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SEPTEMBER 2005 OHIO TAX BRIEFING

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Dear Clients and Friends:

Recent and **wide sweeping changes to Ohio's tax law that will affect all Ohio taxpayers** have prompted me to send you this brief update. House Bill 66, signed into law on June 30, 2005, made numerous significant changes to Ohio's tax structure. While some of the provisions of House Bill 66 take effect immediately, other changes will be phased in over the next five years.

First, let's look at how this law change will affect **individual, non-business taxpayers**. For an individual who is not engaged in any business or commercial activity, this Bill's bottom line is lower income and sales taxes. Over the next five years, the income tax rate in Ohio will be reduced by 21% from the 2004 rates, and the state's sales tax rate was reduced from 6% to 5.5% effective on July 1, 2005. These are the only substantial changes of the Bill that the non-business Ohio taxpayer will notice.

The more significant changes apply to **business taxpayers** and **individual taxpayers engaged in business activity**. The new Ohio CAT (Commercial Activity Tax) applies to all businesses, regardless of organization (i.e. applies to corporations, limited liability companies, partnerships, sole proprietors, etc..) and includes businesses engaged in real estate or property rental, retail, wholesale, service, and manufacturing. Only the following businesses are exempt from the CAT:

- Non-profit organizations
- Most governmental entities
- Some public utilities
- Dealers in intangibles
- Financial institutions
- Insurance companies
- Certain affiliates of financial institutions and insurance companies
- Businesses with less than \$150,000 of taxable gross receipts per year (unless they are part of a "consolidated elected taxpayer" or "combined taxpayer")

For very small businesses, the "less than \$150,000 of taxable gross receipts per year" exemption should bar the applicability of the CAT. For most businesses, however, the CAT will present substantial changes in tax filing requirements compared to previous years.

If you or your business is subject to the CAT, you must register with the state by November 15, 2005. Ohio offers two methods for registration: Online at [obg.ohio.gov](http://obg.ohio.gov) which requires a fee of \$15, or via paper registration form requiring a \$20 fee. This is a one-time filing fee and will be credited against any tax due under the CAT when the first CAT return is due on February 10, 2006. If you are required to register and fail to do so, a penalty may be imposed of up to \$100 per month, not to exceed \$1,000. The actual tax rate of the CAT will increase annually over the next five years, from an effective rate of .06% for 2005 to .26% by 2009. There are also exemption amounts that will phase in over the same five year period. The corporate franchise tax will be phased out during the CAT's five year phase in period.

This briefing is meant only to alert clients to their potential liability under the CAT, and does not contain all of the provisions of the new laws. For instance, if you own two or more businesses, there are somewhat complex rules regarding the tax filing and aggregation of gross receipts for the CAT and I recommend discussing your situation with me to determine the most advantageous treatment under those circumstances. In addition, there are specific rules regarding what is considered "gross receipts" for purposes of this tax that are not discussed here, but that may be critical to determining your tax liability.

If you have any questions about these recent changes, please feel free to contact me or go to [tax.ohio.gov](http://tax.ohio.gov) and click on the CAT logo on the left of the screen. As always, thank you for the opportunity to be of service.