



2006

Annual Report

OHIO DEPARTMENT OF TAXATION

Ted Strickland
Governor

Richard A. Levin
Tax Commissioner



OUR MOTTO:

WE CARE ABOUT THE
QUALITY OF OUR SERVICE:

COURTEOUS

ACCURATE

RESPONSIVE

EQUITABLE



May 18, 2007

The Honorable Ted Strickland
Governor of Ohio
Members of the Ohio General Assembly

Dear Governor, Senators and Representatives,

It is my responsibility under Ohio Revised Code 5703.42 as well as my personal privilege to provide you the **2006 Annual Report of the Ohio Department of Taxation (ODT)**.

This report highlights ODT activities in Fiscal Year 2006 (July 1, 2005 through June 30, 2006). It provides a complete description of the base, rates, and provisions of each of the 21 taxes and three local government funds administered by the department. It also presents detailed statistical data concerning each individual tax.

The **Year in Review** section of the report provides an overview of the first year of the Ohio tax reform measures that were enacted by the 126th General Assembly in House Bill 66. It also details other actions undertaken by ODT during the fiscal year to encourage voluntary compliance among taxpayers while improving the service provided to them by the department.

Significant legislation enacted during the year that affects the tax system is explained in a capsule summary of the appropriate bills. To aid in a general understanding of the report, included this year is a glossary of terms that are common across most taxes. This edition also contains an overview of the mission and functions of each of ODT's service divisions and how they support the department's overall mission.

ODT's annual report is designed to provide a greater understanding of the tax system in Ohio and how it functions to meet the needs of both citizens and government. I believe you will find this report to be both interesting and enlightening.

Above all, I hope that this report meets your requirements. I promise that this department will continue to strive each day to provide the revenue required by government to serve the citizens of Ohio.

Respectfully,

A handwritten signature in cursive script that reads "Richard A. Levin". The signature is written in black ink on a light-colored background.

Richard A. Levin
Tax Commissioner

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TAX COMMISSIONERS & GOVERNORS SERVED, 1939 - PRESENT

TAX COMMISSIONERS	TERM OF OFFICE	GOVERNORS SERVED	TERM OF OFFICE
William S. Evatt	6/03/39 — 12/31/44	John W. Bricker	1/09/39 — 1/07/45
C. Emory Glander	1/01/45 — 1/31/51	Frank J. Lausche	1/08/45 — 1/13/47
C. Emory Glander		Thomas J. Herbert	1/13/47 — 1/09/49
C. Emory Glander		Frank J. Lausche	1/10/49 — 1/02/57
John W. Peck	2/01/51 — 1/31/54	Frank J. Lausche	
Stanley J. Bowers	2/01/54 — 4/14/63	Frank J. Lausche	
Stanley J. Bowers		John W. Brown	1/03/57 — 1/14/57
Stanley J. Bowers		C. William O'Neill	1/14/57 — 1/12/59
Stanley J. Bowers		Michael V. Disalle	1/12/59 — 1/13/63
Louis J. Schneider	4/15/63 — 12/29/64	James A. Rhodes	1/14/63 — 1/11/71
Gerald A. Donahue	1/04/65 — 3/12/66	James A. Rhodes	
Gail W. Porterfield	3/13/66 — 1/10/71	James A. Rhodes	
Robert J. Kosydar	1/11/71 — 1/12/75	John J. Gilligan	1/11/71 — 1/13/75
Gerald S. Collins	1/13/75 — 9/10/75	James A. Rhodes	1/13/75 — 1/10/83
Edgar L. Lindley	9/11/75 — 1/09/83	James A. Rhodes	
Joanne Limbach	1/10/83 — 1/13/91	Richard F. Celeste	1/10/83 — 1/14/91
Roger W. Tracy	1/14/91 — 1/11/99	George V. Voinovich	1/14/91 — 12/31/98
Roger W. Tracy		Nancy Hollister	1/03/99 — 1/10/99
James J. Lawrence	1/11/99 — 6/30/99	Bob Taft	1/11/99 — 1/07/07
Thomas M. Zaino	7/01/99 — 10/31/03	Bob Taft	
J. Patrick McAndrew	11/01/03 — 01/11/04	Bob Taft	
William W. Wilkins	1/12/04 — 1/07/07	Bob Taft	
Richard A. Levin	1/08/07 — Present	Ted Strickland	1/08/07 — Present

UNDERSTANDING THE REPORT

The **2006 Annual Report of the Ohio Department of Taxation** presents an overview of both the department and the taxes it is statutorily obligated to administer. This report is divided into three primary sections: **Understanding the Department**; **Service and Support**; and **Taxes Administered**.

Understanding the Department describes:

- departmental responsibilities, financial expenditures, and human resources data;
- a Glossary of Terms common across most taxes;
- a review of significant events during Fiscal Year 2006;
- a brief summary of revenue generated by the various taxes; and
- other major pieces of legislation with tax implications that passed in FY 2006.

Service and Support outlines:

- the functions of these respective divisions and how they contribute to the department's overall mission; and
- highlights of significant accomplishments in FY 2006.

