

# **That Darn CAT - Ohio's Tax Reform Package, Almost Two Years After Passage**

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**Presentation to NTA/Chicago FRB**

**April 04, 2007**



# **Old Stuff – What Ohio Tax Reform Did, and Why**

# Goals of Tax Reform

- Encourage capital investment and job creation.
- Shift taxes away from investment, toward consumption.
- Broaden the tax base and lower the tax rates.
- Create a tax structure that grows as the economy grows.
- Avoid unfairly shifting the tax burden to either businesses or individuals or unduly burdening any one business sector or size of business.
- Couple tax reform with significant spending restraints.

## HB 66 Tax Reform – Business Tax Changes

- Replace both the Tangible Personal Property Tax (TPP Tax) and Corporate Franchise Tax (except for financial institutions and their affiliates) with a new Commercial Activity Tax (CAT)
- Phase in changes over 5 years (FY 2006-2010) to minimize dislocation

# HB 66 Tax Reform – TPP Tax Reimbursement

- In Ohio, TPP tax is only a local tax, and is a significant revenue source for school districts and local governments
- State will reimburse schools and local governments for the loss in TPP revenue
- For tax years 2006-2010 (FY 2006-2011), there will be full reimbursement to schools and local governments relative to prior law

# HB 66 Tax Reform - TPP Tax Reimbursement

- Beginning in tax year 2011 (FY 2012), these reimbursements will be gradually phased out, ending in tax year 2017 (2018 for telephone property)
- Reimbursement mechanism is patterned after the mechanism that was used for Ohio's utility restructuring
  - Losses will be calculated using values for a base year (tax year 2004)
  - Levies eligible for reimbursement will be those in existence for tax years 2004 or 2005 or voted before September of 2005, to be levied in tax year 2006

# HB 66 Tax Reform - TPP Tax Reimbursement

- School district reimbursements are phased out also, but with two important differences
  - Only the direct payments are phased out, whereas the additional foundation aid provided because of lower chargeoff valuations continues
  - The total amount of revenue going to school district property tax replacement from the new CAT will be constant or growing, but the amount that goes back to the district of origin will be phased down; the General Assembly will choose some mechanism for distributing the remaining dollars in the fund

# HB 66 Tax Reform – Business Tax Revenue Projections

- Savings to taxpayers from repeal of TPP tax and elimination of most of CFT reaches \$3.3 billion by FY 2011 (relief to pass-through entities due to 21% income tax rate cuts not included)
  - Original savings estimate was \$2.8 billion
- Savings from TPP tax elimination alone amount to about \$1.7 billion, requiring reimbursement to schools and local governments
- New CAT projected to bring in about \$1.6 billion by FY 2011, just enough to make TPP reimbursement payments during their peak years

# New Commercial Activity Tax: Theory and Operation

- A new broad-based, low rate tax (0.26%) on gross receipts from business activity in Ohio
- A business privilege tax, not a transactional tax (sales tax law and rules don't apply)
- A business privilege tax, not an income tax (PL 86-272 does not apply)

# New Commercial Activity Tax: Theory and Operation

- Tax applies to Ohio-generated gross receipts
  - Tax applies to imports of goods and services – modest “use tax” or “anti-sham tax” on some business purchases brought into Ohio
  - Tax does NOT apply to exports of goods and services
- Theory is that tax should be commensurate with “economic presence,” or degree to which a business utilizes the Ohio market as measured by in-state sales
- Tax is designed to benefit manufacturing, creating a favorable “platform for production” in Ohio

# New Commercial Activity Tax: Theory and Operation

- See Professor Edward Hill, “Ohio's Competitive Advantage: Manufacturing Productivity” (Cleveland: Levin College of Urban Affairs, Cleveland State University, 2001).

