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# OHIO'S JOBS BUDGET 2.0

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JOBS. MOMENTUM. TRANSFORMATION.

## Tax Expenditure Report

The State of Ohio Executive Budget  
Fiscal Years 2014-2015

Governor John R. Kasich  
Ohio Department of Taxation  
Tax Commissioner Joseph W. Testa



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Taxation**

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It is my pleasure to present the *Tax Expenditure Report*, a responsibility assigned to the Tax Commissioner by the Ohio Revised Code (Sections 107.03 and 5703.48). This report makes possible an ongoing review of state tax expenditures. It is a companion piece to the Governor's Executive Budget.

This report includes 129 tax expenditures allowed in current law, entailing various exclusions, exemptions, deductions and credits. It provides the amount of state General Revenue Fund tax revenue estimated to be foregone from each expenditure during the current biennium (fiscal years 2012 and 2013) and upcoming biennium (fiscal years 2014 and 2015). The report does not address the merits of those exemptions. Nonetheless, it fosters a better understanding of the current tax system and stands as an important resource for those making decisions about Ohio's tax policy.

Sincerely,

A handwritten signature in black ink, appearing to read "Joe Testa". The signature is fluid and cursive, with a large initial "J" and a stylized "T".

Joseph W. Testa  
Tax Commissioner

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# Introduction

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## State of Ohio Tax Expenditure Report

Sections 107.03(F) and 5703.48 of the Ohio Revised Code, enacted in 1987, require the tax commissioner to produce a tax expenditure report that is to be submitted as a supplement to the Governor's biennial budget. The report is required to provide estimates of the impact of tax expenditures on the state General Revenue Fund during the current biennium and the next biennium.

Both tax expenditures and direct budgetary expenditures incur a cost to the state in order to accomplish public policy goals. Unlike direct budgetary expenditures, unless there is a pre-existing termination date, tax expenditures may remain in effect indefinitely with little or no scrutiny by policy makers.

A primary purpose of a tax expenditure report is to help provide a picture of total "spending" incurred by means of foregone tax revenue. This report provides the estimated dollar value of tax expenditures but offers no conclusions about the validity of those expenditures. The responsibility of evaluating the expenditure's merit with regard to public policy belongs jointly to the General Assembly and the Governor.

In this edition of the Ohio tax expenditure report, we provide the estimated revenue foregone by the state General Revenue Fund for the fiscal year 2012-2013 biennial budget period and the fiscal year 2014-2015 biennial budget period. The report includes 129 different tax expenditures.<sup>1</sup> In addition, the report contains the legal citation, year of enactment, and a brief description of the tax expenditure.

## The Tax Expenditure Concept

Tax expenditures represent tax dollars that are foregone through deductions, exemptions, credits, and other provisions in tax laws. (This statement is a somewhat abbreviated version of the tax expenditure definition found in Ohio Revised Code Section 5703.48.) Tax expenditures result in a loss of tax revenue to state government, thereby reducing the funds available for other government programs. In essence, a tax expenditure has the same fiscal impact as a direct government expenditure.

Since the tax expenditure concept was first articulated in 1967 by Stanley S. Surrey (assistant secretary for tax policy of the U.S. Treasury), the executive and legislative branches of the U.S. government, most state governments and many foreign governments have issued their own versions of tax expenditure reports. In its broadest outline, the tax expenditure concept is fairly uniform and constant: a tax expenditure represents a legislated variation from – more commonly, a reduction to – a standardized tax base. Beyond that, however, varying ideas about what constitutes a tax expenditure have led to differing approaches for defining or identifying those expenditures. In a sense, tax expenditure reports are evolutionary in nature, changing as members of the tax policy community absorb, synthesize, and contribute new thinking on the subject.

One evolving element is the definition of the standardized ("baseline") tax structure, the variations from which are identified as tax expenditures. An example of how the baseline tax structure can change may be found at the federal government level. In May, 2008, the U.S. Joint Committee on Taxation (JCT) revised its definition of tax expenditures.<sup>2</sup> This revision was at least partially motivated by a long-standing criticism that the incumbent definition of tax expenditures was based on a "normalized" conception of an income tax, even though there was no explicit evidence to suggest the U.S. income tax was inherently structured as, or was intended to be structured as, a pure income tax. According to critics, certain long-standing features of the U.S. income tax were more consistent with a consumption tax than an income tax, so it was not appropriate to use a baseline wedded to a normalized income tax. In the May, 2008 revision, JCT shed the "normalized" income tax baseline for a more nuanced definition that is somewhat more restricted in scope. The new approach will presumably improve the JCT's representation and measurement of tax expenditures.

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<sup>1</sup> Some of the 129 tax expenditures have an annual revenue impact below \$1 million; revenue estimates are not provided for those items.

<sup>2</sup> Joint Committee on Taxation, *A Reconsideration of Tax Expenditure Analysis* (JCX-37-08), May 12, 2008. Accessed at: [www.jct.gov/publications](http://www.jct.gov/publications).

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Some of the same inherent conceptual difficulties surrounding tax expenditures exist at the state level as at the federal level. There is considerable variation among the states with respect to what they consider tax expenditures (and, by extension, their implied baseline tax structures). For example, just under one-half of state tax expenditure reports include services not subject to sales tax, while the remainder do not.<sup>3</sup> The variation among states ultimately stems from a fundamental difficulty with the tax expenditure concept: the lack of a universally applicable definition of “tax expenditure” that is sufficiently robust in meaning for it be used by all jurisdictions and taxes. As a result, each reporting agency has to render an operating definition of tax expenditure that has analytical utility for that agency and its administration, as well as legislative policy makers and the wider tax policy audience within that jurisdiction.<sup>4</sup>

## Tax Expenditures as Defined in this Report

Ohio uses what may be considered a mostly “reference law” concept for defining tax expenditures. However, it is also laden with elements driven by the “ideal base” concept.<sup>5</sup> The primary determinant as to whether a tax provision may be considered a tax expenditure is whether it exists as an exemption, credit, deduction, etc. in the Ohio Revised Code. This conforms with the reference law concept. Of this initial list of *potential* tax expenditures, certain provisions – those considered to be inherent to the tax base – are then excluded; this step reflects elements of the ideal base concept. A primary example of an item excluded from the report is the sales tax “resale” exemption (see discussion in the Sale and Use Tax section of the report). Another example is the commercial activity tax exclusion for non-profit entities.

Listed below are the basic criteria used in this report to determine whether a tax provision constitutes an Ohio tax expenditure. All four of these characteristics must exist in order for the item to be considered a tax expenditure.

### 1. The item reduces, or has the potential to reduce, one of the state's General Revenue Fund taxes.

By law, the tax expenditure report includes only those taxes that contribute to the state General Revenue Fund (GRF). This means locally-levied taxes are excluded from the report. Furthermore, there are certain state taxes that do not provide revenue to the state's GRF and thus are also excluded. This includes such taxes as the motor vehicle fuel tax, horse racing tax, and severance tax.

### 2. The item would have been part of the defined tax base.

In order for a provision to be a tax expenditure it must specifically exempt from taxation an item that otherwise would have been part of the tax base. Without the provision, the item would have been taxable. There are some items specifically exempted by the Ohio Revised Code that do not happen to be part of the tax base. These items are not included as tax expenditures in this report.

### 3. The item is not subject to an alternative tax.

Items that are subject to alternative taxes are not considered tax expenditures. For instance, insurance companies are excluded from the commercial activity tax by the Ohio Revised Code but this exclusion is not considered a tax expenditure because such companies are taxed under the domestic or foreign insurance premiums tax.

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<sup>3</sup> Of 34 jurisdictions that include the sales tax in their tax expenditure reports, 16 of them provide an entry for services exempt from sales tax. Jason Levitis, Nicholas Johnson & Jeremy Koulisch, “State Budget Accountability Through Tax Expenditure Reports,” *State Tax Notes*, May 25, 2009: 655.

<sup>4</sup> Some agencies must work with a statutorily prescribed definition of “tax expenditure.” Even though the reporting agency must comply with the statutory definition in good faith and to the maximum extent possible, there is probably no statutory definition with sufficient nuance and logic to guide all situations. In other words, the agency will need develop a useful operating definition of a tax expenditure and then need to apply its judgment in determining which items fit that definition. For example, each state is bound to a constitutional prohibition against taxing nonresidents on income not earned in that state; Ohio accomplishes that result via a nonresident tax credit. Although Ohio law indicates that “credits” fall under the definition of tax expenditure, it is wholly inappropriate to include the nonresident credit in the Ohio tax expenditure report when the credit is simply a mechanism used to ensure a constitutionally compliant tax.

<sup>5</sup> Mikesell, *supra* at 46.

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## 4. The item is subject to change by state legislative action.

The item must take the form of an exemption, deduction, credit, etc. existing in the Ohio Revised Code. Those items that can only be changed by a state constitutional amendment, a federal law change, or a federal constitutional amendment are not considered tax expenditures.

Several taxes that have appeared in previous editions of this report have been eliminated, while a new tax has been added. Am. Sub. House Bill 510 repealed the corporate franchise tax (as well as the dealers in intangibles tax) beginning in 2014, replaced by a new “financial institutions tax.” As a result the report essentially replaces the corporate franchise tax chapter with a financial institutions tax chapter. Am. Sub. House Bill 153 repealed the Ohio estate tax effective with dates of death on or after January 1, 2013. Consequently, the estate tax chapter of this report has been eliminated.

## Interpretation of Tax Expenditures

Although we have discussed definitional issues related to tax expenditures, we should also discuss how one might interpret the information conveyed about a tax expenditure. Tax policy experts have identified several different ways to consider tax expenditures.<sup>6</sup> On one hand, because tax expenditures provide an explicit accounting of deviations from a conceptual tax structure baseline, users of a tax expenditure report are able to identify the nature of those deviations and their relative fiscal magnitude. The report may serve as a foundation for further analysis as to whether, and to what degree, the expenditures violate the principles of good tax policy (fairness, simplicity, efficiency).<sup>7</sup> To one degree or another, many tax expenditures reduce economic efficiency, heighten tax code complexity, and treat people with the same ability to pay in a disparate (inequitable) manner. This may be considered the “tax reform” perspective on tax expenditures.

In contrast, tax expenditures might be viewed as an appropriate mechanism for spending government resources. Under this interpretation, the tax system may serve as an appropriate instrument for reallocating resources or otherwise addressing market inefficiencies. Thus, the tax expenditure report identifies the specific circumstances under which policy makers have chosen to allocate state resources, so as to fully or partially address a perceived societal need. According to this orientation, then, the question is whether the “spending” is efficient and appropriate: the concern is not so much directed toward whether the tax expenditure may violate certain tax policy principles.

## Projected Revenue Foregone From Tax Expenditures

The 2014-2015 biennial tax expenditure report identifies the estimated revenue that is foregone, or “spent,” by the state General Revenue Fund as a result of the existence of a tax expenditure provided under current law. The revenue foregone estimates in this report reflect the amount of financial benefit provided to those persons or business entities using the tax expenditure, adjusted to reflect the state General Revenue Fund’s share of the tax expenditure. No further adjustments are made to the estimates except in cases where another tax expenditure is also available to the taxpayer for the same item or activity: the report reduces one (but not both) of the overlapping tax expenditures by the estimated amount of tax revenue associated with the “overlap.”

The estimates in this report do not represent the amount of revenue that would be gained if any particular tax expenditure were to be repealed. Estimates produced under a “revenue gain from repeal” concept would need to encompass an extensive array of (primarily downward) adjustments. For one thing, “revenue gain from repeal” estimates require particular assumptions about the tax expenditure repeal date. There may be important cash flow lag consequences associated with the chosen repeal date. Another potentially significant adjustment involves taxpayer behavioral responses to the repealed tax expenditure. Economic activity would likely be impacted to some degree as

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<sup>6</sup> See, for example, Eric J. Toder, *Tax Expenditures and Tax Reform: Issues and Analysis*, Presented at National Tax Association Annual Conference, Miami, Florida, November 19, 2005.

<sup>7</sup> Although tax expenditures usually move a tax structure farther away from positive tax policy, we recognize that some of the expenditures in this report may be highly, if not entirely, consistent with positive tax policy. The sales tax exemption for property used to manufacture tangible personal property is a notable example of an expenditure with tax policy merit, because it mitigates the economic distortions that would otherwise occur through tax “pyramiding.”

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tax is newly applied to the previously tax-exempt item or activity. Furthermore, one may expect at least some short-term taxpayer non-compliance with the newly-taxed activity.

To summarize, **the figures in this report do not represent the estimated revenue gain from repeal of the tax expenditure.** Instead, the figures reflect our best estimates of the tax benefits realized by recipients of the tax expenditures – what we refer to as the “revenue foregone.”