Taxes Administered chapters are organized alphabetically, by tax. Each chapter:

- specifies the taxpayer, explains the tax base, rates, credits and exemptions, special provisions, and disposition of revenue in addition to filing and payment information;
- lists relevant sections of the Ohio Revised Code, information releases, and legislation and court cases that impact the tax under discussion in the chapter during either the current or future fiscal years; and
- contains charts and tables detailing various statistical information about each particular tax.

A review of the department's administrative rules follows the three primary sections. An index of charts and tables, organized by chapter, concludes the report.

The **Annual Report** primarily contains data and information from only FY 2006 and is not intended as a definitive guide or manual interpreting Ohio's tax laws. For the most up-to-date information on individual taxes, tax filing, publications, historical data and other topics affecting taxation, visit the department's Web site (tax.ohio.gov).



RESPONSIBILITIES OF THE DEPARTMENT

The Ohio Revised Code (Section 5703.05) states that “all powers, duties and functions of the Department of Taxation are vested in and shall be performed by the Tax Commissioner . . .” The Tax Commissioner is appointed by the Governor, is subject to confirmation by the Ohio Senate, and serves at the pleasure of the Governor.

In general, the Tax Commissioner is responsible for the administration of most state-collected taxes and several locally-collected taxes, and exercises supervision over the real property tax. Responsibilities also involve several programs that distribute revenues to local governments, including:

- motor fuel tax distributions;
- local property tax relief reimbursements;
- distributions from the Library and Local Government Support Fund, the Local Government Fund, the Local Government Revenue Assistance Fund; and
- distributions from the Local Government Property Tax Replacement Fund.

The Tax Commissioner is empowered to make “all tax assessments, valuations, findings, determinations, computations and orders,” which the department is, by law, authorized and required to make, as well as to review or re-determine or to correct previous assessments, valuations, or findings. The Tax Commissioner’s other principal responsibilities are:

- promulgating rules and regulations and preparing and distributing tax returns and other reporting forms;
- auditing returns, levying assessments and penalties, and granting or denying tax refunds; and
- issuing, revoking, or suspending certain licenses and permits.

In addition, the Tax Commissioner has certain specified duties. These are:

- actual collections of individual income, horse racing, sales, commercial activity, corporation franchise, and excise taxes;
- operating a central collection and reporting system for the municipal income taxes on electric companies and telephone companies; and
- maintaining a continuous study of the practical operation of the taxation and revenue laws of the state, the probable revenue effect of legislation introduced to change existing laws, and proposed measures providing for other forms of taxation.

To efficiently perform these numerous functions, the Tax Commissioner is authorized by law to create such divisions and sections of employees as are deemed proper. The organization chart contained in this chapter indicates the structure of the department as of April 25, 2007. In addition to four Deputy Tax Commissioners, one of whom also serves as Chief Legal Counsel, the department also has a Chief Information Officer and seven executive administrators. These executive staff members oversee various operating divisions whose functions are purely tax administration of the various taxes. These operating divisions include:

- Sales and use
- Operations and support
- Business and corporation franchise
- Commercial activity tax

- Individual income and school district income
- Personal property
- Public utility
- Excise
- Tax equalization
- Estate

There are also administrative service and support staff sections, including:

- Audit
- Chief counsel
- Budget and fiscal
- Employee development and training
- Human resources
- Forms
- Enforcement
- Appeals management
- Revenue accounting
- Tax appeals
- Tax analysis
- Compliance/Taxpayer services
- Legislation
- Communications
- Information services
- Bankruptcy
- Internal audit
- Tax discovery

The department also has a Problem Resolution Officer on staff, assigned to the Office of Chief Counsel, who provides additional assurance to taxpayers that their rights are being protected. To further serve Ohio residents and those in other states that have a business or residential nexus with Ohio, Taxpayer Service Centers are located in eight major cities throughout Ohio, with two in Columbus and one each in Akron, Cleveland, Cincinnati, Dayton, Toledo, Youngstown, and Zanesville. There are also regional audit centers in New York City, Chicago, and Los Angeles.

At the close of Fiscal Year 2006 there were 1,410 permanent employees and 247 intermittent employees within the department. Expenditures of approximately \$137.3 million were made during the fiscal year to fulfill the department’s various functions and responsibilities. Further details on the number of employees and expenditures are shown in **Tables 1 and 2** in this chapter.

The Ohio Department of Taxation also has an assessment role which consists of levying assessments against corporations and individuals which either file taxes incorrectly, or fail to pay or do not pay the full amount of taxes due. For holders of tangible and intangible personal property, the assessment process is used to determine taxable value of the property. Details on the additional revenue collected by these assessments is shown in the **Taxpayer Services/Compliance** section of the **Service and Support** chapter.

