisons with Other States (As of 12/08)

None of the states selected for comparison in this publication impose a tax which is exclusively measured by gross receipts. The tax most closely resembling the CAT is the Texas franchise tax ("margin tax") which is based on the lesser of three alternative computations: total receipts less costs of goods sold; total receipts less compensation paid; or total receipts multiplied by 70 percent.

See the **Corporation Franchise Tax** chapter for further comparative information on state business taxes.