## Data Sources for Tax Expenditure Estimates

The accuracy of the estimates varies with the source of data and applicability of the data to the tax expenditure provision. In some instances, the Department of Taxation relies on external sources of data that may not be as reliable as those offered within the agency. A data reference code has been devised to identify the source for individual tax expenditures, as follows:

- |                       |   |
|-----------------------|---|
| Data Source Code (A): | Data emanating from tax returns filed with the Department of Taxation, as well as other information generated by the Department of Taxation.  |
| Data Source Code (B): | Data produced by government agencies other than the Department of Taxation, such as other State of Ohio agencies, the Federal government (e.g., the IRS and U.S. Census Bureau), other state governments, and Ohio’s local governments. |
| Data Source Code (C): | All other data, including (but not limited to) information from business information service providers, academic research, and non-profit research organizations.   |

**FY 2012 – 2015**  
**Tax Expenditure**  
**Summary of Revenue Foregone**  
**(in millions)**

Note: "Minimal" indicates that the amount of foregone revenue is under \$1 million

	<b>General Revenue Fund Revenue Foregone</b>			
	FY 2012	FY 2013	FY 2014	FY 2015
<b><u>Sales &amp; Use Tax</u></b>				
<b>Exempt entities</b>				
1.01 Sales to churches and certain other non-profits organizations	\$397.4	\$409.3	\$432.7	\$445.7
1.02 Sales to the state, any of its political subdivisions, and to certain other states	134.5	136.8	139.1	141.4
1.03 Sales by churches and certain types of non-profit organizations	31.9	33.6	35.5	37.5
<b>Exemption for property and services used or consumed to produce a product</b>				
1.04 Tangible personal property used primarily in manufacturing tangible personal property	1,660.8	1,728.3	1,796.9	1,879.0
1.05 Packaging and packaging equipment	238.2	246.2	261.6	272.5
1.06 Sales of tangible personal property and services to electricity providers	399.8	420.3	441.9	464.6
1.07 Tangible personal property used or consumed in agriculture and mining	272.1	289.3	316.7	320.5
1.08 Tangible personal property used to produce printed materials	32.5	32.8	33.1	33.3
1.09 Tangible personal property used in storing, preparing and serving food	19.9	20.4	20.9	21.5
1.10 Tangible personal property used in preparing eggs for sale	2.3	2.5	2.7	2.9
<b>Exemption based on specified use of property or service</b>				
1.11 Building and construction materials and services used in certain structures	185.7	189.4	193.2	197.1
1.12 Tangible personal property used directly in providing public utility services	116.7	116.7	116.7	116.7
1.13 Property used to fulfill a warranty or service contract	43.7	44.2	45.8	46.2
1.14 Motor vehicles sold in Ohio for use outside the state	41.4	42.2	45.4	47.4
1.15 Tangible personal property used in research and development	22.3	23.0	23.7	24.3
1.16 Tangible personal property and services used in providing telecommunications and satellite broadcasting services	96.5	97.6	98.7	99.8
1.17 Qualified tangible personal property used in making retail sales	42.7	44.0	45.3	46.9
1.18 Property used in transportation for hire	37.0	40.0	42.3	43.2
1.19 Qualified call center exemption	29.6	30.1	31.0	32.2
1.20 Copyrighted motion pictures and films	8.1	8.3	8.7	8.9
1.21 Equipment used in private warehouses and distribution centers with inventory primarily shipped out of state	2.5	2.5	2.5	2.5
1.22 Drugs distributed to physicians as free samples	14.3	14.8	15.3	15.8
1.23 Property used in air, noise, or water pollution control	19.5	19.5	19.5	19.5
1.24 Emergency and fire protection vehicles and equipment	1.0	1.0	1.0	1.0
1.25 Tangible personal property used in electronic publishing	5.4	5.6	5.8	6.0
1.26 Property & services used in constructing a qualifying convention center	2.0	2.0	1.5	minimal

**FY 2012 – 2015**  
**Tax Expenditure**  
**Summary of Revenue Foregone**  
**(in millions)**

	<b>General Revenue Fund Revenue Foregone</b>			
	FY 2012	FY 2013	FY 2014	FY 2015
<b><u>Sales &amp; Use Tax—continued</u></b>				
<b>Exempt products and services</b>				
1.27 Prescription drugs and selected medical items	\$414.6	\$436.2	\$482.9	\$516.7
1.28 Transportation of persons and property	120.9	125.9	130.4	135.2
1.29 Newspapers	17.4	17.1	17.1	17.1
1.30 Magazine subscriptions	8.1	8.1	8.3	8.3
1.31 Artificial limbs, prostheses, wheelchairs and other durable medical equipment	25.8	27.2	28.7	30.4
1.32 Sales of used manufactured and mobile homes	2.7	2.8	3.0	3.2
1.33 \$800 tax cap on qualified fractionally-owned aircraft	1.0	1.0	1.0	1.0
1.34 Sales of materials and services for maintenance and repair of aircraft	3.8	3.9	3.9	4.0
1.35 Flight simulators	1.5	1.5	1.5	1.5
<b>Miscellaneous</b>				
1.36 Value of motor vehicle trade-ins	142.7	146.1	153.3	160.5
1.37 Discount for vendors	51.9	53.6	54.3	56.9
1.38 Food sold to students on school premises	18.5	19.3	19.8	20.2
1.39 Value of watercraft trade-ins	1.5	1.6	1.7	1.8
<b>Tax expenditures with revenue impact below \$1 million</b>				
1.40 Equipment used in an eligible computer data center	minimal	minimal	minimal	minimal
1.41 Sales to non-commercial, educational broadcast stations	minimal	minimal	minimal	minimal
1.42 Sales to veterans' headquarters	minimal	minimal	minimal	minimal
1.43 Sales to facilities financed with public hospital bonds	minimal	minimal	minimal	minimal
1.44 Sales of animals by non-profit animal shelters	minimal	minimal	minimal	minimal
1.45 Agricultural property (use on use)	minimal	minimal	minimal	minimal
1.46 Agricultural land tile and portable grain bins	minimal	minimal	minimal	minimal
1.47 Tangible personal property used or consumed in commercial fishing	minimal	minimal	minimal	minimal
1.48 Ships and rail rolling stock used in interstate or foreign commerce	minimal	minimal	minimal	minimal
1.49 Sales of property for use in non-profit presentations of music, dramatics, the arts, and related fields	minimal	minimal	minimal	minimal
1.50 Property for use in a retail business outside Ohio	minimal	minimal	minimal	minimal
1.51 Property used in energy or waste conversion facilities	minimal	minimal	minimal	minimal
1.52 Sales of computers and computer equipment to certified teachers	minimal	minimal	minimal	minimal
1.53 Sales of qualified tangible personal property to qualified motor racing teams	minimal	minimal	minimal	minimal
1.54 Sales of tangible personal property and services for maintenance and repair of qualified fractionally-owned aircraft	minimal	minimal	minimal	minimal
1.55 Bulk water for residential use	minimal	minimal	minimal	minimal
1.56 Refundable deposits on beverage containers	minimal	minimal	minimal	minimal
1.57 25 percent refund for tangible personal property used by electronic information service providers	minimal	minimal	minimal	minimal
<b>Total Sales &amp; Use Tax</b>	<b>\$4,668.2</b>	<b>\$4,844.7</b>	<b>\$5,083.4</b>	<b>\$5,283.2</b>

**FY 2012 – 2015**  
**Tax Expenditure**  
**Summary of Revenue Foregone**  
**(in millions)**

	<b>General Revenue Fund Revenue Foregone</b>			
	FY 2012	FY 2013	FY 2014	FY 2015
<b><u>Individual Income Tax</u></b>				
<b>Exemptions, exclusions and deductions</b>				
2.01 Personal, spousal, and dependent exemption	\$581.9	\$585.4	\$591.2	\$597.1
2.02 Social security and railroad retirement benefits	292.6	298.3	318.0	333.9
2.03 Deduction for taxpayers not eligible for employer sponsored medical plan	19.5	20.6	22.2	24.6
2.04 Exemption for disability income	31.6	32.7	34.8	36.0
2.05 Exemption for active-duty military income	22.9	25.2	28.4	31.3
2.06 Deduction for excess medical expenses	65.0	67.0	70.8	74.3
2.07 Exemption for pre-1972 trusts	9.6	10.3	11.1	11.6
2.08 Deduction for long-term care insurance premiums	14.5	15.2	16.4	17.2
2.09 Deduction for contributions to college savings programs	10.2	10.5	11.1	11.5
2.10 Deduction for contributions to medical savings accounts	1.0	1.0	1.0	1.1
2.11 Exemption for military retirement income	28.8	29.9	31.8	33.
2.12 Deduction for health insurance coverage of qualifying adult children and other dependents	3.4	3.5	3.7	3.8
2.13 Gambling loss deduction	0.0	0.0	29.0	29.0
2.14 Deduction for Pell and Ohio College Opportunity grants	2.4	2.6	3.0	3.2
<b>Non-business tax credits</b>				
2.15 Joint filer credit	219.9	227.5	238.0	245.7
2.16 \$20 personal exemption credit	164.7	165.7	166.7	167.7
2.17 Retirement income credit	137.8	141.5	145.3	149.2
2.18 Resident credit for income taxed by another state	135.3	144.2	153.8	163.9
2.19 \$50 credit for taxpayers aged 65 years or older	31.7	32.3	33.0	33.7
2.20 Credit for taxpayers with income below \$10,000	10.3	10.0	9.5	9.1
2.21 Dependent care credit	7.7	7.9	5.9	6.0
2.22 Campaign contribution credit	4.5	4.9	4.8	5.2
2.23 Lump sum retirement income credit	2.2	2.3	2.4	2.6
2.24 Displaced worker job training credit	0.9	1.0	1.1	1.2
2.25 Credit for adoption related expenses	2.0	2.0	2.0	2.1
<b>Business Tax Credits</b>				
2.26 Historic structure rehabilitation credit	27.0	30.1	60.6	77.8
2.27 Technology investment tax credit	3.9	3.8	1.4	0.0
2.28 Motion picture tax credit	20.3	19.3	19.3	19.3
2.29 Small business investment credit	0.0	0.0	32.1	20.2
<b>Tax expenditures with revenue impact below \$1 million</b>				
2.30 Lump sum distribution credit	minimal	minimal	minimal	minimal
2.31 Deduction for organ donation expenses	minimal	minimal	minimal	minimal
2.32 Enterprise zone day care/training credit	minimal	minimal	minimal	minimal
2.33 Enterprise zone employee credit	minimal	minimal	minimal	minimal
2.34 Grape production credit	minimal	minimal	minimal	minimal
2.35 Ethanol plant investment credit	minimal	minimal	minimal	minimal
2.36 Credit for financial institution tax	minimal	minimal	minimal	minimal
<b>Total Individual Income Tax</b>	<b>\$1,851.6</b>	<b>\$1,894.7</b>	<b>\$2,048.4</b>	<b>\$2,111.3</b>

**FY 2012 – 2015**  
**Tax Expenditure**  
**Summary of Revenue Foregone**  
**(in millions)**

	<b>General Revenue Fund Revenue Foregone</b>			
	FY 2012	FY 2013	FY 2014	FY 2015
<b><u>Financial Institutions Tax</u></b>				
3.01 Credit for financial institution investment in a dealer in intangibles	5.8	5.8	5.8	0.0
3.02 Assessments paid to division of financial institutions	0.0	0.0	4.8	4.8
3.03 New markets tax credit	0.0	1.8	3.6	5.5
<b>Total Financial Institutions Tax</b>	<b>\$5.8</b>	<b>\$7.6</b>	<b>\$14.2</b>	<b>\$10.3</b>
<b><u>Commercial Activity Tax</u></b>				
<b>Exclusions and deductions</b>				
4.01 Exclusion of first \$1 million of taxable gross receipts	\$209.7	\$213.9	\$218.2	\$222.6
4.02 State and federal fuel excise tax exclusion	32.4	32.3	32.3	32.2
4.03 Qualified distribution center receipts exclusion	77.5	81.4	85.4	89.7
4.04 State and federal cigarette excise tax exclusion	7.5	7.2	6.9	6.6
4.05 Exclusion of real estate brokerage gross receipts that are not retained	1.2	1.3	1.4	1.5
4.06 State and federal alcoholic beverage tax exclusion	2.0	2.0	2.0	2.0
4.07 Professional employer organization exclusion	2.4	2.5	2.6	2.7
4.08 Motor vehicle transfer exclusion	1.7	1.8	1.8	1.9
4.09 Exchanges of petroleum without monetary compensation	7.5	7.8	8.1	8.5
<b>Tax Credits</b>				
4.10 Credit for increased qualified research and development expenses	9.4	9.9	10.5	11.1
4.11 Job creation credit	38.0	38.7	39.7	40.7
4.12 Job retention tax credit	8.3	12.6	12.9	13.2
4.13 Credit for net operating loss carryforwards and other deferred tax assets	5.5	5.5	5.5	5.5
<b>Tax expenditures with revenue impact below \$1 million</b>				
4.14 Research and development loan program credit	minimal	minimal	minimal	minimal
4.15 Exemption for pre-1972 trusts	minimal	minimal	minimal	minimal
4.16 Anti-neoplastic drug exclusion	minimal	minimal	minimal	minimal
4.17 Horse racing taxes and purse exclusion	minimal	minimal	minimal	minimal
4.18 Qualifying uranium enrichment zone exclusion	minimal	minimal	minimal	minimal
4.19 Exclusion of certain services to financial institutions	minimal	minimal	minimal	minimal
<b>Total Commercial Activity Tax</b>	<b>\$403.1</b>	<b>\$416.9</b>	<b>\$427.3</b>	<b>\$438.2</b>
<b><u>Public Utility Excise Tax</u></b>				
5.01 Exemption for municipal utilities and non-profit waterworks	\$72.2	\$73.5	\$75.4	\$77.2
5.02 Credit for certain natural gas companies	8.3	8.3	8.3	8.3
5.03 \$25,000 exemption from gross receipts for each public utility company	minimal	minimal	minimal	minimal
5.04 Sales to other public utilities for resale	minimal	minimal	minimal	minimal
<b>Total Public Utility Excise Tax</b>	<b>\$80.5</b>	<b>\$81.8</b>	<b>\$83.7</b>	<b>\$85.5</b>