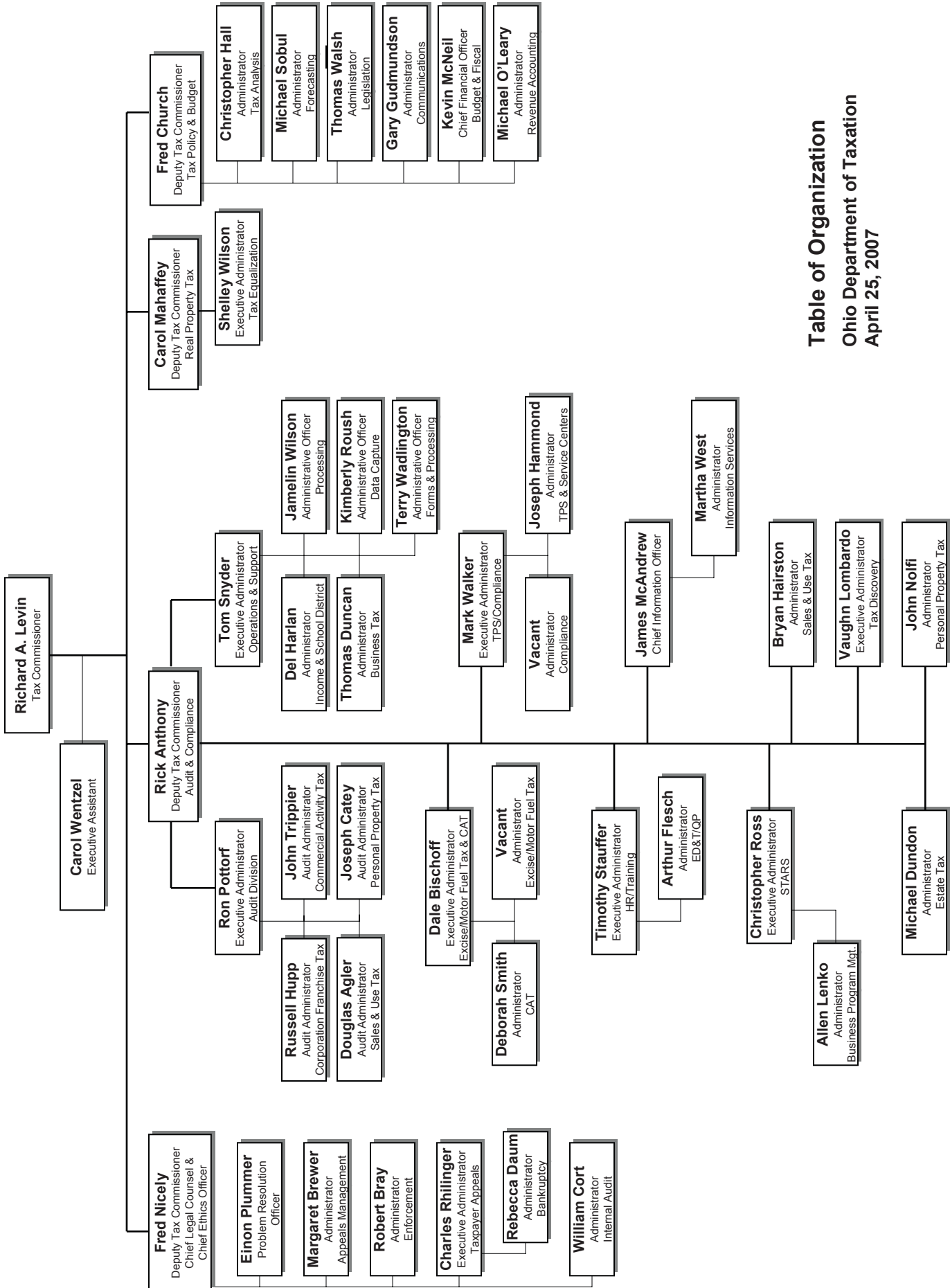


Table of Organization
Ohio Department of Taxation
April 25, 2007

RESPONSIBILITIES OF THE DEPARTMENT

TABLE 1
ODT STAFF STRUCTURE & NUMBER OF EMPLOYEES, FISCAL YEAR 2006

Administrative Divisions			Information Services	145
Tax Commissioner	11		Internal Audit	2
Human Resources	14		Operations & Income Taxes Administration	4
Tax Analysis	10		Operations	147
Employee Dev. & Training	8		Business Tax	47
Legislation	4		Personal Income & School District Tax	66
Communications	5		Personal Property Tax	31
HR/TCA Training	3		Sales & Use Tax	43
Performance Excellence	9		Tax Discovery	9
Divisions Total	64		Tax Equalization	24
Audit			Taxpayer Service Centers	
Administration	6		Akron	20
Audit Support	18		Cincinnati	21
South Central Region	71		Cleveland	20
Northwest Region	98		Columbus	26
Northeast Region	80		Dayton	18
New York	9		Toledo	15
Chicago	9		Youngstown	18
Los Angeles	13		Zanesville	9
Division Total	304		Divisions Total	147
Budget & Fiscal	42		Taxpayer Services/Compliance Administration	15
Chief Counsel	56		Compliance	72
Commercial Activity Tax	24		Taxpayer Services	53
Enforcement			TPS/Compliance Support	26
Administration	5		Total Permanent Employees	1,410
Cincinnati	8		Intermittent Employees in Pay Status	247
Cleveland	5		Total Employees in Pay Status	1,657
Columbus	4			
Toledo	8			
Division Total	30			
Estate Tax	11			
Excise & Motor Fuel Tax	43			
Forms & Purchasing	5			

