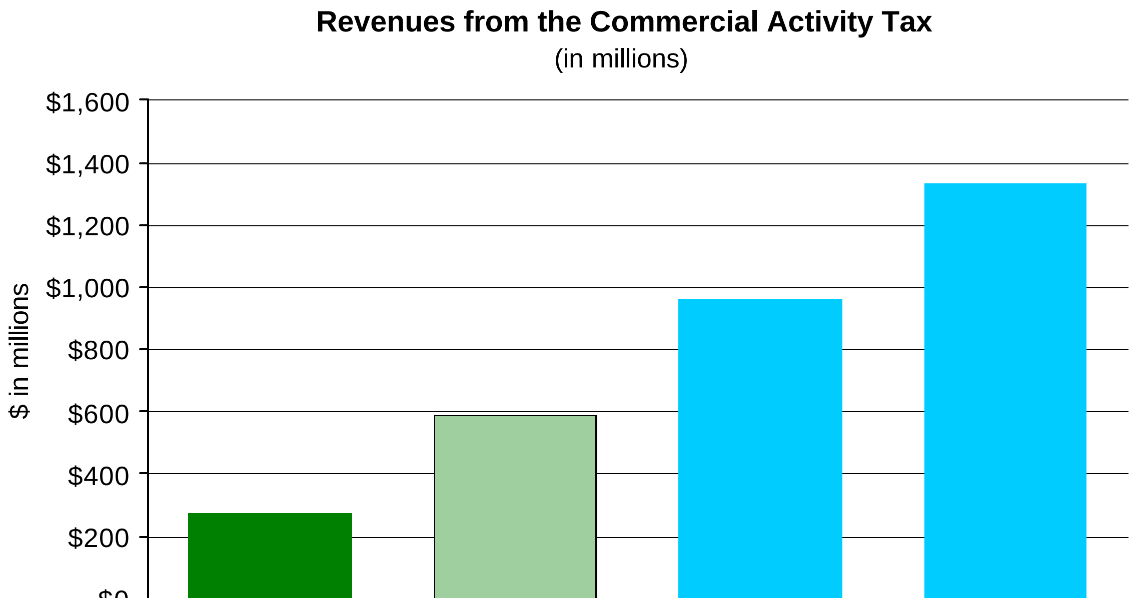
Commercial Activity Tax



	FY 2006 Actual	FY 2007 Estimate	FY 2008 Forecast	FY 2009 Forecast
Total	$273.4	$591.6	$957.3	$1,333.8

	FY 2006 Actual	FY 2007 Estimate	FY 2008 Forecast	FY 2009 Forecast
Total Revenue	$273.4	$591.6	$957.3	$1,333.8
Growth	N/A	116.4%	61.8%	39.3%

Am. Sub. H.B. 66 created the commercial activity tax (CAT), a new privilege tax on business entities operating in Ohio. Collections from the CAT, which is being phased in over five years, started in FY 2006. Generally, business entities with annual taxable gross receipts below $150,000 are exempt from the CAT, and those with annual taxable gross receipts above $150,000 and less than $1 million pay the minimum tax of $150. Businesses with annual taxable gross receipts above $1 million pay $150 plus the CAT tax rate of 0.26% on gross receipts in excess of $1 million. Minimum tax taxpayers pay the CAT once a year. The other CAT taxpayers generally pay the CAT each quarter, based on taxable receipts in the previous calendar quarter.

For FY 2007, 40% of the tax as calculated is payable. For FY 2008 and FY 2009, 60% and 80% of the tax as calculated will be payable. The CAT will be fully phased in for FY 2010. Generally, Am. Sub. H.B. 66 earmarks revenues from the CAT for the GRF and for reimbursing school districts and other local governments for the reductions and phase-out of local taxes on most tangible personal property. Total CAT revenues were $273.4 million in FY 2006. Distributions to the GRF were $185.1 million, the

School District Replacement Fund (SDRF) received $61.8 million, and the Local Government Replacement Fund (LGRF) received $26.5 million. However, from FY 2007 through FY 2011, revenues from the CAT may be distributed only to the SDRF (70%) and the LGRF (30%). Distributions to the SDRF and LGRF were to replace moneys lost due to the elimination of the tax on most tangible personal property. Required distributions to local entities for replacement of the tangible personal property tax are estimated to be $931.6 million in FY 2008 and $1,275.0 million in FY 2009. CAT receipts are estimated to be above required payments to local entities in FY 2008 and FY 2009. After the obligations to local governments are met, any balance (any excess CAT revenues over required distributions) is to be transferred to the GRF.

The CAT forecast is primarily based on changes to Ohio Gross State Product (GSP) from FY 2007 through FY 2009. Annual growth in CAT revenues is the result of the interaction of GSP growth rates and the percentage of tax liability payable for each fiscal year. Revenues are based on statutory language and the rate of 0.26%. Am. Sub. H.B. 66 (R.C. 5751.032) requires an adjustment to the CAT rate if total collections do not fall within 10% of a targeted amount ($815 million) for the FY 2006-2007 biennium. Current law requires an increase in the CAT rate if total collections during the current biennium are less than $733.5 million. A decrease in the tax rate will be triggered if total collections are more than $896.5 million. Based on FY 2006 actual and FY 2007 estimated receipts, a change in the CAT rate for the next biennium is unlikely. Thus, forecasted revenues for the FY 2008-2009 biennium are calculated using the current 0.26% rate on gross receipts.