**FY 2012 – 2015**  
**Tax Expenditure**  
**Summary of Revenue Foregone**  
**(in millions)**

	<b>General Revenue Fund Revenue Foregone</b>			
	FY 2012	FY 2013	FY 2014	FY 2015
<b><u>Kilowatt Hour Tax</u></b>				
6.01 Exemption for qualified end-users	\$2.7	\$2.4	\$2.4	\$2.4
<b>Total Kilowatt Hour Tax</b>	<b>\$2.7</b>	<b>\$2.4</b>	<b>\$2.4</b>	<b>\$2.4</b>
<b><u>Insurance Premium Taxes</u></b>				
7.01 Deduction for premiums received from qualified small business alliances	\$21.7	\$26.0	\$29.0	\$34.0
7.02 Credit for small insurers	2.3	2.2	2.1	2.0
7.03 Ohio Life and Health Guaranty Association contribution credit	<u>1.3</u>	<u>1.3</u>	<u>1.0</u>	<u>1.0</u>
<b>Total Insurance Premium Taxes</b>	<b>\$25.3</b>	<b>\$29.5</b>	<b>\$32.1</b>	<b>\$37.0</b>
<b><u>Cigarette and Other Tobacco Products Taxes</u></b>				
8.01 Discount for cigarette tax stamps	\$14.0	\$13.5	\$13.0	\$12.6
8.02 Discount for timely payment of other tobacco products' excise tax	1.3	1.5	1.6	1.7
<b>Total Cigarette and Other Tobacco Products Taxes</b>	<b>\$15.0</b>	<b>\$15.0</b>	<b>\$14.6</b>	<b>\$14.3</b>
<b><u>Alcoholic Beverage Tax</u></b>				
9.01 Advanced payment credit/discount	\$1.5	\$1.5	\$1.5	\$1.5
9.02 Sacramental wine exemption	minimal	minimal	minimal	minimal
9.03 Small brewer's credit	minimal	minimal	minimal	minimal
9.04 Small wine producer's exemption	minimal	minimal	minimal	minimal
<b>Total Alcoholic Beverage Tax</b>	<b>\$1.5</b>	<b>\$1.5</b>	<b>\$1.5</b>	<b>\$1.5</b>
<b>GRAND TOTAL</b>	<b>\$7,054.0</b>	<b>\$7,294.1</b>	<b>\$7,707.6</b>	<b>\$7,983.7</b>

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# Sales and Use Tax

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## Sales and Use Tax

The sales and use tax was enacted in 1934 at a rate of 3.0 percent and went into effect on January 27, 1935. In 1967 the rate was increased to 4.0 percent. After a temporary 5.0 percent sales tax rate was imposed during the period of January through June 1981, a permanent 5.0 percent rate was adopted in November 1981. Until 1981 the sales and use tax was restricted to the sale or rental of tangible personal property. In November 1981 the tax base was extended to selected services. Since then, additional services have been made subject to sales and use tax. Authority to levy a permissive sales tax was given to counties in 1967 and to transit authorities in 1974.

In 2003, legislation was enacted to impose a temporary increase in the state sales tax rate, from 5.0 percent to 6.0 percent. This increase was in effect for the July 1, 2003 through June 30, 2005 period. Rather than allowing the rate to revert back to 5.0 percent once the temporary increase expired, Am. Sub. House Bill 66 (the FY 2006-2007 operating budget) set the rate at 5.5 percent, effective July 1, 2005.

### Tax Base

The sale and rental of tangible personal property and selected services in Ohio (or of property and selected services purchased out-of-state but used in Ohio) constitute the Ohio sales and use tax base. The tax base reflects a complex amalgam of statutory and constitutional provisions, as well as the accumulation of administrative and case law interpretations.

Since its 1935 inception the Ohio sales and use tax structure has reflected a variety of exceptions, exemptions and credits. This report omits some of these exceptions, exemptions and credits because they are considered to be inherent features of Ohio's sales and use tax. For instance, we have left out certain sales and use tax exceptions designed to conform the sales and use tax more closely to the concept of a tax on final consumption. One feature that helps limit the sales and use tax to final consumption - thereby mitigating the economic distortions otherwise created by "pyramiding" (a phenomenon that occurs when the same activity or final product is taxed more than once as it moves through the economic production chain) - is the resale exception. Ohio law provides a sales tax exception for purchased items that are subsequently resold by the purchaser in the same form (typically to a final consumer). This exception is so elemental to a sales and use tax that it should not be considered a tax preference and therefore does not appear in this report.

The report does not include a credit for sales tax paid to other states. When an item is purchased in another state and sales tax is paid to such state, Ohio law typically allows a credit for the tax paid to that state (although if the tax paid to the other state is lower than what the tax would be under Ohio law, the purchaser must pay the difference to this state). Such a credit is a fundamental structural feature of the sales and use tax, and therefore should not be considered a tax expenditure.

Another item excluded from the report is the exemption for "casual sales." The report reflects the assumption that the sales tax was inherently designed not to tax the kinds of transactions subject to the casual sales exemption. Transactions covered by the casual sales exemption are those involving the sale of an item by a person that had originally acquired the item for his or her own use, as long as the item had already been subject to a state sales or use tax. (Note, however, that sales of motor vehicles and other specified types of vehicles are not subject to the casual sales exemption.)

Other exceptions considered inherent to the Ohio sales and use tax – and therefore not appearing as tax expenditures in this report – are those sanctioned by the Ohio Constitution. One such exception pertains to food sold for human consumption. The Ohio Constitution precludes the imposition of a sales tax on food (including prepared food) consumed off the premises where sold. Another such exception is for sales of motor fuel. Sales of fuel used by motor vehicles operated on public highways are not subject to sales tax because the Ohio Constitution requires any revenue generated from an excise tax on this product to be used for highway-related purposes and not be deposited in the General Revenue Fund.<sup>8</sup>

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<sup>8</sup> The State of Ohio does impose a motor vehicle fuel excise tax of 28 cents per gallon whose revenue is earmarked for highway-related purposes (construction, repair and maintenance of roads, bridges, etc.).

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# Sales and Use Tax

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## Tax Rate

The tax is imposed by the State of Ohio at a 5.5 percent rate. In addition, a local permissive sales tax may be imposed by a county or transit authority at a rate between 0.25 percent and 1.5 percent, with a maximum allowable combined permissive sales tax rate of 3.0 percent (the highest total permissive sales tax rate currently in effect is 2.25 percent, in Cuyahoga County). Local permissive sales taxes are *not* reflected in the figures provided in this report.

## Significant Changes Enacted by the 129<sup>th</sup> General Assembly

There were several sales tax law changes enacted during the last two years related to tax expenditures.

The sales tax exemption for tangible personal property used in direct marketing was expanded to encompass telecommunications equipment purchased by entities when the equipment is used in direct marketing even though the entity does not meet the definition of a “direct marketer” (Am. Sub. House Bill 487). This modifies an existing tax expenditure.

The FY 2012-2013 state operating budget (Am. Sub. House Bill 153) enacted a sales tax exemption for equipment used in eligible computer data centers. Only data center projects involving an agreement with the Ohio Tax Credit Authority are eligible for the exemption. The budget bill also recast the sales tax exception for tangible personal property used in agriculture from being a “direct use” exception to being a “primary use” exception.<sup>9</sup>

## Sales and Use Tax Expenditure Estimates

The estimates shown below reflect the estimated revenue foregone by the state General Revenue Fund from each indicated tax expenditure. We have also attempted to reflect the impact of a possible “overlapping” provision (i.e., another credit, exclusion or exemption available to the taxpayer) that effectively reduces the revenue consequences associated with the tax expenditure.

These tax expenditure estimates rely mostly on secondary data sources rather than internal, Department of Taxation-originated data sources (such as tax returns). Economic Census data - generated by the U.S. Department of Commerce, Bureau of the Census - is the most extensively used source of data for the estimates. However, various other types of data and information are used in the estimates, including those generated by other (non-Census Bureau) federal agencies, by industry trade groups, and by academic, public, and not-for-profit research organizations.

**NOTE: See page 4 for description of data source codes.**

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<sup>9</sup> The impact of this change could not be quantified but nonetheless merited mention.

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# Sales and Use Tax

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## A. Exempt Entities

### 1.01 Sales to churches and certain other non-profit organizations

*Ohio Revised Code 5739.02(B)(12); originally enacted 1935*

Sales to churches, non-profit entities organized under Internal Revenue Code section 501(c)(3), and certain other types of non-profit organizations are exempt from the sales and use tax.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 397.4	\$ 409.3	\$ 432.7	\$ 445.7

Data Source Code: (B)

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### 1.02 Sales to the state, any of its political subdivisions, and to certain other states<sup>10</sup>

*Ohio Revised Code 5739.02(B)(1); originally enacted 1935, revised 1994*

Sales of supplies, equipment, or any other normally taxable item to the State of Ohio and any of its political subdivisions are exempt from the sales and use tax. Also exempt from Ohio sales and use tax are sales to any other state (and its subdivisions) as long as such state provides an exemption for sales made to the State of Ohio (and its subdivisions).

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 134.5	\$ 136.8	\$ 139.1	\$ 141.4

Data Source Code: (B)

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### 1.03 Sales by churches and certain types of non-profit organizations

*Ohio Revised Code 5739.02(B)(9); originally enacted 1961*

Sales by churches, non-profit organizations organized under Internal Revenue Code section 501(c)(3), and certain other non-profit organizations are exempt from the sales and use tax, if the number of days on which sales are made does not exceed six in any calendar year.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 31.9	\$ 33.6	\$ 35.5	\$ 37.5

Data Source Code: (B)

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<sup>10</sup> The estimate excludes estimated purchases by the state of Ohio because they do not entail an appreciable state fiscal cost. This is because currently-foregone sales tax revenue is offset by decreased costs on its acquisitions. Viewed from another perspective, if the exemption were repealed the state of Ohio would experience an increase in expenditures nearly commensurate with the sales tax revenue gain.

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# Sales and Use Tax

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## B. Exemptions for property used or consumed to produce a product

### 1.04 Tangible personal property used primarily in manufacturing tangible personal property

*Ohio Revised Code 5739.02(B)(42)(g); originally enacted 1935, revised 1990*

Sales of tangible personal property where the purpose of the purchaser is to use the property primarily in a manufacturing operation to produce tangible personal property for sale are exempt from sales and use tax.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$1,660.8	\$1,728.3	\$1,796.9	\$1,879.0

Data Source Code: (B)

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### 1.05 Packaging and packaging equipment

*Ohio Revised Code 5739.02(B)(15); originally enacted 1961*

Packaging materials and packaging equipment, including labeling materials and equipment, sold to manufacturers and other qualified business are exempt from the sales and use tax.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 238.2	\$ 246.2	\$ 261.6	\$ 272.5

Data Source Code: (B)

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### 1.06 Sales of tangible personal property and services to electricity providers

*Ohio Revised Code 5739.02(B)(40); originally enacted 2000*

Tangible personal property and services used or consumed by a provider of electricity in generating, transmitting, or distributing electricity for use by others is exempt from the sales and use tax.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 399.8	\$ 420.3	\$ 441.9	\$ 464.6

Data Source Code: (A),(B)

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### 1.07 Tangible personal property used or consumed in agriculture and mining

*Ohio Revised Code 5739.02(B)(42)(a), (n); originally enacted 1935, revised 2011*

Purchases of tangible personal property used or consumed directly in producing a product sold by mining, farming, agricultural, horticultural, or floricultural operations or in the production of crude oil, mining, or natural gas are exempt from the sales and use tax.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 272.1	\$ 289.3	\$ 316.7	\$ 320.5

Data Source Code: (B),(C)

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# Sales and Use Tax

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## 1.08 Tangible personal property used to produce printed materials<sup>11</sup>

*Ohio Revised Code 5739.02(B)(42)(f); originally enacted 1973*

Machinery, equipment, and material used in the production for sale of printed, lithographic, photostatic, or other graphic productions or re-productions are exempt from sales and use tax. The exemption also applies to property used to produce magazines distributed as controlled circulation publications.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 32.5	\$ 32.8	\$ 33.1	\$ 33.3

Data Source Code: (B),(C)

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## 1.09 Tangible personal property used in storing, preparing and serving food<sup>12</sup>

*Ohio Revised Code 5739.02(B)(27); originally enacted 1981*

Tangible personal property used in preparing, storing, or serving food in a commercial food establishment is exempt from the sales and use tax. Also exempt from the tax are items used to clean or maintain such property.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 19.9	\$ 20.4	\$ 20.9	\$ 21.5

Data Source Code: (B)

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## 1.10 Tangible personal property used in preparing eggs for sale

*Ohio Revised Code 5739.02(B)(24); originally enacted 1974*

Equipment and supplies used for the cleaning, sorting, preserving, handling, and packaging of eggs for sale are exempt from the sales and use tax.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 2.3	\$ 2.5	\$ 2.7	\$ 2.9

Data Source Code: (B)

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<sup>11</sup> This estimate was reduced by an assumed 75 percent under the expectation that most of this property is also subject to the sales tax exemption for property used primarily in manufacturing (tax expenditure item 1.04). The estimate for tax expenditure 1.04 was not adjusted for tangible personal property also subject to tax expenditure 1.08.