RESPONSIBILITIES OF THE DEPARTMENT

TABLE 2
EXPENDITURES OF THE OHIO DEPARTMENT OF TAXATION BY DIVISION,
FISCAL YEAR 2006

Division	Personal Service	Maintenance and Equipment	Total
Administrative	\$13,583,451	\$8,594,752	\$22,178,203
Audit	\$21,194,846	\$3,009,648	\$24,204,494
Business & Corporation Franchise Tax	\$3,082,279	\$287,117	\$3,369,396
Commercial Activity Tax	\$1,036,332	\$700,013	\$1,736,345
Enforcement	\$1,958,105	\$388,624	\$2,346,729
Estate Tax	\$793,559	\$81,723	\$875,282
Excise & Motor Fuel Tax	\$2,676,992	\$895,298	\$3,572,291
Information Services	\$18,722,685	\$7,024,799	\$25,747,483
Operations	\$10,631,313	\$6,820,702	\$17,452,015
Personal Income & School District Tax	\$3,893,271	\$1,071,506	\$4,964,776
Personal Property Tax	\$2,509,033	\$381,013	\$2,890,046
Sales & Use Tax	\$2,807,128	\$1,756,852	\$4,563,980
Tax Equalization	\$1,632,321	\$127,400	\$1,759,721
Taxpayer Services/Compliance	\$18,526,573	\$3,121,432	\$21,648,005
Total	\$103,047,888	\$34,260,879	\$137,308,767





GLOSSARY OF TERMS

The administration of taxes includes a specialized vocabulary not entirely familiar to the average taxpayer. The terms included here represent a selected, core group of tax-related terms common across many taxes. In cases where a definition contains a term that is also defined in this glossary, that term is highlighted in bold.

Allocation — for purposes of this report, allocation describes a process employed in computing corporation franchise tax **liability** whereby a taxpayer's *nonbusiness* income (e.g. interest, capital gains, etc.) is distributed between Ohio and other states. What is allocated to Ohio is then subject to Ohio tax.

Adjusted Gross Income — an amount used in the calculation of an individual's income tax **liability**; refers to an amount of income after certain adjustments are made, but before any reduction for the standardized and itemized **deduction(s)** or personal **exemption** is made.

Apportionment — for purposes of this report, apportionment describes a process in computing corporation franchise tax **liability** whereby a taxpayer's *business* income is distributed between Ohio and other states. What is apportioned to Ohio is then subject to tax.

Assessed value — the taxable value of land and improvements (i.e. buildings) for real property tax, or the taxable value of business property and inventories for tangible personal property tax. The assessed value of real property is set by state law in Ohio at 35 percent of true market value, with some exceptions including certain lands used for agriculture or foresting. This differs from *appraised value*, which is a value determined, in part, by sales of comparable and proximate properties and is generally representative of the true market value.

Credit — an amount subtracted from the amount of tax owed (the **liability**), such as child care expenses (for purposes of individual income tax) or research and development loan payments (for purposes of corporation franchise tax).

Deduction — an expense subtracted from personal **adjusted gross income** when calculating taxable income, such as for state and local taxes paid, charitable gifts, or certain types of interest payments.

Destination sourcing — a process of identifying the appropriate rate of sales tax charged as determined by the rate in effect at the destination where a consumer accepts delivery of a taxable item or service, rather than the rate in effect at the location, or source, where the item or service is sold.

Exemption — an amount excluded from taxable income, e.g. the personal exemption given to any taxpayer who cannot be claimed as a dependent by another taxpayer (for purposes of individual income tax).

Liability — the amount of a specific tax that a taxpayer owes; this amount can be reduced by deductions and credits.

Lien — an ownership right to a piece of property; e.g., when a financial institution loans money for purchase of a home, that mortgage loan is a lien. Taxing authorities can establish, or place, a lien on the property of a delinquent taxpayer. If the mortgage or loan or tax owed is not paid, the property can be sold to satisfy the lien.

Mcf — 1,000 cubic feet; used to measure natural gas.

Mill — a measurement equal to one-tenth of 1.0 percent; often used to refer to the amount of property tax imposed on real or personal property (e.g., a 2.5 mill tax levy imposed on a home with an **assessed value** of \$100,000 amounts to \$250 in tax).

Net income — the total earnings or “bottom line” of a business, generally calculated by deducting from total sales the costs of doing business; e.g. depreciation, interest, taxes and certain other expenditures.

Net worth — the value of a business when its liabilities (debt, taxes and certain other obligations) are subtracted from the value of its assets.

Nexus — a term used to describe whether a business has sufficient presence or activity in a state or other taxing jurisdiction to become subject to the tax(es) of the state or jurisdiction.

Nonrefundable tax credit — a **credit** against a specific tax that does not entitle the taxpayer to a refund; when the credit is applied against the **liability**, if the amount of the credit reduces the liability to less than zero, the taxpayer is not eligible for a refund of the difference.

Permissive tax — a tax that a local political jurisdiction is “permitted” by law to enact, generally a sales tax.

Refundable tax credit — a **credit** against a specific tax that may entitle the taxpayer to a refund; when the credit is applied against the **liability**, if the amount of the credit reduces the liability to less than zero, then the taxpayer is eligible for a refund of the difference.

Situs — the place where property is physically located, or where a taxable transaction occurs.

Sourcing — for purposes of sales tax, the physical location where a sale occurs or where a sale is designated as having occurred. This may be the physical location of the retailer, referred to as *origin sourcing*. In cases of sales involving delivery of a product or service, the source of the sale is the location to which the product or service is delivered. This is referred to as **destination sourcing**.

