Bill Analysis

Peter A. Cooper *Legislative Service Commission*

H.B. 200

126th General Assembly
(As Introduced)

Rep. Blessing

BILL SUMMARY

- Imposes a tax on credit card companies measured on the basis of such companies' gross receipts attributed to Ohio.
- Grants a nonrefundable credit against the tax for any corporation franchise tax paid by a credit card company.

CONTENT AND OPERATION

Tax on credit card companies

(R.C. 5733.08(B))

The bill imposes a tax on credit card companies. The tax is measured on the basis of a credit card company's taxable gross receipts (described below). The tax is imposed for the privilege of such companies engaging in business in Ohio. The bill declares the tax not to be a tax on income, and that it is in addition to any other taxes or fees. A taxpayer is prohibited from billing or invoicing the tax to another person.

Taxpayers

(R.C. 5733.08(A)(2))

For the purposes of the bill, a credit card company is a legal person that issues a card to allow another person to make purchases or otherwise incur charges against the card at multiple locations and with entities unrelated to the card issuer. A credit card company does not include a legal person that issues a card allowing for charges for purchases at locations owned by the card issuer (e.g., a retailer issuing a charge card to make purchases only from that retailer).

Tax rate

(R.C. 5733.08(C))

The rate of the tax is 0.26% (2.6 mills per dollar) on a credit card company's taxable gross receipts.

Tax base

(R.C. 5733.08(A)(1) and (A)(3), (B), and (D))

The tax is measured on the basis of a credit card company's taxable gross receipts after subtracting bad debts attributable to Ohio billing addresses.

Taxable gross receipts includes the following items:

(1) Charges against a cardholder's account at a location in Ohio;

(2) Interest, fees, and any other charges to a cardholder's account apportioned on the basis of the amounts so charged to billing addresses in Ohio as compared to everywhere;

(3) Recovered bad debts that were deducted in a previous reporting period apportioned on the basis of such debts billed to addresses in Ohio as compared to everywhere.

For the purposes of the bill, a bad debt is a debt that has become worthless or uncollectible and that has been uncollected for at least six months. The debt must be deductible for federal income tax purposes, or at least deductible if the company used the accrual method of accounting for tax purposes.[1] Bad debts do not include uncollectible amounts on property that the company continues to possess until the full purchase price is paid (e.g., if the company never delivered the purchased property because the price was not yet paid in full, the charged amount is not a bad debt). Bad debt also does not include expenses of a company to try to collect an account receivable, and does not include any part of a debt that has been recovered, or repossessed property.

Bad debts are deductible to the extent attributable to Ohio--i.e., in proportion to the bad debts associated with accounts billed to addresses in Ohio as compared to bad debts associated with accounts billed to addresses anywhere.

[1] *The bill erroneously refers to section 126 of the Internal Revenue Code; the intended reference apparently is to section 166.*

Credit for franchise tax paid

(R.C. 5733.08(E))

The bill permits a credit card company to deduct from its gross receipts tax liability the amount of corporation franchise tax the company paid for the same tax year. The credit is nonrefundable, meaning that if a company's franchise tax payment is greater than its gross receipts tax, the company is not entitled to a refund of the difference.

Reporting, payment, and administration

(R.C. 5733.08(C))

The tax is governed by the provisions of the corporation franchise tax law with respect to enforcement, collection, penalties, interest, assessment, and administration. However, the tax is to be reported and paid on a quarterly basis.

Effective date

(Sections 2 and 3)

The tax is first payable on the basis of a credit card company's taxable gross receipts from July 1, 2005, to December 31, 2005, and the first tax report and payment is due February 15, 2006. Bad debts incurred during that six-month period are not deductible, but may be deducted for a subsequent quarter.

The bill states that it is to take effect July 1, 2005, and is not subject to the referendum because it provides for the levy of a tax.

HISTORY

ACTION	DATE	JOURNAL ENTRY
Introduced	04-19-05	p. 673

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