# New Commercial Activity Tax: Theory and Operation

- Taxpayers with less than \$150,000 in taxable gross receipts are not subject to the CAT
- Rate structure of the tax:
  - Pay \$150 minimum tax on first \$1 million in receipts
  - Receipts above \$1 million, pay \$150 plus 0.26% on amount in excess of \$1 million (at full phase-in; first payment tax rate was only 0.06%)
- Tax is on gross receipts: no Texas-style deductions for cost of goods sold or for payroll expenses

# New Commercial Activity Tax: Theory and Operation

- Tax is on gross receipts, but gross receipts are defined to exclude portfolio income
  - Dividends not taxed
  - Interest not taxed (limited exceptions)
  - Capital gains not taxed
  - Hedging transaction receipts not taxed

# New Commercial Activity Tax: Theory and Operation

- Legislature added exemptions for motor fuel (temporary) and for sales to certain wholesaling operations – “qualified distribution centers”
- Legislature added credit for unused NOL deductions in excess of \$50 million, to the extent they could actually be booked for accounting purposes
- Legislature added various and sundry other exemptions, e.g. state and federal excise taxes on motor fuel, cigarettes, and alcoholic beverages

# New Commercial Activity Tax: Theory and Operation

- The bill provides clear guidance on when an out-of-state business with taxable gross receipts in this state is required to register and remit the gross receipts tax (“bright line nexus” test) – similar to MTC “factor presence nexus” concept

# New Commercial Activity Tax: “Bright-line Presence”

- Bright-line nexus is a non-sales tax nexus standard
- Person has “bright-line presence” for quarter and remainder of year if any of the following applies:
  - Property of at least \$50,000 within Ohio
  - Payroll of at least \$50,000 within Ohio
  - Annual taxable gross receipts in Ohio of at least \$500,000
  - Has at least 25% of total property, payroll, or receipts in Ohio
  - Is domiciled in Ohio (commercially or legally)

# New Commercial Activity Tax: “Bright-line Presence”

- In order to get exemption for related entity revenues – e.g. from a subsidiary to a parent – companies must forego the nexus battle and agree to file consolidated returns with everyone in the group
- Taxpayers can file combined rather than consolidated and only include entities that clearly have nexus, but then no related entity exemptions are allowed



## **New Stuff – What Has Happened Due to Reform So Far**

# New Commercial Activity Tax – Experience So Far

- CAT Taxpayers – Number and Type
  - Number of entities paying tax has been roughly what was expected (about 254,000 so far, compared to estimate of about 235,000) although revenue has been higher than forecasted
    - Tables based on tax returns show 170,000 taxpayers, but consolidated and combined groups make the entity count about 1.5 times that number (registrations show 178,000 taxpayers)
    - There are approximately an additional 62,000 entities in consolidated groups, and about 14,000 in combined groups (76,000 altogether)
      - About 27,000 of these members of combined or consolidated groups are companies located outside Ohio

# New Commercial Activity Tax – Experience So Far

- Five payments have been made:
  - February 2006, for Jul-05 through Dec-05 activity
  - May 2006, for first quarter 2006
  - August 2006, for second quarter 2006
  - November 2006, for third quarter 2006
  - February 2007, for fourth quarter 2006
- Payments have exceeded the estimates each time
  - First payment – 35.9%
  - Second payment – 15.5%
  - Third payment – 22.3%
  - Fourth payment – 22.6%
  - Fifth payment – 7.7%

## New Commercial Activity Tax – Experience So Far

- FY 2006 revenues exceeded the original estimates by 27.5%
- FY 2007 estimates were increased by 15.0%, and payments have exceeded those estimates

# New Commercial Activity Tax – Data on Collections by Sector

FY 2006 CAT Data by 19 Sectors

Two Payments - One for Half-Year and One for Calendar Quarter

Dollar amounts in millions - note that liability of \$260.2 million is less than \$273.4 million in collections