Streamlined Sales Tax Project (SSTP) — a multi-state initiative to make sales tax laws, rules, and systems more uniform across states and thus easier for vendors to collect states' sales taxes. The goal of the SSTP is to encourage out-of-state vendors — primarily catalog and Internet retailers — to register with the project and collect the sales tax of Ohio and other states, which these retailers are not currently required to do under federal law.

Taxing district — a jurisdiction that by law can impose a **tax levy** for property, sales, or municipal or school district income taxes in a specified geographic area. These jurisdictions may overlap. They include counties, transit authorities, municipalities, and school districts.

Tax levy — a piece of legislation that imposes or alters a tax. A levy may be enacted at either the state level, for income or sales taxes, or at the local

political jurisdiction level, such as for municipal or school district income, sales, or property taxes. Local tax levies generally require a vote of the people, are normally for a specific purpose, and are usually for a permanent or specified time period. *Note:* a locally-imposed sales tax is also referred to as a **permissive tax**.

Tax year — an annual accounting period for tax purposes that consists of 12 consecutive months. This may be either a fiscal year (12 consecutive months ending on the last day of any month except December, e.g., the state government fiscal year ends on June 30); or a calendar year (beginning January 1 and ending December 31). Businesses will normally file taxes on a fiscal tax year basis, which may be any consecutive 12-month period. The tax year for property taxes, as well as individual income taxes for most taxpayers, is the calendar year.

YEAR IN REVIEW

For Ohio's tax system, it was the year the future began. A profound restructuring of Ohio's major taxes, including the introduction of a new business tax, launched in Fiscal Year (FY) 2006. The change accompanying tax reform was significant, but the year brought additional challenges and saw its share of successes for the Ohio Department of Taxation (ODT).

THE YEAR OF REFORM

Ohio's tax reform altered, to varying degree, all of the state's major taxes.

- The individual income tax: cut rates a total 21 percent over five years.
- The corporation franchise tax and tangible personal property tax: both eliminated by 2010.
- The cigarette tax: doubled plus from \$.55 per pack to \$1.25 cents, making it the third largest source of revenue for state government.
- The real property tax: wiped out a 10 percent real estate tax rollback for commercial and industrial property owners.

All of these changes caused corresponding shifts in how ODT ran its business of administering Ohio's tax system, but all the changes, together, did not equal the labor involved in developing, defining, and delivering a new tax named CAT, short for commercial activity tax.

The commercial activity tax, most simply described, is a low-rate (.26%) tax on the gross receipts of business transactions conducted in Ohio. For ODT, authoring even a simple description of the CAT proved to be anything but simple. The realities and countless different circumstances of doing business commanded seemingly equal numbers of questions needing answers from the CAT specialists at ODT. Developing answers and, more comprehensively, building an organization and infrastructure to administer a new tax is not a challenge dispatched easily.

Ultimately, the department created a new division to handle the CAT. Included with that creation were the necessities of hiring new agents and administrators, designing new forms and information systems to process those forms, and dispersing publications and specialists around the state, country, and world to raise awareness of and explain the workings of the CAT. As the process unfolded, more than 250,000 businesses became registered taxpayers of the CAT.

CALL IT HOME



For approximately 850 ODT employees in FY 2006, an abandoned shopping mall department store building became home base for the professional side of their lives. The building, located in north Columbus, was completely renovated and fitted out to host many department functions that had been performed in scattered sites around the city. This new Northland Building is now, among other operations, the processing center for the income and nearly all other state

taxes; home for ODT's information technology services; and the primary call center for all individual and business taxpayer services. The department has maintained its administrative office in downtown Columbus, taxpayer service and audit offices in eight cities across Ohio, and three audit offices out-of-state in the Chicago, Los Angeles, and New York City areas.

LAST CHANCE

With Ohio's state budget seeing the lowest and slowest revenue growth in decades, sights were set on missing and delinquent taxpayers as potential sources of new revenue for FY 2006. The primary outreach effort employed the carrot and stick model, officially called a tax amnesty. The program offered an incentive to delinquent taxpayers to pay in full all outstanding taxes and, in turn, they would be charged no penalty and only half the normal interest rate imposed on late payments.

Reinforcing that inducement was a promise to those delinquents that didn't come forward that they would become the targets of aggressive enforcement and auditing efforts to find and recover in full — with maximum penalty — all taxes due. Similar but shorter in duration at only six weeks to a similar amnesty program conducted in FY 2002, ODT employed a major marketing campaign to capture the attention of delinquent taxpayers and ultimately recover more than \$66 million dollars.

NEED? TECHNOLOGY PROVIDES

As increasingly is ever the case in these times, ODT turned to new technology as a remedy to old and ailing systems and as a solution delivering greater efficiencies and capabilities to various operations of the department.

Addressing its most pressing and sweeping need, ODT in FY 2006 continued to identify and refine the next generation answer to the sagging backbone that is the department's primary computer system. With an existing computer network that encompasses eleven separate and not always coordinated systems, ODT honed in on a comprehensive and fully integrated system to handle the billing, record keeping, budgeting, purchasing, archiving, and many other data demands of the department. With an undetermined but anticipated price tag of multiple tens of millions of dollars, the department developed plans to phase-in the new system over a five-year period. The work on those plans continued through the year.