<sup>12</sup> A considerable portion of the property exempt under this provision is also subject to other sales and use tax exemptions. The revenue impact has been reduced by an assumed 50 percent to take these other exemptions into account. In contrast, the estimates for these other exemptions have not been reduced.

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# Sales and Use Tax

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## C. Exemptions based on specified use of property or service

### 1.11 Building and construction materials and services used in certain structures<sup>13</sup>

*Ohio Revised Code 5739.02(B)(13); originally enacted 1959, revised 1994*

A sales and use tax exemption is provided for building and construction materials and services sold to construction contractors for incorporation into certain types of structures. The exemption applies to structures built under a construction contract with the following entities: federal government; state of Ohio and its political subdivisions; religious institutions and other organizations exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code; businesses engaged in horticultural and livestock purposes; and certain other types of entities specified in state law.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 185.7	\$ 189.4	\$ 193.2	\$ 197.1

Data Source Code: (B)

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### 1.12 Tangible personal property used directly in providing public utility services

*Ohio Revised Code 5739.02(B)(42)(a); originally enacted 1935*

Property (including fuel) used in production, transportation, or distribution of a public utility service, or used in the repair and maintenance of machinery and equipment used directly in providing a public utility service, is exempt from the sales and use tax.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 116.7	\$ 116.7	\$ 116.7	\$ 116.7

Data Source Code: (A),(B)

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### 1.13 Property used to fulfill a warranty or service contract

*Ohio Revised Code 5739.02(B)(42)(k); originally enacted 1986*

Parts and labor used to fulfill a warranty that is provided as part of the price of tangible personal property sold are exempt from sales and use tax. In addition, parts and labor used to fulfill a warranty, maintenance, or service contract in which the vendor of such warranty or contract agrees to repair or maintain the consumer's tangible personal property, are exempt from the tax.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 43.5	\$ 44.2	\$ 45.8	\$ 46.2

Data Source Code: (A)

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<sup>13</sup> The estimate excludes estimated purchases attributable to building contracts with the state of Ohio. This reflects the assumption that currently-foregone revenue from the exemption is offset by decreased project costs for state projects. Because the tax exemption creates no appreciable fiscal cost to the state on its projects, those projects have been excluded from the estimate.

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## Sales and Use Tax

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### 1.14 Motor vehicles sold in Ohio for use outside the state

*Ohio Revised Code 5739.02(B)(23); originally enacted 1971, revised 2007 and 2008*

Motor vehicles sold in Ohio to non-residents, when the vehicles are immediately removed from Ohio and titled or registered in another state, are exempt from the sales and use tax. However, no exemption is permitted if the vehicle is titled or registered in a foreign nation (other than Canada), or in a U.S. state that applies its sales tax to an Ohioan purchasing a vehicle in that state.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 41.4	\$ 42.2	\$ 45.4	\$ 47.4

Data Source Code: (A),(B)

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### 1.15 Tangible personal property used in research and development

*Ohio Revised Code 5739.02(B)(42)(i); originally enacted 1993*

Qualified tangible personal property used in research and development is exempt from the sales and use tax.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 22.3	\$ 23.0	\$ 23.7	\$ 24.3

Data Source Code: (C)

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### 1.16 Tangible personal property and services used in providing telecommunications and satellite broadcasting services

*Ohio Revised Code 5739.02(B)(34); originally enacted 1987*

Tangible personal property and services used primarily in providing a telecommunications, mobile telecommunications, or satellite broadcasting service are exempt from the sales and use tax.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 96.6	\$ 97.6	\$ 98.7	\$ 99.8

Data Source Code: (A)

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### 1.17 Qualified tangible personal property used in making retail sales

*Ohio Revised Code 5739.02(B)(35); originally enacted 1935*

Sales of advertising material or catalogs used or consumed in making retail sales that price and describe property are exempt from sales and use tax. Also exempt are purchases by direct marketing vendors of items that are used in printing advertising material. In addition, equipment primarily used to accept orders for direct marketing retail sales are exempt.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 42.7	\$ 44.0	\$ 45.3	\$ 46.9

Data Source Code: (B),(C)

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# Sales and Use Tax

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## 1.18 Property used in transportation for hire

*Ohio Revised Code 5739.02(B)(32); originally enacted 1985*

The sales and use tax exemption is allowed for the sale, lease, repair and maintenance of motor vehicles primarily used in transporting personal property by a person engaged in highway transportation for hire. Parts and other items attached to/incorporated in the motor vehicle also qualify for the exemption.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 37.8	\$ 40.0	\$ 42.3	\$ 43.2

Data Source Code: (B),(C)

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## 1.19 Qualified call center exemption

*Ohio Revised Code 5739.02(B)(45); originally enacted 2003, revised 2012*

The sales of telecommunication services that are used directly and primarily to perform the functions of a qualified call center are exempt from the sales and use tax.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 29.6	\$ 30.1	\$ 31.0	\$ 32.2

Data Source Code: (B),(C)

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## 1.20 Copyrighted motion pictures and films

*Ohio Revised Code 5739.01(B)(8); originally enacted 1945*

Rental or sale of copyrighted motion pictures for exhibition purposes, unless solely used for advertising, is exempt from the sales and use tax. Rentals of videotaped motion pictures, DVDs, or similar items for private home use are taxable.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 8.1	\$ 8.3	\$ 8.7	\$ 8.9

Data Source Code: (B)

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## 1.21 Equipment used in private warehouses and distribution centers with inventory primarily shipped out of state

*Ohio Revised Code 5739.01(B)(42)(j) and (B)(48); originally enacted 1994, revised 2008*

A sales and use tax exemption is allowed for equipment used primarily in handling purchased sales inventory in a distribution facility when the inventory is primarily distributed outside this state to: (1) the retail stores of the person (or an affiliated entity) who owns or controls the distribution facility; or (2) customers if the facility is owned by a mail order business; or (3) independent salespersons operating as direct sellers if the facility is owned by a qualifying direct selling entity.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 2.5	\$ 2.5	\$ 2.5	\$ 2.5

Data Source Code: (B)

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## Sales and Use Tax

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### 1.22 Drugs distributed to physicians as free samples

*Ohio Revised Code 5741.02(C)(7); originally enacted 2001*

Drugs that are distributed free of charge to a physician licensed to prescribe, dispense, and administer drugs to a human being in the course of professional practice are exempt from the use tax.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 14.3	\$ 14.8	\$ 15.3	\$ 15.8

Data Source Code: (B),(C)

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### 1.23 Property used in air, noise, or water pollution control

*Ohio Revised Code 5709.25; originally enacted 1965*

Tangible personal property used in air, noise, or water pollution control by holders of pollution control certificates is exempt from the sales and use tax.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 19.5	\$ 19.5	\$ 19.5	\$ 19.5

Data Source Code: (A)

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### 1.24 Emergency and fire protection vehicles and equipment

*Ohio Revised Code 5739.02(B)(20); originally enacted 1965*

Purchases by not-for-profit organizations of emergency and fire protection vehicles and equipment, for use solely in providing fire protection and emergency services (including trauma care and emergency medical services) for political subdivisions, are exempt from the sales and use tax.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 1.0	\$ 1.0	\$ 1.0	\$ 1.0

Data Source Code: (B),(C)

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### 1.25 Tangible personal property used in electronic publishing

*Ohio Revised Code 5739.02(B)(42)(n); originally enacted 2007*

Tangible personal property used in acquiring, formatting, editing, storing, and disseminating data or information by electronic publishing is exempt from sales and use tax. "Electronic publishing" is limited to electronic information and data access provided primarily to business customers.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 5.4	\$ 5.6	\$ 5.8	\$ 6.0

Data Source Code: (A)

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### 1.26 Property and services used in constructing a qualifying convention center

*Ohio Revised Code 5739.02(B)(13); originally enacted 2010*

Building and construction materials and services sold to a construction contractor for incorporation into real property comprising a qualifying convention center are exempt from sales tax.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 2.0	\$ 2.0	\$ 1.5	\$ 0.2

Data Source Code: (B)

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# Sales and Use Tax

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## D. Exempt products and services

### 1.27 Prescription drugs and selected medical items

*Ohio Revised Code 5739.02(B)(18); originally enacted 1961*

Drugs that may only be dispensed pursuant to a prescription; certain products used by diabetics; and other qualified items used by individuals for medical purposes are exempt from the sales and use tax.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 414.6	\$ 436.2	\$ 482.9	\$ 516.7

Data Source Code: (B)

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### 1.28 Transportation of persons and property

*Ohio Revised Code 5739.02(B)(11); originally enacted 1935*

Transportation of property and most transportation of persons is exempt from the sales and use tax.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 120.9	\$ 125.9	\$ 130.4	\$ 135.2

Data Source Code: (A),(B)

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### 1.29 Newspapers

*Ohio Revised Code 5739.02(B)(4); originally enacted 1935*

Newspapers purchased at places of business, vending machines, or through subscription and published at least bi-weekly are exempt from sales and use tax.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 17.4	\$ 17.1	\$ 17.1	\$ 17.1

Data Source Code: (B)

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### 1.30 Magazine subscriptions

*Ohio Revised Code 5739.02(B)(4); originally enacted 1935, revised 2002*

Magazine subscriptions and company newsletters, organizational magazines, or other controlled circulation material are exempt from the sales and use tax. Individual magazine purchases are taxable.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 8.1	\$ 8.1	\$ 8.3	\$ 8.3

Data Source Code: (B)

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# Sales and Use Tax

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## 1.31 Artificial limbs, prostheses, wheelchairs and other durable medical equipment

*Ohio Revised Code 5739.02(B)(19); originally enacted 1973, revised 1978, 2001, 2003*

Sales of prosthetic devices, durable medical equipment for home use, or mobility enhancing equipment are exempt from the sales and use tax. To qualify for the exemption, the property must be purchased pursuant to a prescription.  
(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 25.8	\$ 27.2	\$ 28.7	\$ 30.4

Data Source Code: (B)

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## 1.32 Exemption for used mobile homes and reduced taxable price on new mobile homes

*Ohio Revised Code 5739.02(B)(39), 5739.0210; originally enacted 2000*

Sales of qualified used manufactured and mobile homes are exempt from the sales and use tax. In addition, for sales tax purposes, the dealers of new manufactured and mobile homes are considered consumers of homes they sell, so sales tax is paid based on dealer's cost rather than on the amount paid by the ultimate consumer.  
(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 2.7	\$ 2.8	\$ 3.0	\$ 3.2

Data Source Code: (C)

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## 1.33 \$800 tax cap on qualified fractionally-owned aircraft

*Ohio Revised Code 5739.025(G); originally enacted 2003*

The sales tax on the sum of the shares of a qualified fractionally-owned aircraft shall be a maximum of \$800 and be allocated to each fractional owner according to percentage of ownership in the aircraft.  
(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 1.0	\$ 1.0	\$ 1.0	\$ 1.0

Data Source Code: (C)

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## 1.34 Sales of materials and services for maintenance and repair of aircraft

*Ohio Revised Code 5739.02(B)(49); originally enacted 2008*

Sales of materials, parts, equipment and engines used in the repair or maintenance of aircraft or avionics systems, as well as sales of maintenance and repair services, are exempt from the sales and use tax.  
(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 3.8	\$ 3.9	\$ 3.9	\$ 4.0

Data Source Code: (A),(C)