| Industrial Classification  | NAICS Code Ranges | Number of Taxpayers | Net Taxable                      | Total Tax                  | HB 66 Estimate of Tax Due | Actual minus Estimate |
|--|-------------------|---------------------|----------------------------------|----------------------------|---------------------------|-----------------------|
|  |                   |                     | Gross Receipts (After Exclusion) | Due: 0.06% Minimum Tax and |                           |                       |
| Agriculture, Forestry, and Fishing   | 111100-115310     | 5,711               | \$2,317.4                        | \$2.5                      | \$1.9                     | \$0.7                 |
| Mining   | 211110-213110     | 758                 | \$2,727.2                        | \$1.8                      | \$2.0                     | -\$0.3                |
| Utilities (excluding telecommunications)                                       | 221100-221300     | 126                 | \$13,762.5                       | \$8.3                      | \$4.7                     | \$3.6                 |
| Construction   | 236110-238900     | 18,192              | \$20,452.5                       | \$15.8                     | \$16.0                    | -\$0.2                |
| Manufacturing  | 311110-339900     | 14,651              | \$114,466.9                      | \$71.5                     | \$58.3                    | \$13.2                |
| Wholesale Trade  | 423100-425120     | 8,853               | \$44,104.0                       | \$28.2                     | \$45.4                    | -\$17.2               |
| Retail Trade   | 441110-454390     | 23,691              | \$73,675.8                       | \$48.8                     | \$38.9                    | \$9.8                 |
| Transportation and Warehousing   | 481000-493100     | 4,867               | \$8,264.7                        | \$5.9                      | \$3.6                     | \$2.3                 |
| Information (including telecommunications)                                     | 511110-519100     | 1,708               | \$18,607.0                       | \$11.5                     | \$8.2                     | \$3.3                 |
| Finance and Insurance  | 522110-525990     | 5,478               | \$5,955.8                        | \$4.6                      | \$2.0                     | \$2.7                 |
| Real Estate, and Rental & Leasing of Property                                  | 531110-533110     | 14,377              | \$8,310.7                        | \$7.8                      | \$3.0                     | \$4.8                 |
| Professional, Scientific and Technical Services                                | 541110-541990     | 15,145              | \$17,052.7                       | \$13.2                     | \$9.7                     | \$3.5                 |
| Management of Companies (Holding Companies)                                    | 551111-551112     | 917                 | \$15,283.8                       | \$9.3                      | \$0.8                     | \$8.5                 |
| Administrative & Support Services, and Waste Management & Remediation Services | 561110-562000     | 4,382               | \$4,822.8                        | \$3.7                      | \$5.0                     | -\$1.3                |
| Education, Health Care and Social Assistance                                   | 611000-624410     | 12,790              | \$9,235.9                        | \$8.1                      | \$6.2                     | \$1.9                 |
| Arts, Entertainment, and Recreation  | 711100-713900     | 1,692               | \$1,148.9                        | \$1.0                      | \$0.9                     | \$0.1                 |
| Accommodation and Food Services  | 721110-722410     | 8,903               | \$5,542.3                        | \$5.0                      | \$5.2                     | -\$0.1                |
| Other Services   | 811110-812990     | 8,759               | \$2,952.1                        | \$3.5                      | \$2.8                     | \$0.7                 |
| Unclassified   | n/a               | 19,660              | \$9,991.5                        | \$9.7                      | \$0.0                     | \$9.7                 |
| <b>TOTAL</b>   |                   | <b>170,660</b>      | <b>\$378,674.6</b>               | <b>\$260.2</b>             | <b>\$214.5</b>            | <b>\$45.7</b>         |

# New Commercial Activity Tax – Experience So Far

- CAT by Industry Sector - Caution
  - Because taxpayers in a combination or consolidation are subsumed under the “primary” reporting entity, the industry data are not wholly accurate; for example, many wholesalers may be reported under their manufacturing parent