This fiscal year another technology tool greatly enhanced ODT's effort to ensure taxpayer compliance with their school district income tax responsibilities. The department deployed and then employed a geography-based information system called **The Finder** to search and verify that taxpayers subject to a school district income tax had, in fact, filed their school district income tax return.

The drive for efficiencies led to the adoption of scanning technology this year to process individual income and other tax returns filed on paper. With more than two million paper returns coming in during the income tax season, the scanners and new sorting equipment greatly sped up processing and cut down on the number of data entry errors. Meanwhile, the number of returns filed electroni-

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YEAR IN REVIEW

cally continued to grow. In FY 2006, this represented roughly 56 percent of all income tax returns, an increase of 6.0 percent from the year prior.

THE BOTTOM LINE

The Department of Taxation, like most all of state government, operated on a tight budget in 2006. With Ohio's economy still sputtering, the department had to step up its efforts to bring in tax revenues while keeping a lid on ODT expenditures. The drive for dollars proceeded on multiple fronts including the tax amnesty, increased billings to smokers buying untaxed cigarettes over the Internet, intensified inspections for sales of untaxed tobacco products, accelerated processing of delinquent sales taxpayers, and increasing resources for the department's efforts to discover and recover tax on unreported business income.

All those efforts collectively did pay off with ODT collections exceeding those of the previous year by approximately 3.4 percent. Still, numbers can tell a story and those numbers showed the rate of revenue growth in FY 2006 dropping off by more than 50 percent from the year before.

The story's ending: Ohio's economy and the effort to stimulate that economy with tax cuts had put the brakes on state revenue growth. Predictions at year's end were that the next sequel to Ohio's revenue story would tell a similar tale of a state still working to reenergize its economy and find the tax revenues to assist in that effort.



REVENUE FROM TAXES ADMINISTERED BY THE TAX COMMISSIONER

The Tax Commissioner's primary responsibility is the administration of state and some local taxes, which yielded approximately \$27.1 billion in net collections during the period of this report. Ohio's 2006 fiscal year was the period from July 1, 2005 through June 30, 2006. A breakdown of the collections from these taxes is shown in **Table 3** for both state-collected taxes, represented by fiscal year, and locally-collected taxes, on a calendar year basis.

It should be noted, however, that taxes imposed by one level of government may be collected by another, and that taxes collected by one level of government may be shared with another. For this reason, the tax collection figures attributed to state or local governments in the table do not necessarily indicate amounts available for expenditure by either the state or local governments. In addition, some state taxes (specifically, the foreign and domestic insurance taxes, motor vehicle license tax, and liquor gallonage tax) are not administered by the Tax Commissioner but by other state agencies.

Figures for both gross and net tax collections from state-collected taxes are shown in **Table 3**. Gross collections are equal to total taxes collected, including taxes which were later refunded. Net tax collections are equal to gross collections, less all refunds.

The source for the state-collected taxes in Table 3 is the Office of Budget and Management for both gross and net collections. These figures will differ from data shown elsewhere in this report, which generally represent taxes reported as shown on returns filed during the fiscal year, rather than actual collections during the fiscal year.

The state-collected taxes administered by the Tax Commissioner yielded net tax collections of approximately \$24.4 billion during the fiscal year. This was an increase of nearly \$0.8 billion from the previous fiscal year. Receipts from locally-collected taxes were approximately \$2.7 billion in the 2005 calendar year.

Table 4 shows state General Revenue Fund revenue sources for Fiscal Year 2006. Excluding federal aid, total revenue amounted to approximately \$20.2 billion. As the table shows, the largest single revenue source was the individual income tax, with approximately \$8.8 billion distributed to the fund. The sales tax was the second largest revenue source, contributing roughly \$7.4 billion. From the 2005 to the 2006 fiscal years, income tax revenue increased by approximately 2.3 percent, while sales tax collections went down by approximately 5.1 percent (in large part due to a reduction in the tax rate).

The chart at the end of this chapter shows the collections of the largest taxes over the last ten years. During this period, the individual income and sales taxes have been the predominant tax sources for the state. The income tax demonstrated continuous growth, although growth was lethargic earlier this decade. Ohio's other major taxes have experienced quite disparate growth patterns, largely due to tax law changes. Sales tax revenues demonstrated long-term growth until FY 2006, when the state sales tax rate decreased from 6.0 percent to 5.5 percent (this decrease contrasts to FY 2004, when the rate increased from 5.0 percent to 6.0 percent). Corporation franchise tax revenues actually declined earlier this decade, followed by a robust recovery in recent years; however, a scheduled five-year phase-out for most of this tax began in tax year 2006, ensuring future revenue decline. In FY 2006, the cigarette tax produced almost the same amount of revenue as the corporation franchise tax. This is because the cigarette tax rate increased several times in recent years: from 24 cents per pack to 55 cents per pack beginning in FY 2003; and from 55 cents per pack to \$1.25 per pack beginning in FY 2006.

The decrease in public utility excise tax revenue is partially offset by the creation of the kilowatt-hour tax in May 2001, which replaced the excise tax for electric and rural electric companies. The kilowatt-hour tax generated \$557.2 million in revenue in FY 2006, but the General Revenue Fund received only about \$325.3 million of this amount. The remaining \$231.9 million was distributed directly to schools and local governments.