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## 1.35 Flight simulators

*Ohio Revised Code 5739.02(B)(50); originally enacted 2008*

The sales of full flight simulators that are used for pilot or flight-crew training are exempt from the sales and use tax. Also exempt are sales of repair or replacement parts or components of such flight simulators, as well as repair or maintenance services.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 1.5	\$ 1.5	\$ 1.5	\$ 1.5

Data Source Code: (C)

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# Sales and Use Tax

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## E. Miscellaneous Provisions

### 1.36 Value of motor vehicle trade-ins

*Ohio Revised Code 5739.01(H)(2); originally enacted 1981*

The value of vehicles traded-in on the purchase of new motor vehicles is exempt from sales and use tax and may be deducted from the taxable base of the new motor vehicle.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 142.7	\$ 146.1	\$ 153.3	\$ 160.5

Data Source Code: (B),(C)

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### 1.37 Discount for vendors

*Ohio Revised Code 5739.12, 5741.12; originally enacted 1981*

A 0.75-percent discount on sales tax collected by vendors, and on use tax collected by out-of-state registered sellers, is granted if the tax due is remitted by the due date of tax return.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 51.9	\$ 53.6	\$ 54.3	\$ 56.9

Data Source Code: (A)

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### 1.38 Food sold to students on school premises

*Ohio Revised Code 5739.02(B)(3); originally enacted 1937*

Sales of food to students in a cafeteria, dormitory, fraternity, or sorority maintained in a public, private, or parochial school, college, or university are exempt from the sales and use tax.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 18.5	\$ 19.3	\$ 19.8	\$ 20.2

Data Source Code: (B),(C)

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### 1.39 Value of watercraft trade-ins

*Ohio Revised Code 5739.01(H)(3); originally enacted 1990*

The value of any watercraft, watercraft and trailer, or outboard motor traded-in on a new or used watercraft or outboard motor sold by a licensed watercraft dealer is exempt from the sales and use tax.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 1.5	\$ 1.6	\$ 1.7	\$ 1.8

Data Source Code: (B)

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## F. Tax expenditures with annual revenue impact below \$1 million

### 1.40 Sales of equipment used in an eligible computer data center

*Ohio Revised Code 122.175; originally enacted 2011*

### 1.41 Sales to non-commercial, educational broadcast stations

*Ohio Revised Code 5739.02(B)(12); originally enacted 1981*

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## Sales and Use Tax

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- 1.42 Sales to veterans' headquarters**  
*Ohio Revised Code 5739.02(B)(33); originally enacted 1986*
  
- 1.43 Sales to facilities financed with public hospital bonds**  
*Ohio Revised Code 140.08; originally enacted 1971*
  
- 1.44 Sales of animals by non-profit animal shelters**  
*Ohio Revised Code 5739.02(B)(28); originally enacted 1981*
  
- 1.45 Agricultural "use on use" property**  
*Ohio Revised Code 5739.02(B)(17); originally enacted 1961*
  
- 1.46 Agricultural land tile and portable grain bins**  
*Ohio Revised Code 5739.02(B)(30) and (31); originally enacted 1985*
  
- 1.47 Tangible personal property used or consumed in commercial fishing**  
*Ohio Revised Code 5739.02(B)(42)(d); originally enacted 1945*
  
- 1.48 Ships and rail rolling stock used in interstate or foreign commerce**  
*Ohio Revised Code 5739.02(B)(14); originally enacted 1938*
  
- 1.49 Sales of property for use in non-profit presentations of music, dramatics, the arts, and related fields**  
*Ohio Revised Code 5739.02(B)(12); originally enacted 1982*
  
- 1.50 Property for use in a retail business outside Ohio**  
*Ohio Revised Code 5739.02(B)(21); originally enacted 1968*
  
- 1.51 Property used in energy or waste conversion facilities**  
*Ohio Revised Code 5709.20, 5709.25; originally enacted 1978*
  
- 1.52 Sales of computers and computer equipment to certified teachers**  
*Ohio Revised Code 5739.02(B)(37); originally enacted 1997*
  
- 1.53 Purchases of qualified tangible personal property to qualified motor racing team**  
*Ohio Revised Code 5739.02(B)(38); originally enacted 1997*
  
- 1.54 Sales of tangible personal property and services for maintenance and repair of qualified fractionally-owned aircraft<sup>14</sup>**  
*Ohio Revised Code 5739.02(B)(44); originally enacted 2003*
  
- 1.55 Bulk water for residential use**  
*Ohio Revised Code 5739.02(B)(25); originally enacted 1978*
  
- 1.56 Refundable deposits on beverage containers**  
*Ohio Revised Code 5739.01(H)(1); originally enacted 1979*
  
- 1.57 25 percent refund for qualified tangible personal property used by electronic information service providers**  
*Ohio Revised Code 5739.071; originally enacted 1993*

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<sup>14</sup> This tax expenditure is shown as having a minimal revenue impact under the expectation that most of this property is also eligible for the sales tax exemption for materials and services used in the maintenance and repair of aircraft (tax expenditure item 1.34). In contrast, the estimate for tax expenditure 1.34 was not reduced to reflect property and services subject to this tax expenditure.

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# Individual Income Tax

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## Individual Income Tax

Ohio was first authorized to levy an income tax in 1912 by a constitutional amendment. However, it was 60 years later before the first state individual income tax was enacted in 1972. The income tax was designed to be closely based on federal law to facilitate compliance by the taxpayer and ease of administration by the state.

### Tax Base

The amount reported as federal adjusted gross income (FAGI) to the U.S. Internal Revenue Service plus or minus adjustments according to Ohio income tax law.

### Tax Rate

Ohio has a graduated income tax with nine rate classes. Tax rates range from 0.587 percent at the bottom income bracket to 5.925 percent at the top income bracket.

Annual indexing of the income tax brackets took effect in tax year 2010. Ohio law requires annual adjustments to the individual income tax brackets based on the growth in the gross domestic product deflator during the preceding calendar year (although the calculated amounts are ultimately required to be rounded the nearest \$50). For example, in tax year 2012 the bottom tax bracket ends at \$5,200 of Ohio taxable income, compared to \$5,100 during tax year 2011; in 2012 the top income tax bracket begins at \$208,500 of Ohio taxable income, compared to \$204,200 in 2011. The changes to the brackets are calculated in July of each year and apply to the taxable year during which the changes are calculated.<sup>15</sup>

### Significant Changes Enacted by the 129<sup>th</sup> General Assembly

Am. Sub. House Bill 153, the state operating budget bill for the FY12-13 biennium, made changes pertaining to several individual income tax expenditures. The bill increased the total amount of credits that may be granted under the motion picture tax credit program, to \$40 million per fiscal biennium. The bill also created a new tax credit for investment in a qualifying Ohio small business: up to \$100 million in such credits may be authorized per biennium.

Am. House Bill 167 allows a deduction for the amount of Pell grant and Ohio College Opportunity grant proceeds that are otherwise taxable (i.e., included in federal adjusted gross income) and that are used for room and board.

Although it was enacted during the 128<sup>th</sup> General Assembly, a new income tax deduction for gambling losses has been added to the report, taking effect in tax year 2013 and therefore first impacting fiscal year 2014 (enacted by Am. Sub. House Bill 519).

Finally, a tax credit for alternative fuel has been eliminated from this report because the eligible time period for the credit has expired.

### Individual Income Tax Expenditures

The estimates shown below reflect the estimated revenue foregone by the state General Revenue Fund from each indicated tax expenditure. In addition, we have attempted to reflect the impact of possible “overlapping” provisions (i.e., other credits, exemptions or deductions available to the taxpayer) that would also dampen the potential revenue gain of the repealed tax expenditure.

Various data sources were used to derive the tax expenditure estimates. Most of the tax expenditure estimates were based on information taken from individual income tax returns filed with the Department of Taxation for tax years 2009 and 2010. However, some of the estimates were derived from secondary data sources, such as the Internal Revenue Service, other state agencies and published public finance research.

**NOTE: See page 4 for description of data source codes.**

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<sup>15</sup> Reductions in tax rates are not considered tax expenditures for purposes of this report. Similarly, alterations in tax brackets do not meet the operative definition of a tax expenditure, which is why the annual indexing of the individual income tax brackets is not included as an expenditure item in this report.

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# Individual Income Tax

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## A. Exemptions, exclusions, and deductions

### 2.01 Personal, spousal, and dependent exemption

*Ohio Revised Code 5747.025; originally enacted 1972, revised 2002*

An exemption may be claimed for the taxpayer, taxpayer's spouse, and each dependent. The exemption was \$1,650 in tax year 2011 and \$1,700 in tax year 2012, and is expected to be \$1,750 in tax year 2013 and \$1,800 in tax year 2014.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 581.9	\$ 585.4	\$ 591.2	\$ 597.1

Data Source Code: (A)

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### 2.02 Social security and railroad retirement benefits

*Ohio Revised Code 5747.01(A)(5); originally enacted 1972*

All social security and railroad retirement benefits included in federal adjusted gross income may be excluded from the calculation of Ohio adjusted gross income.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 292.6	\$ 298.3	\$ 318.0	\$ 333.9

Data Source Code: (A)

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### 2.03 Deduction for taxpayers not eligible for an employer-sponsored medical plan

*Ohio Revised Code 5747.01(A)(11); originally enacted 1999*

Qualifying taxpayers who are not able to participate in an employer-sponsored medical plan may deduct any amounts paid for medical care insurance.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 19.5	\$ 20.6	\$ 22.2	\$ 24.6

Data Source Code: (A),(B)

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### 2.04 Exemption for disability income

*Ohio Revised Code 5747.01(A)(4); originally enacted 1975*

Disability income included in federal adjusted gross income is excluded from the calculation of Ohio adjusted gross income.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 31.6	\$ 32.7	\$ 34.8	\$ 36.0

Data Source Code: (A)

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# Individual Income Tax

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## 2.05 Exemption for active-duty military income

*Ohio Revised Code 5747.01(A)(24); originally enacted 2006*

Military income included in federal adjusted gross income may be excluded from the calculation of Ohio adjusted gross income if the pay is received for active duty service in military, military reserve, or national guard outside the state.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 22.9	\$ 25.2	\$ 28.4	\$ 31.3

Data Source Code: (B)

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## 2.06 Deduction for excess medical expenses

*Ohio Revised Code 5747.01(A)(11); originally enacted 1999*

Qualifying taxpayers may claim a deduction for the amount of medical expenses that exceed 7.5% of their federal adjusted gross income.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 65.0	\$ 67.0	\$ 70.8	\$ 74.3

Data Source Code: (A),(B)

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## 2.07 Exemption for pre-1972 trusts

*Ohio Revised Code 5747.01(FF) and 5751.01(E)(11); originally enacted 2006*

Qualifying trusts created before 1972 that have elected to be subject to the commercial activity tax are exempt from the individual income tax.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 9.6	\$ 10.3	\$ 11.1	\$ 11.6

Data Source Code: (A)

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## 2.08 Deduction for long-term care insurance premiums

*Ohio Revised Code 5747.01(A)(11); originally enacted 1999*

A taxpayer may deduct the full amount of long-term health care premiums.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 14.5	\$ 15.2	\$ 16.4	\$ 17.2

Data Source Code: (C)

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## 2.09 Deduction for contributions to college savings programs

*Ohio Revised Code 5747.01(A)(10) and 5747.70; originally enacted 1999*

A taxpayer may receive a deduction, limited to \$2,000 per beneficiary, for contributions to either the prepaid tuition or variable college savings programs.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 10.2	\$ 10.5	\$ 11.1	\$ 11.5

Data Source Code: (A)

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# Individual Income Tax

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## 2.10 Deduction for contributions to medical savings accounts

*Ohio Revised Code 5747.01(A)(14); originally enacted 1996*

A taxpayer may receive a deduction for contributions to and interest earned by a medical savings account.  
(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 1.0	\$ 1.0	\$ 1.0	\$ 1.1

Data Source Code: (A)

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## 2.11 Deduction for military retirement income

*Ohio Revised Code 5747.01(A)(26); originally enacted 2008*

Military retirement income included in federal adjusted gross income is excluded from the calculation of Ohio adjusted gross income.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 28.8	\$ 29.9	\$ 31.8	\$ 33.0

Data Source Code: (A),(B)

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## 2.12 Deduction for health insurance coverage for qualifying adult children and other dependents

*Ohio Revised Code 5747.01(A)(11); originally enacted 2009*

To the extent included in federal adjusted gross income, a deduction is allowed for amounts paid for health care insurance provided to a qualifying adult child or relative who, but for the fact such person does not meet the income and support limitations in Internal Revenue Code section 152(d)(1)(B) and (C), would be considered a dependent under federal tax law.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 3.4	\$ 3.5	\$ 3.7	\$ 3.8

Data Source Code: (B),(C)

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## 2.13 Gambling loss deduction

*Ohio Revised Code 5747.01(A)(29); originally enacted 2010*

To the extent not otherwise excluded in computing federal adjusted gross income, a deduction is allowed for losses from wagering transactions if they are allowed as a federal itemized deduction under section 165 of the Internal Revenue Code.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 0.0	\$ 0.0	\$ 29.0	\$ 29.0