## New Commercial Activity Tax – Data on Collections by Size

### Fiscal Year 2006 Commercial Activity Tax:

February 2006 & May 2006 Tax Returns, by Size of Taxable Gross Receipts

*Dollar amounts are in millions*

Note that reported liabilities are less than total collections of \$273.4 million

| Size of Taxable Gross Receipts, as reported on combined February 2006 and May 2006 returns | Number of Taxpayers | Net Taxable Gross Receipts After Exclusion | Tax at 0.06% Rate | Annual Minimum Tax | Total Tax Due: 0.06% Tax and Minimum Tax |
|--|---------------------|--|-------------------|--------------------|--|
| Less than \$1,000,000 (f)  | 138,946             | \$2,712.1                                  | \$1.6             | \$26.6             | \$28.2                                   |
| \$1,000,000 - \$1,999,999  | 12,576              | \$9,415.3                                  | \$5.6             | \$2.5              | \$8.1                                    |
| \$2,000,000 - \$2,999,999  | 5,516               | \$9,625.7                                  | \$5.8             | \$1.1              | \$6.9                                    |
| \$3,000,000 - \$3,999,999  | 2,843               | \$7,824.6                                  | \$4.7             | \$0.6              | \$5.3                                    |
| \$4,000,000 - \$4,999,999  | 1,907               | \$7,148.4                                  | \$4.3             | \$0.4              | \$4.7                                    |
| \$5,000,000 - \$9,999,999  | 4,043               | \$25,384.6                                 | \$15.2            | \$0.8              | \$16.1                                   |
| \$10,000,000 - \$24,999,999  | 2,787               | \$40,833.0                                 | \$24.5            | \$0.6              | \$25.1                                   |
| \$25,000,000 - \$49,999,999  | 965                 | \$32,297.3                                 | \$19.4            | \$0.2              | \$19.6                                   |
| \$50,000,000 - \$99,999,999  | 544                 | \$37,548.5                                 | \$22.5            | \$0.1              | \$22.6                                   |
| \$100,000,000 and above  | 533                 | \$205,885.0                                | \$123.5           | \$0.1              | \$123.6                                  |
| <b>TOTAL</b>   | <b>170,660</b>      | <b>\$378,674.6</b>                         | <b>\$227.2</b>    | <b>\$33.0</b>      | <b>\$260.2</b>                           |

# New Commercial Activity Tax – Experience So Far

- CAT General Observations
  - Revenue overages have been broadly distributed across sectors, except for wholesaling (but see caution above)
  - “Before and after” tax burden comparisons by NAICS code are difficult because the “before” picture for the CFT and TPP tax was not clear
  - Census for Enterprise Statistics Data did a reasonably good job at predicting gross receipts by size, particularly for the largest companies; this was helpful in determining the impact of the \$1 million quasi-exemption

# Sales Tax and CAT Base Very Different

**Sales and Use Tax Collections and Tax Base vs. CAT Taxable Gross Receipts for July 2005 through December 2005, by Industrial Classification**