Revenue from taxes administered by the Department of Taxation comprised 97.7 percent of total General Revenue Fund taxes in FY 2006. Most of the remaining 2.3 percent is comprised of foreign and domestic insurance taxes, which are administered by the Ohio Department of Insurance.

The first pie chart at the end of this chapter illustrates the General Revenue Fund tax sources for the fiscal year. The largest source, individual income tax, accounted for approximately 44.9 percent in FY 2006.

The total revenue from all state tax sources amounted to approximately \$24.0 billion. The second pie chart shows the taxes that comprise this total.

Further statistical information on most of these taxes is contained in other Department of Taxation publications. Some of these publications are available by contacting the Tax Analysis Division, at (614) 466-3960, or they can be viewed at the Department of Taxation's Web site (tax.ohio.gov).

REVENUE FROM TAXES ADMINISTERED BY THE TAX COMMISSIONER

TABLE 3

COLLECTIONS FOR TAXES ADMINISTERED BY OHIO TAX COMMISSIONER(a)

State-Collected Taxes	Gross Tax Collections		Net Tax Collections(b)		Percent Change 05-06
	FY 2005	FY 2006	FY 2005	FY 2006	
State Sales and Use (c)	\$8,194,420,144	\$7,733,104,084	\$8,131,334,006	\$7,673,042,357	-5.64%
Local Sales and Use	1,496,085,457	1,589,068,231	1,496,085,457	1,589,068,231	6.22%
Resort Area Excise	576,330	672,227	576,330	672,227	16.64%
State Personal Income	10,486,897,969	10,898,901,005	9,434,451,801	9,623,196,951	2.00%
Municipal Income Tax for					
Electric Light Companies	38,997,426	36,700,417	38,997,426	36,700,417	-5.89%
Corporation Franchise	1,282,059,637	1,309,521,936	1,111,564,312	1,105,863,100	-0.51%
Motor Vehicle Fuel	1,692,110,877	1,811,166,960	1,667,317,568	1,787,614,357	7.21%
Public Utility Excise	155,842,719	187,233,025	140,887,964	187,210,705	32.88%
Kilowatt-Hour Excise	539,668,771	557,340,967	539,392,236	557,166,445	3.30%
Natural Gas Consumption	73,653,083	69,076,996	73,653,083	69,076,996	-6.21%
Cigarette Excise (d)	579,111,243	1,086,712,875	577,698,917	1,084,142,830	87.67%
Local Cigarette Excise (e)	4,828,428	3,744,903	4,339,306	3,729,018	-14.06%
Dealers in Intangibles	37,158,952	34,582,394	36,557,281	33,582,794	-8.14%
Motor Fuel Use	83,545,046	72,709,897	82,925,757	71,189,374	-14.15%
Alcoholic Beverage Excise (f)	57,653,341	58,412,366	57,653,341	58,412,366	1.32%
Replacement Tire Fee	6,884,011	7,385,885	6,777,487	7,295,299	7.64%
Local Alcoholic Beverage (e)(f)	6,055,788	5,853,668	6,055,788	5,847,332	-3.44%
Horse Racing	14,603,473	12,868,648	14,603,473	12,868,648	-11.88%
Severance	7,597,653	7,676,830	7,597,653	7,676,830	1.04%
School District Income	196,844,221	235,995,378	183,751,845	221,269,681	20.42%
Commercial Activity Tax (g)	0	273,866,043	0	273,385,934	N/A
Total State-Collected Taxes	\$24,954,594,570	\$25,992,594,733	\$23,612,221,031	\$24,409,011,893	3.38%
Tax Collections					
Locally-Collected Taxes	CY 2004	CY 2005	Percent Change, 04-05		
Tangible Personal Property	\$1,651,707,142	\$1,695,986,799	2.68%		
Public Utility Property (h)	775,375,587	755,171,101	-2.61%		
Estate (i)	300,882,945	272,013,439	-9.59%		
Total Locally-Collected Taxes	\$2,727,965,674	\$2,723,171,339	-0.18%		

(a) Sources: For state-collected taxes, Office of Budget and Management. For locally-collected taxes, Department of Taxation.
(b) Gross tax collections less refunds.
(c) The state sales tax decreased from 6.0% to 5.5%, effective July 1, 2005.
(d) The cigarette tax increased from \$0.55 per pack to \$1.25, effective July 1, 2005. The rate on other tobacco products did not change.
(e) Collected for Cuyahoga County.
(f) Excludes tax on liquor since it is administered by the Ohio Department of Commerce, Division of Liquor Control.
(g) The commercial activity tax went into effect on July 1, 2005.
(h) Consists of tangible personal property taxes levied for collection in the following year.
(i) Consists of fiscal year 2005 and 2006 data, respectively (rather than CY 2004 and CY 2005 data).