Data Source Code: (B),(C)

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# Individual Income Tax

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## 2.14 Deduction for Pell grants and Ohio College Opportunity grants

*Ohio Revised Code 5747.01(A)(30); originally enacted 2011*

An income tax deduction is allowed for the portion of a federal Pell grant or an Ohio College Opportunity grant included in federal adjusted gross income and used to pay room and board for a student at a post-secondary educational institution.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 2.4	\$ 2.6	\$ 3.0	\$ 3.2

Data Source Code: (B),(C)

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## B. Non-business tax credits

### 2.15 Joint filer credit

*Ohio Revised Code 5747.05(G); originally enacted 1973*

Taxpayers using married filing joint status may claim a joint filing credit if each spouse has at least \$500 in earned income. The maximum credit allowed in any year is \$650.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 219.9	\$ 227.5	\$ 238.0	\$ 245.7

Data Source Code: (A)

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### 2.16 \$20 personal exemption credit

*Ohio Revised Code 5747.022; originally enacted 1983*

Taxpayer may claim a \$20 credit for each personal exemption claimed.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 164.7	\$ 165.7	\$ 166.7	\$ 167.7

Data Source Code: (A)

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### 2.17 Retirement income credit

*Ohio Revised Code 5747.055(B); originally enacted 1983*

Taxpayers with qualified retirement income included in Ohio adjusted gross income receive a tax credit up to \$200.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 137.8	\$ 141.5	\$ 145.3	\$ 149.2

Data Source Code: (A)

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### 2.18 Resident credit for income taxed by another state

*Ohio Revised Code 5747.05(B); originally enacted 1972*

Ohio residents may claim a credit for taxes paid to another state. The credit is the lesser of the amount of the tax levied by the other state or the amount of Ohio income tax that would otherwise have been levied on such income.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 135.3	\$ 144.2	\$ 153.8	\$ 163.9

Data Source Code: (A)

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# Individual Income Tax

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## 2.19 \$50 credit for taxpayers aged 65 years or older

*Ohio Revised Code 5747.05(C); originally enacted 1972*

Taxpayers aged 65 or older receive a \$50 tax credit per return.  
(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 31.7	\$ 32.3	\$ 33.0	\$ 33.7

Data Source Code: (A)

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## 2.20 Credit for taxpayers with income below \$10,000

*Ohio Revised Code 5747.056; originally enacted 2005*

Taxpayers having Ohio taxable income of \$10,000 or less receive a credit that eliminates their tax liability.  
(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 10.3	\$ 10.0	\$ 9.5	\$ 9.1

Data Source Code: (A)

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## 2.21 Dependent care credit

*Ohio Revised Code 5747.054; originally enacted 1988*

Taxpayers with qualifying child and dependent care expenses and income below \$40,000 can claim a credit based on the federal dependent care credit.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 7.7	\$ 7.9	\$ 5.9	\$ 6.0

Data Source Code: (A)

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## 2.22 Campaign contribution credit

*Ohio Revised Code 5747.29; originally enacted 1995*

Taxpayers may receive a credit of up to \$50 (\$100 for a joint return) for campaign contributions to candidates running for statewide office, state representative, or state senator.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 4.5	\$ 4.9	\$ 4.8	\$ 5.2

Data Source Code: (A)

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## 2.23 Lump sum retirement income credit

*Ohio Revised Code 5747.055(C) through (E); originally enacted 1972*

Lump sum distributions received on account of retirement from a qualified retirement plan may be given special tax treatment. The entire balance in the account must be received during one year.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 2.2	\$ 2.3	\$ 2.4	\$ 2.6

Data Source Code: (A)

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# Individual Income Tax

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## 2.24 Displaced worker job training credit

*Ohio Revised Code 5747.27; originally enacted 1994*

A taxpayer who pays for his or her own job training within 12 months of losing his or her job may claim a tax credit for the cost of the training. The credit is the lesser of \$500 or 50 percent of the cost of training.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 0.9	\$ 1.0	\$ 1.1	\$ 1.2

Data Source Code: (A)

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## 2.25 Credit for adoption related expenses

*Ohio Revised Code 5747.37; originally enacted 1999*

Taxpayers participating in a legal adoption can receive an income tax credit of \$1,500 per child.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 2.0	\$ 2.0	\$ 2.0	\$ 2.1

Data Source Code: (A),(C)

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## C. Business tax credits

### 2.26 Historic structure rehabilitation credit<sup>16</sup>

*Ohio Revised Code 149.311(A), 5725.151, 5725.34, 5726.52, 5729.17, 5733.47, 5747.76; originally enacted 2007, revised 2008, 2011, 2012*

A tax credit equal to 25% of qualified rehabilitation expenditures is available to owners of historic structures.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 27.0	\$ 30.1	\$ 60.6	\$ 77.8

Data Source Code: (B)

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### 2.27 Technology investment tax credit ("Edison Center" tax credit)<sup>17</sup>

*Ohio Revised Code 122.151, 5707.05, 5727.41, 5733.34, 5747.33; originally enacted 1996*

A tax credit is available for investors who provide capital for small, Ohio-based research and development and technology transfer companies.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 3.9	\$ 3.8	\$ 1.4	\$ 0.0

Data Source Code: (B)

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<sup>16</sup> The credit is also available to qualifying insurance taxpayers, dealer in intangibles taxpayers (through 2013) and corporate franchise taxpayers (through tax year 2013). After 2013, the credit may be claimed against the financial institution tax.

<sup>17</sup> This credit is also available to qualifying corporate franchise taxpayers (through tax year 2013), public utility excise taxpayers, and dealer in intangibles taxpayers (through 2013). The credit is estimated to have no revenue impact beginning in FY 2015 due to the expected full utilization of the program's authorized tax credits.

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# Individual Income Tax

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## 2.28 Motion picture tax credit<sup>18</sup>

*Ohio Revised Code 122.85, 5726.55, 5733.59, 5747.66, 5751.54; originally enacted 2009, revised 2012*

A refundable tax credit may be claimed for Ohio production expenditures by eligible motion picture productions. The credit equals 35 percent of the wages of resident cast and crew, and 25 percent of all other eligible expenditures. The credit is based on the lesser of initially-budgeted production expenditures or actual production expenditures. No production may receive more than \$5 million in tax credits, and the total amount of issued credits may not exceed \$40 million per fiscal biennium and may not exceed \$20 million in the first year of a biennium.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 20.3	\$ 19.3	\$ 19.3	\$ 19.3

Data Source Code: (B)

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## 2.29 Small business investment credit

*Ohio Revised Code 122.86, 5747.81; originally enacted 2011*

Individuals making capital investments in qualifying small businesses may receive a credit equal to 10 percent of the invested amount as long as the investment is held for two years (for investments made between July 1, 2011 and June 30, 2013) or five years (investments made on or after July 1, 2013). The total amount of credits may not exceed \$100 million per fiscal biennium. The maximum allowable investment by an investor in any fiscal biennium is \$10 million (equivalent to a \$1 million maximum credit per investor per biennium).

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 0.0	\$ 0.0	\$ 32.1	\$ 20.2

Data Source Code: (B)

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## D. Tax expenditures with revenue impact below \$1 million

### 2.30 Lump sum distribution credit

*Ohio Revised Code 5747.05(D); originally enacted 1972*

### 2.31 Deduction for organ donation expenses

*Ohio Revised Code 5747.01(A)(25); originally enacted 2007*

### 2.32 Enterprise zone day care/training credit<sup>19</sup>

*Ohio Revised Code 5709.65; originally enacted 1982*

### 2.33 Enterprise zone employee credit

*Ohio Revised Code 5709.66; originally enacted 1994*

### 2.34 Grape production credit

*Ohio Revised Code 5733.32, 5747.28; originally enacted 1995*

### 2.35 Ethanol plant investment credit

*Ohio Revised Code 901.13, 5733.46, 5747.75; originally enacted 2002*

### 2.36 Credit for pass-through entity investor's share of financial institutions tax

*Ohio Revised Code 5747.65; originally enacted 2012*

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<sup>18</sup> This credit is also available to qualifying corporate franchise taxpayers (through tax year 2013), financial institution taxpayers and commercial activity taxpayers.

<sup>19</sup> This credit is also available under the dealer in intangibles tax (through 2013) and insurance premiums tax.

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# Financial Institutions Tax

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## Financial Institutions Tax

The financial institutions tax was enacted in 2012 by Am. Sub. House Bill 510. This new tax replaces the corporate franchise tax and dealers in intangibles tax. It will take effect in tax year 2014 (based on activity occurring in taxable year 2013).

### Tax Base and Tax Rate

The tax base is “total Ohio equity capital” of financial institutions. Total equity capital is comprised of all forms of equity, such as common stock, surplus, and retained earnings. (However, the equity of noncontrolling minority interests in consolidated subsidiaries that are not financial institutions is not included.) An apportionment ratio is applied to total equity capital to derive total Ohio equity capital. The ratio reflects the proportion of taxpayer gross receipts that can be apportioned to Ohio.

The tax has a three-tier rate structure, as follows:

0.8% tax rate on the first \$200 million of total Ohio equity capital;

0.4% tax rate on the next \$1.1 billion of total Ohio equity capital (between \$200 million and \$1.3 billion); and

0.25% tax rate on remaining total Ohio equity capital (above \$1.3 billion).

Financial institutions taxpayers are subject to minimum tax of \$1,000.

### Financial Institutions Tax Expenditure Estimates

The estimates shown below reflect the estimated revenue foregone by the state General Revenue Fund from each indicated tax expenditure.

Although this report excludes a chapter for the corporate franchise tax (as a result of the repeal of the tax after tax year 2013) there are several tax credit programs that were shifted from the franchise tax to the financial institutions tax. Any amounts shown for fiscal years 2012 or 2013 are attributable to the amounts claimed against the corporate franchise tax.

Excluded from the report is a refundable tax credit to defray the losses of lenders to the venture capital program created under Am. Sub. SB 180 (124<sup>th</sup> General Assembly). While the credit could have a fiscal impact during the time period reflected in this report, the Department is not able to predict whether such a credit will be claimed or the expected value of the credit if it were to be claimed.

### Significant Changes Enacted by the 129<sup>h</sup> General Assembly

The financial institutions tax was enacted by the 129<sup>th</sup> General Assembly.

**NOTE: See page 4 for description of data source codes.**

# Financial Institutions Tax

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## 3.01 Credit for financial institution investment in a dealer in intangibles

*Ohio Revised Code 5726.57, 5733.45; originally enacted 2001, revised 2012*

Financial institutions are allowed a nonrefundable credit which is lesser of (a) the amount of tax paid by a qualifying dealer in intangibles under ORC chapter 5707, or (b) the cost of the financial institution's ownership interest in a qualifying dealer in intangibles multiplied by the dealer's Ohio ratio computed under ORC section 5725.15 multiplied by eight mills. This credit terminates after tax year 2014.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 5.8	\$ 5.8	\$ 5.8	\$ 0.0

Data Source Code: (A)

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## 3.02 Credit for assessments paid to Division of Financial Institutions<sup>20</sup>

*Ohio Revised Code 5733.063; originally enacted 1983*

A credit is allowed for amounts required to be paid to the Ohio Department of Commerce, Division of Financial Institutions under Title XI of the Ohio Revised Code.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2012</u>	<u>FY 2013</u>
	\$ 0.0	\$ 0.0	\$ 4.8	\$ 4.8

Data Source Code: (C)

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## 3.03 New Markets tax credit<sup>21</sup>

*Ohio Revised Code 5725.33, 5726.54, 5729.16, 5733.58; originally enacted 2009*

Taxpayers with an equity investment in a qualified community development entity may claim a nonrefundable tax equal to a designated percentage of the adjusted purchase price of qualified low-income community investments. The credit percentage is zero percent in the first two years of the investment, 7 percent in the third year of the investment, and 8 percent in each of the four following years (for a total credit of 39 percent).

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 0.0	\$ 1.8	\$ 3.6	\$ 5.5

Data Source Code: (B)

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<sup>20</sup> Under the corporate franchise tax, state-charter savings and loan associations were permitted to claim a credit for an annual assessment. The credit was repealed and replaced by a new tax credit against the financial institutions tax which is shown here.

<sup>21</sup> This credit is also available under the domestic insurance premiums tax and foreign insurance premiums tax.

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# Commercial Activity Tax

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## Commercial Activity Tax

Established by Am. Sub. House Bill 66 (126<sup>th</sup> General Assembly) and made effective on July 1, 2005, the commercial activity tax (CAT) is a business privilege tax measured by gross receipts on business activities in this state. The tax was a central element in the tax reform package enacted by HB 66. The CAT now serves as Ohio's primary business tax, replacing both the tangible personal property tax and the corporate franchise tax.