| Industrial Classification                        | NAICS codes          | Sales Tax Base         | CAT Taxable Gross Receipts | Sales Tax Base as % of CAT Taxable GR |
|--|----------------------|------------------------|----------------------------|---------------------------------------|
| 1 Agriculture, Forestry, and Fishing             | 111100-115310        | \$12,564,726           | \$4,261,016,667            | 0.29%                                 |
| 2 Mining   | 211110-213110        | \$23,863,481           | \$2,211,670,000            | 1.08%                                 |
| 3 Utilities (excluding telecommunications)       | 221100-221300        | \$221,260,073          | \$8,736,168,333            | 2.53%                                 |
| 4 Construction                                   | 236110-238900        | \$162,426,768          | \$22,913,455,000           | 0.71%                                 |
| 5 Manufacturing                                  | 311110-339900        | \$1,159,444,579        | \$84,985,626,667           | 1.36%                                 |
| 6 Wholesale-Durable Goods                        | 423100-423990        | \$965,595,991          | \$16,416,416,667           | 5.88%                                 |
| 7 Wholesale-Nondurable Goods                     | 424100-424990        | \$82,126,759           | \$17,003,096,667           | 0.48%                                 |
| 8 Wholesale Agents and Brokers                   | 425110-425120        | \$71,960,544           | \$511,623,333              | 14.07%                                |
| 9 Motor Vehicle and Parts Dealers (see footnote) | 441110-441300        | \$2,587,970,637        | not comparable basis       | NA                                    |
| <b>10 Furniture and Home Furnishings Stores</b>  | <b>442110-442299</b> | <b>\$1,640,330,861</b> | <b>\$1,721,331,667</b>     | <b>95.29%</b>                         |
| 11 Electronics and Appliance Stores              | 443111-443130        | \$2,522,917,534        | \$1,343,451,667            | 187.79%                               |
| 12 Building Material and Garden Stores           | 444110-444200        | \$6,952,475,165        | \$5,316,263,333            | 130.78%                               |
| 13 Food and Beverage Stores                      | 445110-445310        | \$2,971,779,649        | \$11,138,958,333           | 26.68%                                |
| 14 Drug and Personal Care Stores                 | 446110-446190        | \$1,816,853,563        | \$5,090,885,000            | 35.69%                                |
| <b>15 Gasoline Stations</b>                      | <b>447100</b>        | <b>\$1,129,383,244</b> | <b>\$1,038,473,333</b>     | <b>108.75%</b>                        |
| <b>16 Clothing and Accessory Stores</b>          | <b>448110-448320</b> | <b>\$2,538,662,383</b> | <b>\$2,587,336,667</b>     | <b>98.12%</b>                         |
| 17 Sporting Goods, Hobby, Book and Music Stores  | 451110-451220        | \$1,775,365,791        | \$1,292,451,667            | 137.36%                               |
| <b>18 General Merchandise Stores</b>             | <b>452110-452900</b> | <b>\$8,955,778,190</b> | <b>\$9,711,275,000</b>     | <b>92.22%</b>                         |
| 19 Miscellaneous Store Retailers                 | 453110-453990        | \$7,651,087,637        | \$9,114,716,667            | 83.94%                                |

# Sales Tax Base and CAT Base Very Different

Sales and Use Tax Collections and Tax Base vs. CAT Taxable Gross Receipts for July 2005 through December 2005, by Industrial Classification

| Industrial Classification                          | NAICS codes   | Sales Tax Base          | CAT Taxable Gross Receipts | Sales Tax Base as % of CAT Taxable GR |
|--|---------------|-------------------------|----------------------------|---------------------------------------|
| Electronic Shopping and Other Nonstore             |               |                         |                            |                                       |
| 20 Retailers                                       | 454110-454390 | \$1,067,863,380         | \$1,991,060,000            | 53.63%                                |
| 21 Transportation and Warehousing                  | 481000-493100 | \$80,465,449            | \$7,470,961,667            | 1.08%                                 |
| 22 Information (including telecommunications)      | 511110-519100 | \$4,432,505,938         | \$14,115,816,667           | 31.40%                                |
| 23 Finance and Insurance                           | 522110-525990 | \$390,454,592           | \$6,288,713,333            | 6.21%                                 |
| 24 Real Estate, and Rental & Leasing of Property   | 531110-533110 | \$1,658,849,884         | \$11,967,785,000           | 13.86%                                |
| 25 Professional, Scientific and Technical Services | 541110-541990 | \$393,197,736           | \$18,141,910,000           | 2.17%                                 |
| 26 Management of Companies                         | 551111-551112 | \$2,082,246             | \$10,032,695,000           | 0.02%                                 |
| 27 Administrative and Support Services             | 561110-562000 | \$2,446,715,351         | \$5,200,908,333            | 47.04%                                |
| 28 Education, Health Care and Social Assistance    | 611000-624410 | \$51,247,230            | \$11,897,530,000           | 0.43%                                 |
| Performing Arts, Spectator Sports, and             |               |                         |                            |                                       |
| 29 Independent Artists & Performers                | 711100-711510 | \$14,689,999            | \$506,071,667              | 2.90%                                 |
| 30 Cultural Institutions (Museums, etc.)           | 712100        | \$524,010               | \$32,155,000               | 1.63%                                 |
| 31 Amusement and Recreation                        | 713100-713900 | \$255,139,395           | \$1,121,351,667            | 22.75%                                |
| 32 Hotels, Motels, Inns, and Other Accomodation    | 721110-721310 | \$480,066,019           | \$845,710,000              | 56.76%                                |
| 33 Food Services and Drinking Places               | 722110-722410 | \$4,774,987,925         | \$6,826,403,333            | 69.95%                                |
| 34 Repair and Maintenance Services                 | 811110-811490 | \$1,132,950,208         | \$2,995,326,667            | 37.82%                                |
| 35 Personal and Laundry Services                   | 812111-812990 | \$397,119,680           | \$2,919,041,667            | 13.60%                                |
| Religious, Civic, Professional & Similar           |               |                         |                            |                                       |
| 36 Organizations                                   | 813000        | \$14,762,853            | NA                         | NA                                    |
| 37 Unclassified                                    | n/a           | \$1,123,852,210         | \$14,874,526,667           | 7.56%                                 |
| Motor Vehicle and Parts Dealers                    |               |                         | \$11,720,455,000           |                                       |
| <b>TOTAL</b>                                       |               | <b>\$61,959,321,678</b> | <b>\$334,342,638,333</b>   | <b>18.53%</b>                         |

