



## Sales and Use Tax

### Taxpayer

Taxpayers include holders of vendor's licenses, direct-payment permits, and consumer use tax accounts; registered out-of-state sellers; and clerks of court.

### Tax Base

Sales and rental of tangible personal property, and selected services.

### Rate

The state sales tax rate has been 5.5 percent since July 1, 2005.

### Major Exemptions

Major exemptions include:

- Purchases for resale.
- Food for human consumption off the premises where sold.
- Newspapers.
- Magazine subscriptions.
- Motor fuel.
- Sales of natural gas by a natural gas company, and water by a water works company when delivered through pipes or conduits.
- Sales of electricity delivered through wires.
- Prescription drugs.
- Property used primarily in manufacturing or used directly in mining or agriculture.
- Credit for trade-ins on purchases of new motor vehicles, and on purchases of watercraft and out-board motors purchased from registered dealers.

### Revenue (In Millions)

Fiscal Year	General Revenue Fund	Local Funds	Other <sup>1</sup>	Total
2004	\$7,530.6	\$301.3	\$2.8	\$7,834.7
2005	7,827.1	301.3	2.9	8,131.3
2006	7,368.2	301.3	3.5	7,673.0
2007	7,424.5	301.3	4.8	7,730.6
2008	7,614.1	246.0	5.6	7,865.7

Note: Revenues in the table above reflect a two-year temporary increase of the state sales tax rate to 6 percent effective July 1, 2003. A permanent rate of 5.5 percent took effect July 1, 2005.

<sup>1</sup> Includes distributions to the Attorney General Claims Fund.

## Disposition of Revenue

Traditionally, after any required deposits were made to the Attorney General Claims Fund, 95.2 percent of remaining revenue was deposited in the General Revenue Fund, 4.2 percent was deposited in the Local Government Fund, and 0.6 percent was deposited in the Local Government Revenue Assistance Fund.

But both of these local government funds were frozen for fiscal years 2002 and 2003 so that each only received either the same amount of revenue as in fiscal year 2001 or the amount provided by the old formula, whichever was less. Similar freezes were enacted for fiscal years 2004 through 2007.

The 2008-09 biennial budget continued the freeze through calendar year 2007 and established a new system of revenue sharing with local governments. Beginning in January 2008, the two local government funds are consolidated into a single Local Government Fund that receives 3.68 percent of all General Revenue Fund tax revenues. In addition, the Public Library Fund receives 2.22 percent of all General Revenue Fund tax revenues.

All revenues from the state sales and use tax are initially deposited in the General Revenue Fund. However, each month an amount is deposited into the Public Library Fund, with one-half of that amount credited against the state sales tax portion of General Revenue Fund revenues. (The transition to this new financing mechanism is the reason for the fairly substantial observed change in local government and library fund deposits from the state sales and use tax during fiscal year 2008.)

## Payment Dates

### Monthly returns:

Due by the 23rd day of the month following the reporting period.

### Semi-annual returns:

Due by the 23rd day of the month following the close of the semi-annual reporting period; this method of payment may be authorized for vendors and sellers whose tax liability is less than \$1,200 per six month period.

### Quarterly returns:

Consumer use tax accounts and direct pay accounts by the 23rd day of the month following the reporting period if monthly liability is under \$5,000. Otherwise, consumers must remit tax monthly.

### Vendor discounts:

Vendors and out-of-state sellers are allowed a 0.75 percent discount for timely payment. (This discount was 0.9 percent for returns filed between July 1, 2003 and June 30, 2007).

**Other provisions:**

Payment is required to be made by electronic funds transfer by taxpayers when liabilities equal or exceed \$75,000 a year. Such taxpayers must also make accelerated payments on or before the 23rd of the month.

**Special Provisions/Credits****Local levies:**

Counties and transit authorities may levy additional sales and use tax. For more information, see the **Sales and Use Tax – County and Transit Authority** chapter.

**Sales of motor vehicles to residents of certain other states:**

Beginning Aug. 1, 2007, Ohio motor vehicle dealers must collect tax at the rate of 6 percent from residents of states that impose a similar sales or use tax on Ohio residents (most states do not). As of Jan. 1, 2009, residents of eight states were subject to the nonresident motor vehicle sales tax: Arizona, California, Florida, Indiana, Massachusetts, Michigan, South Carolina and Washington.

**Streamlined Sales Tax Project:**

Ohio is an associate member of the Streamlined Sales Tax Project, a multi-state effort to make sales tax laws, rules, and systems more uniform among states. The goal is to make it easier for those who make sales in multiple states to voluntarily collect and remit sales taxes to each of those states (federal law exempts sellers from this collection responsibility unless they have a physical presence in a state).

As part of this effort, Ohio law had been gradually moving sellers toward destination sourcing of all delivery sales – calculation of the tax based on the rate at the destination of the sale rather than the location of the vendor. But, in response to concerns from small business owners, Ohio has reversed course. A 2008 law requires the relative few delivery sellers who made the switch to destination sourcing to go back to origin sourcing on intrastate sales by Jan. 1, 2010. The Streamlined Sales Tax Governing Board has agreed, under certain circumstances, to allow Ohio and similar states to become full members of the Streamlined Sales and Use Tax Agreement while retaining origin sourcing of intrastate delivery sales.

