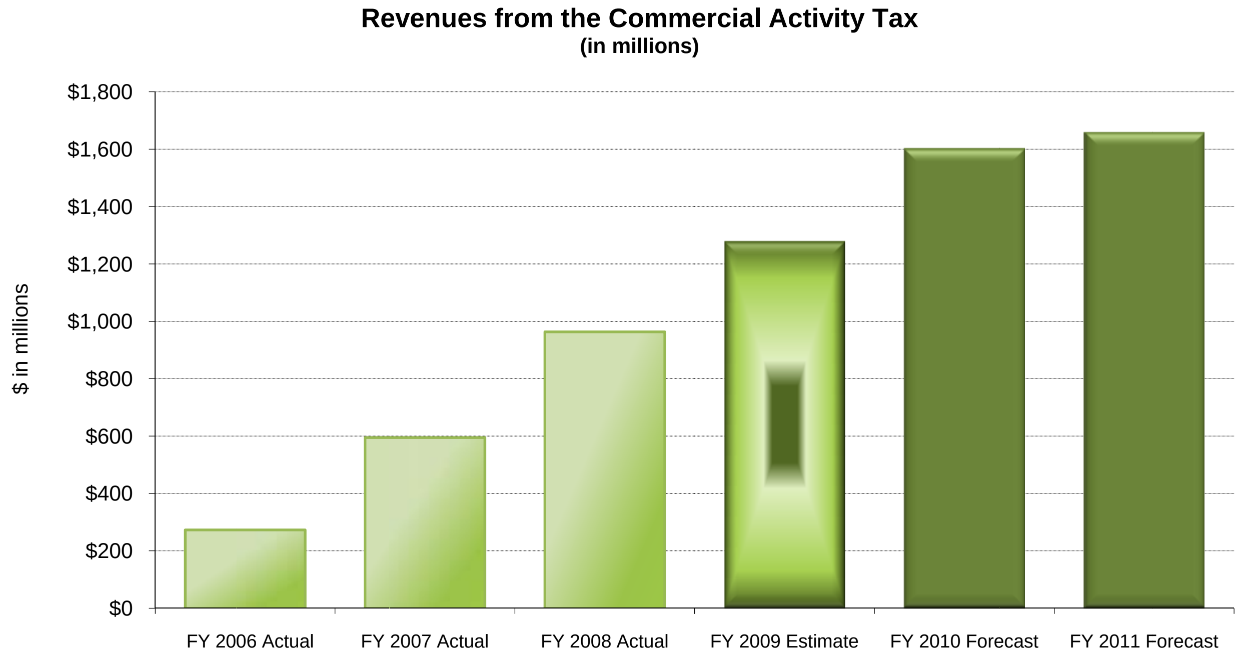
Commercial Activity Tax – Non-GRF



	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Estimate	FY 2010 Forecast	FY 2011 Forecast
Revenue	$273.4	$595.0	$963.7	$1,278.0	$1,603.2	$1,657.7
Growth	N/A	117.6%	62.0%	32.6%	25.4%	3.4%

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.

In the first three quarters of FY 2009, 80% of the tax liability as calculated is payable. Starting on April 1, 2009, and in FY 2010, taxpayers pay 100% of the tax liability. Current law 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. From FY 2007 through FY 2011, revenues from the CAT are to be distributed only to the School District Replacement Fund (70%) and the Local Government Replacement Fund (30%) for reimbursement purposes. After the obligations to school districts and local governments are met, any balance (any excess CAT revenues over required distributions) is to be transferred to the GRF. If revenues from the CAT are less than needed payments to local governments, the GRF will subsidize the required distributions.

The CAT forecast is primarily based on changes to Ohio's Gross State Product (GSP), coupled with adjustments from legislated tax changes. 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. The high growth rates in revenues from FY 2006 through FY 2009 are due primarily to increases in effective tax rates due to the phasing in of the tax. In FY 2009, the following tax credits will be applied against the CAT for the first time: the job retention credit, the job creation credit, as well as the research and development credit. In addition, taxpayers will claim the net operating loss credit starting in FY 2010.

Ohio's Tenth District Court of Appeals, on September 2, 2008, ruled that the inclusion of gross receipts from wholesales of food and retail sales of food for off-premise consumption in the tax base violates Ohio's constitution. The state has appealed. This forecast assumes taxable receipts from food sales remain in the CAT taxable base. Revenues from food sales are estimated to be about 12% of overall CAT receipts in FY 2010.