# CAT Base Compared to GSP Estimates

## Fiscal Year 2006 Commercial Activity Tax:

February 2006 & May 2006 Tax Returns, by Industrial Classification

Dollar amounts are in 1,000's

| Industrial Classification  | NAICS Code Ranges | Number of Taxpayers | Taxable Gross Receipts, Annualized, in millions | Net Taxable Gross Receipts, Annualized, in millions | Global Insight Estimate of GSP, FY 2006 | Ratio, CAT base to GSP |
|--|-------------------|---------------------|---|---|---|------------------------|
| Agriculture, Forestry, and Fishing   | 111100-115310     | 5,711               | \$6,478   | \$3,090   | \$1,790                                 | 1.73                   |
| Mining   | 211110-213110     | 758                 | \$4,152   | \$3,636   | \$2,165                                 | 1.68                   |
| Utilities (excluding telecommunications)                                       | 221100-221300     | 126                 | \$18,440  | \$18,350  | \$9,956                                 | 1.84                   |
| Construction   | 236110-238900     | 18,192              | \$39,038  | \$27,270  | \$17,849                                | 1.53                   |
| Manufacturing  | 311110-339900     | 14,651              | \$163,270                                       | \$152,623   | \$86,762                                | 1.76                   |
| Wholesale Trade  | 423100-425120     | 8,853               | \$65,145  | \$58,805  | \$27,293                                | 2.15                   |
| Retail Trade   | 441110-454390     | 23,691              | \$113,664                                       | \$98,234  | \$31,040                                | 3.16                   |
| Transportation and Warehousing   | 481000-493100     | 4,867               | \$14,074  | \$11,020  | \$14,176                                | 0.78                   |
| Information (including telecommunications)                                     | 511110-519100     | 1,708               | \$25,934  | \$24,809  | \$12,711                                | 1.95                   |
| Finance and Insurance  | 522110-525990     | 5,478               | \$11,251  | \$7,941   | \$34,060                                | 0.23                   |
| Real Estate, and Rental & Leasing of Property                                  | 531110-533110     | 14,377              | \$19,872  | \$11,081  | \$48,178                                | 0.23                   |
| Professional, Scientific and Technical Services                                | 541110-541990     | 15,145              | \$32,195  | \$22,737  | \$24,294                                | 0.94                   |
| Management of Companies (Holding Companies)                                    | 551111-551112     | 917                 | \$21,094  | \$20,378  | \$13,314                                | 1.53                   |
| Administrative & Support Services, and Waste Management & Remediation Services | 561110-562000     | 4,382               | \$9,169   | \$6,430   | \$12,671                                | 0.51                   |
| Education, Health Care and Social Assistance                                   | 611000-624410     | 12,790              | \$20,743  | \$12,314  | \$39,712                                | 0.31                   |
| Arts, Entertainment, and Recreation  | 711100-713900     | 1,692               | \$2,571   | \$1,532   | \$3,281                                 | 0.47                   |
| Accommodation and Food Services  | 721110-722410     | 8,903               | \$12,867  | \$7,390   | \$10,055                                | 0.73                   |
| Other Services   | 811110-812990     | 8,759               | \$9,225   | \$3,936   | \$11,382                                | 0.35                   |
| Unclassified   | n/a               | 19,660              | \$24,222  | \$13,322  | \$50,108                                | 0.27                   |
| <b>TOTAL</b>   |                   | <b>170,660</b>      | <b>\$613,405</b>                                | <b>\$504,899</b>                                    | <b>\$450,797</b>                        | <b>1.12</b>            |