### Taxpayers

The CAT applies to business entities with taxable gross receipts of more than \$150,000 per calendar year. The tax applies to most businesses above the \$150,000 threshold, regardless of organizational form: sole proprietorships, partnerships, LLCs, and corporations are subject to the tax. Although the tax applies to most kinds of business entities, there are some notable exemptions. Non-profit entities are exempt from the tax. A fairly limited number of other businesses, such as certain types of public utilities, insurance companies, financial institutions, and the affiliates of insurance companies and financial institutions, are also exempt from the tax since they are subject to an alternative tax.<sup>22</sup> The CAT applies whether the business is based in this state or is located outside of this state as long as that business has "substantial nexus" with this state.

The tax is paid on an annual or quarterly basis. Each May, taxpayers with annual taxable gross receipts of \$1 million or below must file an annual return and pay a \$150 annual tax. All other taxpayers report and pay the tax on a quarterly basis, with the return and payment due by the 10<sup>th</sup> day of the second month following the end of the calendar quarter (for example, taxes for the third quarter of 2010 were required to be paid by November 10, 2010).

### Tax Base

The CAT is measured by taxable gross receipts on business activities within the state, 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. Certain types of receipts are excluded from the definition of taxable gross receipts, including (but not limited to) cash discounts, certain types of interest, dividend, and capital gains income, income in the form of repayment principal of a loan, and gifts or charitable contributions.

### Tax Rate

The CAT is levied at a rate of 0.26% on annual taxable gross receipts in excess of \$1 million. Each taxpayer pays \$150 on its first \$1 million in annual taxable gross receipts.

### Definition of Commercial Activity Tax Expenditures

The following characteristics are designated as meeting the definition of a CAT tax expenditure: (1) any exclusion, deduction or credit *not* contained in Ohio Revised Code (ORC) sections 5751.01 or 5751.011; or (2) any gross receipts exclusion or deduction contained in ORC sections 5751.01 or 5751.011 that benefits a specific class of taxpayers. In all cases, the exclusion, deduction, or credit must produce tax savings for taxpayers and an associated loss in state GRF tax revenue in order to be considered a tax expenditure.

### Significant Changes Enacted by the 129<sup>th</sup> General Assembly

Changes were made to several tax credit programs by Am. Sub. House Bill 153. The bill authorized the Ohio Tax Credit Authority to grant a refundable version of the job retention tax credit between July 2011 and December 2014 to an eligible business that invests at least \$5 million at a location within the same jurisdiction of its principal place of business and has a payroll of at least \$20 million and at least 500 jobs. The bill also provided a commercial activity tax exclusion for sale of uranium from a qualified uranium enrichment zone.

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<sup>22</sup> The nature of exempt entities will change somewhat as a result of provisions associated with the recently-enacted financial institutions tax, effective in 2014.

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# Commercial Activity Tax

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Am. Sub. House Bill 114 provided an exclusion for petroleum exchanges between motor fuel dealers to the extent the exchanges involve no monetary compensation. Sub. House Bill 327 expanded the job creation tax credit to allow qualifying home-based employees to be included in the tax credit computation. Sub. House Bill 510 permitted the motion picture tax credit to be taken against the commercial activity tax. Finally, Am. Sub. House Bill 472 included a qualifying refining facility performing indicated smelting functions as a “qualified distribution center” whose purchases may be excluded from suppliers’ taxable gross receipts.

## Commercial Activity Tax Expenditure Estimates

The estimates of these tax expenditures are based on various data sources. Some of the estimates use data reported to the Department of Taxation while other estimates were generated using secondary data sources, such as economic data reported by the U.S. Bureau of the Census. We should note that many of the CAT expenditure estimates in this report are based on estimates that were produced during the HB 66 legislative process.

This report reflects the estimated revenue foregone by the state General Revenue Fund from each indicated tax expenditure.

**NOTE: See page 4 for description of data source codes.**

## A. Exclusions and deductions

### 4.01 Exclusion of first \$1 million of taxable gross receipts

*Ohio Revised Code 5751.03; originally enacted 2005*

The first \$1 million of each taxpayer’s annual taxable gross receipts are not subject to the commercial activity tax rate. Instead, each taxpayer pays \$150 on its first \$1 million in annual taxable gross receipts.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 209.7	\$ 213.9	\$ 218.2	\$ 222.6

Data Source Code: (A)

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### 4.02 State and federal fuel excise tax exclusion

*Ohio Revised Code 5751.01(F)(2)(r); originally enacted 2005*

An amount equal to federal and state motor fuel excise taxes paid is excluded from the taxable gross receipts realized from the sale of motor fuel by a licensed motor fuel dealer, licensed retail dealer, or licensed permissive motor fuel dealer.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 32.4	\$ 32.3	\$ 32.3	\$ 32.2

Data Source Code: (A),(B)

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### 4.03 Qualified distribution center receipts exclusion

*Ohio Revised Code 5751.01(F)(2)(z); originally enacted 2006, 2012*

Purchases made by a qualifying Ohio distribution center, and destined for a location outside of Ohio, are excluded from the supplier’s taxable gross receipts. A qualifying Ohio distribution center is a facility in which the center’s total sales exceed \$500 million and more than 50% of the center’s total sales are shipped to a location outside of Ohio.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 77.5	\$ 81.4	\$ 85.4	\$ 89.7

Data Source Code: (A)

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# Commercial Activity Tax

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## 4.04 State and federal cigarette excise tax exclusion

*Ohio Revised Code 5751.01(F)(2)(q); originally enacted 2005*

An amount equal to federal and state excise taxes paid for cigarette or tobacco products is excluded from the taxable gross receipts from the sale of such cigarette or tobacco products by a wholesale dealer, retail dealer, distributor, manufacturer or seller.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 7.5	\$ 7.2	\$ 6.9	\$ 6.6

Data Source Code: (A),(B)

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## 4.05 Exclusion of real estate brokerage gross receipts that are not retained

*Ohio Revised Code 5751.01(F)(3); originally enacted 2005*

In the case of a taxpayer when acting as a real estate broker, any fees not retained by the broker are not included in the broker's taxable gross receipts.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 1.2	\$ 1.3	\$ 1.4	\$ 1.5

Data Source Code: (C)

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## 4.06 State and federal alcoholic beverage excise tax exclusion

*Ohio Revised Code 5751.01(F)(2)(s); originally enacted 2005*

An amount equal to federal and state excise taxes paid for beer or intoxicating liquor is excluded from the taxable gross receipts from the sale of such beer or intoxicating liquor.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 2.0	\$ 2.0	\$ 2.0	\$ 2.0

Data Source Code: (A),(B)

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## 4.07 Professional employer organization exclusion

*Ohio Revised Code 5751.01(F)(2)(x); originally enacted 2005*

Property, money, and other amounts received by a professional employer organization from a client employer, in excess of the administrative fee charged by the professional employer organization to the client employer, is excluded from the taxable gross receipts of the professional employer organization.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 2.4	\$ 2.5	\$ 2.6	\$ 2.7

Data Source Code: (B)

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# Commercial Activity Tax

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## 4.08 Motor vehicle transfer exclusion

*Ohio Revised Code 5751.01(F)(2)(t); originally enacted 2005*

Receipts realized by a new or used motor vehicle dealer from the sale or transfer of a motor vehicle to another dealer when the sole purpose of the sale or transfer is to meet a specific customer's preference for a motor vehicle are excluded from taxable gross receipts of motor vehicle dealers.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 1.7	\$ 1.8	\$ 1.8	\$ 1.9

Data Source Code: (C)

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## 4.09 Exclusion for exchanges of petroleum not involving monetary compensation

*Ohio Revised Code 5751.01(F)(2)(hh); originally enacted 2011*

The value of petroleum products exchanged between motor fuel dealers if the exchanging dealers agree the transaction involves no monetary compensation other than compensation for differences in location and grade. The exclusion does not apply to compensation realized due to differences in location and grade.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 7.5	\$ 7.8	\$ 8.1	\$ 8.5

Data Source Code: (A),(C)

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## B. Tax credits

### 4.10 Credit for increased qualified research and development expenses<sup>23</sup>

*Ohio Revised Code 5726.56, 5733.351 and 5751.51; originally enacted 2002, revised 2005*

Taxpayers may take a nonrefundable credit equal to 7 percent of the increased qualified research expenses incurred in Ohio.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 9.4	\$ 9.9	\$ 10.5	\$ 11.1

Data Source Code: (A)

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### 4.11 Job creation credit<sup>24</sup>

*Ohio Revised Code 122.17, 5725.32, 5729.032, 5733.0610(A), 5747.058(A), and 5751.50(A); originally enacted 1993*

A qualifying business may be granted a refundable tax credit through an agreement with the Ohio Tax Credit Authority. The credit is a designated percentage of the amount of a company's "excess income tax revenue," defined as the amount by which the actual Ohio individual income tax withholding on its employees' wages exceeds baseline income tax withholding.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 38.0	\$ 38.7	\$ 39.7	\$ 40.7

Data Source Code: (B)

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<sup>23</sup> The credit is also available against the corporate franchise tax (through 2013) and the financial institutions tax (beginning 2014).

<sup>24</sup> This credit is also available against the domestic insurance tax, foreign insurance tax, corporate franchise tax, and individual income tax (as long as the sole proprietor or pass-through entity is not claiming the credit against the commercial activity tax). This estimate includes the estimated credit amount attributable to those taxes.

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# Commercial Activity Tax

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## 4.12 Job retention tax credit<sup>25</sup>

*Ohio Revised Code 122.171, 5726.50, 5733.0610(B), 5747.058(B), and 5751.50(B); originally enacted 2003*

An eligible business may be granted a nonrefundable tax credit through an agreement with the Ohio Tax Credit Authority. The credit is equal to a designated percentage of the employees' Ohio individual income withholding tax (not to exceed 75 percent) over a period of up to 15 years.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 8.3	\$ 12.6	\$ 12.9	\$ 13.2

Data Source Code: (A),(B)

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## 4.13 Credit for net operating loss carryforwards and other deferred tax assets

*Ohio Revised Code 5751.53; originally enacted 2005*

Beginning in calendar year 2010, qualifying taxpayers may claim a nonrefundable tax credit equal to 8 percent of the taxpayer's franchise tax net operating loss carryforwards and other deferred tax items. The credit allowed to be claimed in any given year equals 10 percent of the total generated credit and any credit carried forward from a previous year, but may not exceed 50 percent of the taxpayer's commercial activity tax liability for that year.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 5.5	\$ 5.5	\$ 5.5	\$ 5.5

Data Source Code: (A)

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## C. Tax expenditures with revenue impact below \$1 million

### 4.14 Research and development loan program credit

*Ohio Revised Code 5733.352, 5751.52; originally enacted 2003*

### 4.15 Exemption for pre-1972 trusts

*Ohio Revised Code 5751.01(E)(11); originally enacted 2005*

### 4.16 Anti-neoplastic drug exclusion

*Ohio Revised Code 5751.01(F)(2)(v); originally enacted 2005*

### 4.17 Horse racing taxes and purse exclusion

*Ohio Revised Code 5751.01(F)(2)(y); originally enacted 2005*

### 4.18 Receipts from sale of uranium from qualifying uranium enrichment zone

*Ohio Revised Code 5751.01(F)(2)(gg); originally enacted 2011*

### 4.19 Exclusion of certain services to financial institutions

*Ohio Revised Code 5751.01(F)(2)(u); originally enacted 2005*

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<sup>25</sup> The credit is also allowed to be against the corporate franchise tax (through 2013), financial institutions tax (beginning 2014), and individual income tax.

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# Public Utility Excise Tax

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## Public Utility Excise Tax

The public utility excise tax is levied on companies classified by statute as public utilities. Originally enacted in 1894, the present tax structure was established in 1911. Historically, electric, natural gas, and local telephone companies have accounted for the bulk of total public utility excise tax revenue collections. However, in 2001, electric and rural electric companies became subject to the kilowatt hour tax and electric companies also became subject to the corporate franchise tax (Am. Sub. Senate Bill 3, 123<sup>rd</sup> General Assembly), and these entities were no longer subject to the public utility excise tax. In 2005, telephone companies became subject to the corporate franchise tax, their services became subject to the sales and use tax, and they became exempt from the public utility excise tax (Am. Sub. House Bill 95, 125<sup>th</sup> General Assembly).

### Tax Base

Gross receipts for natural gas, pipeline, heating, water transportation, and water works companies.<sup>26</sup> There is a minimum tax of \$50 for each tax year.

### Tax Rate

4.75 percent, except pipeline companies pay 6.75 percent.

### Public Utility Excise Tax Expenditures

The estimates shown below reflect the estimated revenue foregone by the state General Revenue Fund from each indicated tax expenditure. We have also attempted to reflect the impact of a possible “overlapping” provision (i.e., another credit, exclusion or exemption available to the taxpayer) that effectively reduces the revenue consequences associated with the tax expenditure.

Data are primarily from public utility tax returns and other sources from the Ohio Department of Taxation. Data from the U.S. Census Bureau was also used.