**Sections of Ohio Revised Code**

Chapters 5739, 5740, and 5741.

**Responsibility for Administration**

Tax Commissioner.

## History of Major Changes

- 1934** General Assembly enacts a 3 percent sales tax effective Jan. 1, 1935.
- 1935** Legislature enacts a companion use tax effective Jan. 1, 1936.
- 1936** Ohio voters approve a constitutional amendment exempting food for human consumption off the premises where sold.
- 1962** The use of sales tax stamps is discontinued.
- 1967** Legislature increases rate to 4 percent and broadens the tax base to include cigarettes and beer.
- 1971** Cigarettes again become exempt.
- 1981** General Assembly increases rate to 5 percent and broadens the base to again include cigarettes, as well as repairs and other selected services. A credit is established for trade-ins on new motor vehicles.
- 1983** Base is broadened to include business data processing services.
- 1987** Purchases made with food stamps become exempt from the tax; long distance telecommunications service becomes taxable.
- 1990** The legislature exempts tangible personal property primarily used in manufacturing operations from the tax, replacing a direct use exemption for manufacturers. Also, a credit is established for trade-ins on new or used watercraft.
- 1991** The tax base is broadened to include lawn care, landscaping, private investigation, and security services.
- 1993** Legislature broadens tax base to include building cleaning and maintenance, exterminating, employment agency, and personnel supply services as well as memberships in physical fitness facilities and recreation and sports clubs. Exemptions are established for qualified property used in research and development and for nonprofit scientific organizations. The vendor discount is lowered from 1.5 percent to 0.75 percent of tax collections.
- 1994** General Assembly exempts purchases made by organizations defined under Internal Revenue Code 501(c)(3).
- 1997** Legislature exempts the sale of personal computers and qualified equipment to licensed and certified teachers.
- 1999** The sale of used manufactured and mobile homes become exempt effective Jan. 1, 2000. Also, for the purposes of the sales and use tax, the sale of new manufactured or mobile homes are no longer considered motor vehicle sales.

- 2000** Legislature reduces transient vendor's license fee from \$100 to \$25. Also, the definition of an exempt casual sale is changed to include items that had been subject to the taxing jurisdiction of another state.
- 2001** The application of the sales and use tax on certain leased motor vehicles, watercraft, aircraft, and on the lease of tangible personal property by businesses is changed so that the tax is paid upon consummation of the lease.
- 2002** Senate Bill 200 permits refunds to be issued directly to consumers in cases where the consumer illegally or erroneously paid tax to the vendor.
- 2003** The General Assembly temporarily increases state sales tax rate from 5 percent to 6 percent between July 1, 2003 to June 30, 2005. The vendor discount is temporarily increased from 0.75 percent to 0.9 percent during the same period. Also:
- The tax base is expanded to include laundry and dry cleaning, satellite broadcasting service, personal care services, the intrastate transportation of persons by motor vehicle or aircraft, towing service, snow removal, and the storage of tangible personal property, effective Aug. 1, 2003.
  - The threshold is raised for mandatory payment by electronic funds transfer from \$60,000 annual tax liability to \$75,000, and such taxpayers begin paying on an accelerated schedule.
  - Some definitions of food, beverages, and medical supplies are changed to conform to the provisions of the multi-state Streamlined Sales Tax Project.
- 2005** General Assembly enacts a permanent sales tax rate of 5.5 percent effective July 1, 2005, and extends the temporary vendor discount rate of 0.9 percent through June 30, 2007.
- 2006** General Assembly exempts property withdrawn from inventory and donated to a charitable organization from the use tax.
- 2008** A repeatedly-delayed conversion of all vendors to destination sourcing of delivery sales made within Ohio is reversed. House Bill 429 requires delivery sellers who had switched to destination sourcing to go back to origin sourcing of intrastate sales by Jan. 1, 2010.
- 2009** Electronic filing of sales tax returns becomes mandatory.

## Comparisons with Other States (As of 12/08)

This table shows state sales tax rates, the maximum combination of local sales tax rates currently in effect for each state, and the highest combined state and local sales tax rate currently in effect for each state.

State	State Tax Rate	Maximum Local Tax Rate	Maximum Rate In Effect (Including Local Rate)
California	7.25%	1.50%	8.75%
Florida	6.00	1.50	7.50
Illinois	6.25	4.25	10.50
Indiana	6.00	0.00	6.00
Kentucky	6.00	0.00	6.00
Massachusetts	5.00	0.00	5.00
Michigan	6.00	0.00	6.00
New Jersey	7.00	0.00	7.00
New York	4.00	4.75	8.75
<b>Ohio</b>	<b>5.50</b>	<b>2.25</b>	<b>7.75</b>
Pennsylvania	6.00	1.00	7.00
Texas	6.25	2.00	8.25
West Virginia	6.00 <sup>1</sup>	0.00	6.00

<sup>1</sup> In West Virginia, the tax rate on sales of food ingredients intended for human consumption (but not prepared food) is 3 percent.