# Ohio's Corporate Franchise Tax, Post-Reform

- Now that Ohio is phasing out the CFT, it is finally seeing growth in the tax base again

Corporate franchise tax revenues  
amounts in millions of \$

collections adjusted for HB 95 base-  
broadening and HB 66 phase-out

| <u>Year</u> | <u>Amounts</u> | <u>% chg</u> |
|-------------|----------------|--------------|
| FY 1999     | \$1,150.3      |              |
| FY 2000     | \$1,029.9      | -10.5%       |
| FY 2001     | \$973.0        | -5.5%        |
| FY 2002     | \$774.4        | -20.4%       |
| FY 2003     | \$794.7        | 2.6%         |
| FY 2004     | \$839.9        | 5.7%         |
| FY 2005     | \$1,060.2      | 26.2%        |
| FY 2006     | \$1,242.5      | 17.2%        |

# New Commercial Activity Tax – Experience So Far

- Legal Challenges
  - Grocers have sued on grounds that the CAT violates Ohio constitutional bans against imposing taxes on food consumed off-premises and against taxing food at the wholesale level
  - No suit filed yet on bright line nexus, although one will probably come soon

# New Commercial Activity Tax – Experience So Far

- Economic Impacts

- Estimates of positive economic impact were based on the tax reform package as a whole
  - Simulation was done without offsetting government expenditure decreases
- REMI simulations predicted Ohio employment gains of about 5,500 in FY 2006, 14,600 in FY 2007, 25,200 in FY 2008, 34,500 in FY 2009, and 43,000 in FY 2010
- One obviously can't answer whether the FY 2006 prediction was "correct" or not
  - Actual Ohio employment in FY 2006 (average of months) was 28,400 higher than in FY 2005

## Reform Process from the Business Perspective – Bob Cline Questions (2005)

- Is the CAT a consumption tax?
- Are GRTs going to spread? Ohio, NJ AMA, Washington, NM, SBT alternative base, health care taxes (Maine, MN)
- Is the CAT an interim step to the next state value-added tax?
- Will business become more proactive in advancing state tax reform?

## Reform Process from the Business Perspective – Bob Cline Questions (2005)

- Is Ohio's CAT a consumption tax?
  - It's at least more of a consumption tax than the taxes that it replaces
- Are GRTs going to spread? Recent activity suggests the answer is yes
  - New Jersey AMA
  - Ohio CAT
  - Kentucky AMC
  - Texas "margin tax"
  - Illinois proposed gross receipts tax

## Reform Process from the Business Perspective – Bob Cline Questions (2005)

- Is the CAT an interim step to the next state value-added tax?
  - This is unclear. Washington had a tax study committee recommend replacing the B&O tax with a subtraction VAT, but this has not happened. On the other hand, the Texas subtractions for cost-of-goods sold or for payroll costs give the margin tax some VAT qualities.
  - States are uncertain about subtraction VAT – how exactly will COGS be apportioned? Does this open the door to another tax planning “arms race”

## Reform Process from the Business Perspective – Bob Cline Questions (2005)

- Will business become more proactive in advancing state tax reform?
  - Business seems to be primarily seeking outright limitations on state taxes, such as through federal BATSA bills, rather than seeking structural reform.
  - Is there a possibility of a multistate project such as the Streamlined Sales Tax for business taxes?