**NOTE: See page 4 for description of data source codes.**

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<sup>26</sup> In 2001, natural gas companies began to pay their public utility excise tax on a different schedule (Am. Sub. Senate Bill 215, 123<sup>rd</sup> General Assembly). Additionally, these companies became subject to the natural gas consumption tax to mitigate the impact of a reduction in their tangible personal property tax (Am. Sub. Senate Bill 287, 123<sup>rd</sup> General Assembly).

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# Public Utility Excise Tax

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## 5.01 Exemption for municipal utilities and non-profit waterworks

*Ohio Revised Code 5727.05; originally enacted 1896*

Municipal utilities and non-profit corporations that are engaged exclusively in the treatment, distribution, and sale of water to consumers are exempt from the public utility excise tax.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 72.2	\$ 73.5	\$ 75.4	\$ 77.2

Data Source Code: (B)

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## 5.02 Credit for certain natural gas companies

*Ohio Revised Code 5727.29; originally enacted 2000*

Natural gas companies that pay the public utility excise tax on a current-quarter system are granted a tax credit for the transition costs from the previous tax schedule.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 8.3	\$ 8.3	\$ 8.3	\$ 8.3

Data Source Code: (A)

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## Tax expenditures with revenue impact below \$1 million

### 5.03 \$25,000 exemption from gross receipts for each public utility company

*Ohio Revised Code 5727.33; originally enacted 1934, revised 2004*

### 5.04 Sales to other public utilities for resale

*Ohio Revised Code 5727.33(B)(4); originally enacted 1961, revised 2004*

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# Kilowatt Hour Tax

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## Kilowatt Hour Tax

Am. Sub. Senate Bill 3 (123<sup>rd</sup> General Assembly) re-structured the electric industry in Ohio. Prior to this bill, electric companies had been subject to the public utility excise tax, and they were subject to higher assessment rates on their tangible personal property than general business taxpayers. Among other things the bill removed electric companies from the public utility excise tax and subjected them to the corporate franchise tax (which has since been repealed for most entities). The legislation also lowered the assessment rate on much of their tangible personal property. To replace the revenue loss caused by shifting from the utility excise tax to the corporate franchise tax and to replace the reduced property tax revenues, SB 3 created the kilowatt hour tax. This tax is levied on the electric distribution company and is based upon the end user's consumption of electricity, measured in kilowatt hours. However, qualifying large consumers of electricity may instead choose to self-assess the tax, which is based on the amount of kilowatt hours of electricity consumed and a tax rate structure specific to self-assessors. The kilowatt hour tax became effective in May 2001.

### Tax Base

*Kilowatt Hour Tax Base:* Amount of kilowatt hours distributed to the end consumer.

*Self-Assessor Option Base:* Amount of kilowatt hours consumed.

### Tax Rate

#### *Kilowatt Hour Tax:*

<b>Kilowatt Hours Distributed to the End Users per Month</b>	<b>Rates per Kilowatt Hour</b>
0 – 2,000 Kilowatts	\$0.00465
2,001 – 15,000 Kilowatts	\$0.00419
Over 15,000 Kilowatts	\$0.00363

*Self-Assessor Option Tax:* The sum of 0.257 cents per kilowatt hour (kWh) on the first 500 million kWh consumed per year, and 0.1832 cents per kWh for each remaining kWh consumed.

### Kilowatt Hour Tax Expenditure Estimate

The figures provided below reflect the estimated revenue foregone by the state General Revenue Fund. The portion of the tax attributable to the School District Property Tax Replacement Fund, Local Government Property Tax Replacement Fund, Local Government Fund, and Public Library Fund is not included in the estimates.

Data used to estimate the expenditure was primarily from tax return filings and industries affected by the tax expenditure. Information from the Energy Information Agency (U.S. Department of Energy) was also used.

**NOTE: See page 4 for description of data source codes.**

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## Kilowatt Hour Tax

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### 6.01 Exemption for qualified end-users

*Ohio Revised Code 5727.81(D); originally enacted 1999*

Exempts from the kilowatt hour tax the distribution of any kilowatt hours of electricity to certain end users: essentially the federal government, an end user at a federal uranium enrichment facility, or a very large-volume (in terms of electricity usage) manufacturing location.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 2.7	\$ 2.4	\$ 2.4	\$ 2.4

Data Source Code: (A),(B),(C)

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# Insurance Premium Taxes

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## Insurance Premium Taxes

The domestic insurance tax was created in 1830 with a 4.0 percent property tax on dividends paid by insurance companies. In 1933, the insurance companies' tax was changed to tax the lesser of 0.2 percent on capital and surplus or 1.67 percent of gross premiums. The franchise tax rate on gross premiums increased to 2.5 percent in 1971. The tax rate on capital and surplus increased to 0.6 percent in 1981.

The foreign insurance tax was created in 1830, with a 4.0 percent property tax on profits from premiums. In 1852, the value of gross premiums (rather than profits from premiums) was subject to the tax. In 1888, a supplemental tax was levied on gross premiums, and when added to the property tax it produced an effective tax rate of 2.5 percent on gross premiums. A direct 2.5 percent gross premiums tax was created in 1902.

Am. Sub. House Bill 215 of the 122<sup>nd</sup> General Assembly made numerous changes to the domestic and foreign insurance premium taxes, including changes to the rates and bases of the two taxes. These changes were fully phased in by tax year 2003, at which time the two taxes shared the same gross premiums and tax rate (1.4 percent). The bill also established a small insurers' tax credit, along with a minimum tax of \$250.

### Tax Base

The domestic and foreign insurers' tax base is the gross amount of premiums covering risks in Ohio, less specified deductions.

### Tax Rate

Domestic and foreign insurers are taxed at 1.4 percent of gross premiums. Foreign insurers are also subject to retaliatory provisions. Fire insurance is subject to an additional 0.75 percent tax on gross premiums. Instead of the 1.4 percent tax rate, a 1.0 percent tax rate is applied to health insurance corporations.

### Insurance Premium Tax Expenditure Estimates

The estimates shown below reflect the estimated revenue foregone by the state General Revenue Fund from each indicated tax expenditure.

Data for these tax expenditures are from the Ohio Department of Insurance and the Ohio Life and Health Guaranty Association. Assistance was also provided by these organizations regarding the projected growth of these tax expenditures.

**NOTE: See page 4 for description of data source codes.**

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## Insurance Premium Taxes

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### 7.01 Deduction for premiums received from qualified small business alliances

*Ohio Revised Code 1731.07; originally enacted 1993*

An insurer may deduct amounts received from underwriting a health care plan under the qualified small employer health care alliance program. The deduction is allowed on premiums or other charges received from, or on behalf of, an enrolled small employer and eligible employees and retirees covered by the health benefit plan.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 21.7	\$ 26.0	\$ 29.0	\$ 34.0

Data Source Code: (B)

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### 7.02 Credit for small insurers

*Ohio Revised Code 5729.031; originally enacted 1999*

A foreign or domestic insurance company or insurance company group, with less than \$75 million in premiums sold in all states by the company or group, may take a tax credit of up to a maximum of \$200,000 against its foreign or domestic insurance premium tax liability. The credit is based on the ratio derived by dividing the company's or group's premiums sold in all states by \$75 million. This ratio is multiplied by \$200,000 to yield the tax credit amount.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 2.3	\$ 2.2	\$ 2.1	\$ 2.0

Data Source Code: (B)

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### 7.03 Ohio Life and Health Guaranty Association contribution credit

*Ohio Revised Code 3956.20; originally enacted 1989*

Members of the Ohio Life and Health and Guaranty Association make contributions to a fund used to pay Ohioans with insurance policies held by bankrupt companies. Members are able to use their contribution as a credit on the state franchise or premium tax return. Each year's credit equals 20 percent of the contributed amount. The contribution credit may be claimed over five years. Therefore, by the end of the five-year period the total cumulative credit received by the taxpayer equals the full amount it had contributed to the fund.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 1.3	\$ 1.3	\$ 1.0	\$ 1.0

Data Source Code: (B)

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# Cigarette and Other Tobacco Products Taxes

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## Cigarette and Other Tobacco Products Taxes

The excise tax on cigarettes was first levied in 1931. The tax rate ranged from its original 2 cents per pack to 15 cents in 1971. The rate was reduced to 14 cents per pack in 1981 and cigarette sales became subject to the sales tax. The rate was increased to 24 cents per pack in January, 1993. It was increased to 55 cents per pack on July 1, 2002. The current rate of \$1.25 per pack became effective July 1, 2005.

The excise tax on other tobacco products was levied beginning February, 1993. The current rate is 17 percent of the wholesale price.

### Tax Base

The sale, use, consumption, or storage of cigarettes in Ohio. The receipt or import of other tobacco products for resale.

### Tax Rate

6.25 cents per cigarette (\$1.25 per pack of 20 cigarettes). 17 percent on the wholesale price of other tobacco products.

## Cigarette and Other Tobacco Products Tax Expenditure Estimates

The estimates shown below reflect the estimated revenue foregone by the state General Revenue Fund from each indicated tax expenditure.

**NOTE: See page 4 for description of data source codes.**

### 8.01 Discount for cigarette tax stamps

*Ohio Revised Code 5743.05; originally enacted 1934, revised 2006*

Cigarette excise taxpayers are eligible to receive a discount when purchasing cigarette excise tax stamps or meter impressions as a commission for affixing and canceling the stamps or meter impressions. Under Ohio law, the value of this discount shall not be less than 1.8 percent of more than 10 percent of the face value of the tax stamps and meter impressions, with the exact rate to be set by rule. Under the current rule, the rate of this discount is 1.8 percent. Cigarette excise taxpayers shall not receive this tax stamp discount on payments made when filing a monthly or semi-monthly return.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 14.0	\$ 13.5	\$ 13.0	\$ 12.6

Data Source Code: (A)

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### 8.02 Discount for timely payment of other tobacco products' excise tax

*Ohio Revised Code 5743.52; originally enacted 1993*

Wholesalers and retailers of other tobacco products (cigars, snuff, chewing tobacco, rolling tobacco, etc.) are eligible for a 2.5 percent discount for the timely payment of their other tobacco product excise tax liability.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 1.3	\$ 1.5	\$ 1.6	\$ 1.7

Data Source Code: (A)

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# Alcoholic Beverage Tax

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## Alcoholic Beverage Tax

In 1933, the year prohibition was repealed, the Department of Liquor Control was created and the General Assembly enacted tax levies on beer, wine, and other non-spirituous beverages. A liquor gallonage tax was added a year later. As of July 1, 1997, the Department of Liquor Control was changed to a division and was transferred to the Department of Commerce. The Division of Liquor Control administers the liquor gallonage tax. The Department of Taxation administers the tax on all other alcoholic beverages.

### Tax Base

Sales by volume of the following non-spirituous beverages: beer, cider, malt liquor, wine, mixed beverages and malt.

### Tax Rates

<b>Beer</b>	
Barrel (31 gallons)	\$5.58
Containers over 12 ounces	0.84 cent per six ounces
Containers 12 ounces or less	0.14 cent per ounce
<b>Wine</b>	
Less than 14% alcohol by volume	32 cents per gallon
14% to 21% alcohol by volume	\$1.00 per gallon
Vermouth	\$1.10 per gallon
Sparkling Wine, Champagne	\$1.50 per gallon
<b>Other</b>	
Mixed Beverages	\$1.20 per gallon
Cider	24 cents per gallon

### Alcoholic Beverage Tax Expenditures

The estimates shown below reflect the estimated revenue foregone by the state General Revenue Fund from each indicated tax expenditure.

Various data sources were used to derive the tax expenditure estimates. Most of the tax expenditure estimates were based on information taken from returns filed with the Department of Taxation.

**NOTE: See page 4 for description of data source codes.**

# Alcoholic Beverage Tax

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**9.01 Advanced payment credit/discount**  
*Ohio Revised Code 4303.33; originally enacted 1963*

Beer and malt beverage permit holders are eligible to receive a 3.0 percent credit on advance payments made on or before the 18<sup>th</sup> of the covered month. In addition, they can receive a discount equal to the lesser of 3.0 percent of the payment remaining after deducting the advance payment, or 0.3 percent of the advance payment (as long as the full monthly payment is received by the 10<sup>th</sup> of the month for the previous month's liability). Wine and mixed beverage permit holders are eligible to receive a 3.0 percent credit on payments made on or before the 18<sup>th</sup> of the previous month's tax liability.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	\$ 1.5	\$ 1.5	\$ 1.5	\$ 1.5

Data Source Code: (A)

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## Tax expenditures with revenue impact below \$1 million

**9.02 Sacramental wine exemption**  
*Ohio Revised Code 4301.23; originally enacted 1937*

**9.03 Small brewer's credit**  
*Ohio Revised Code 4303.332; originally enacted 1982*

**9.04 Small wine producer's exemption**  
*Ohio Revised Code 4303.333, 4303.23, 4303.071; originally enacted 1982, revised 2008*