REVENUE FROM TAXES ADMINISTERED BY THE TAX COMMISSIONER

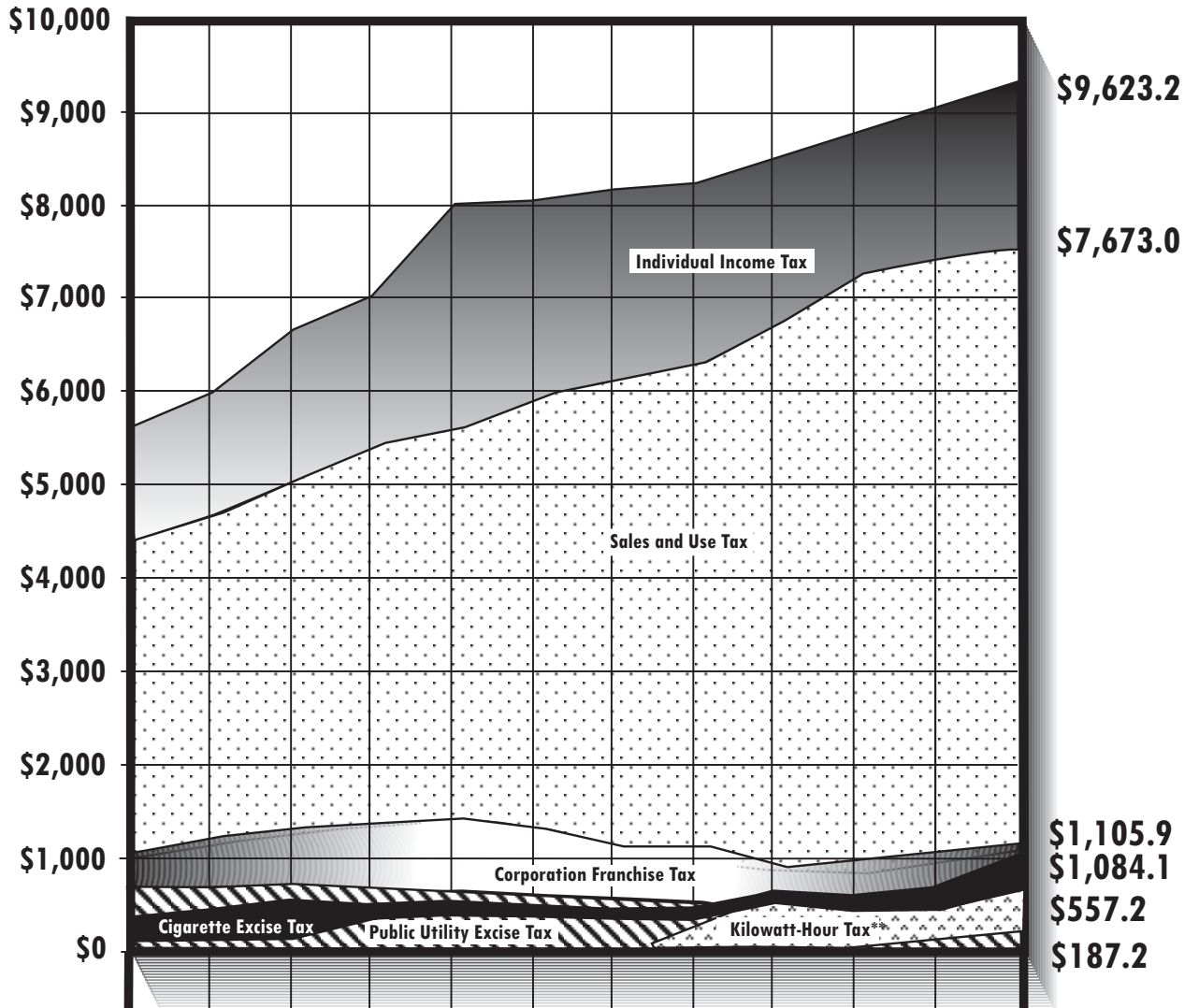
TABLE 4
 GENERAL REVENUE FUND SOURCES
 FISCAL YEAR 2006 (EXCLUDING FEDERAL AID)

Revenue Source	FY 2006 Collections
Personal Income Tax	\$8,786,395,210
Sales and Use Tax	7,368,243,825
Corporation Franchise Tax	1,054,901,384
Public Utility Excise Tax	176,171,245
Kilowatt-Hour Excise Tax	325,307,962
Cigarette Tax	1,084,141,937
Alcoholic Beverage Taxes (including liquor gallonage)	90,915,771
Commercial Activity Tax	185,082,278
Total	\$19,071,159,612
Miscellaneous:	
Domestic Insurance Tax	170,318,086
Estate Tax	54,070,007
Foreign Insurance Tax	248,797,469
Dealers in Intangibles Tax	19,091,666
Total	\$492,277,229
Non-Tax Revenue:	
Earnings on Investment	107,280,909
Liquor Profits	138,000,000
Miscellaneous*	439,508,185
Total	\$684,789,094
GRAND TOTAL	\$20,248,225,935
NOTE: All amounts are after refunds.	
* Includes certain transfers into the General Revenue Fund, licenses and fees, and other income.	
Source: Ohio Office of Budget and Management.	

CHART

REVENUE COLLECTIONS: SALES AND USE, INDIVIDUAL INCOME, CORPORATION FRANCHISE, AND PUBLIC UTILITY EXCISE AND KILOWATT-HOUR TAXES, FISCAL YEARS 1996 - 2006

(FIGURES IN MILLIONS)



	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Individual Income Tax	\$5,884.8	\$6,018.5	\$6,946.2	\$7,173.8	\$8,084.6	\$8,119.3	\$8,157.1	\$8,256.5	\$8,531.2	\$9,434.5	\$9,623.2
Sales and Use Tax*	4,981.1	5,223.0	5,535.1	5,827.4	6,214.0	6,237.1	6,435.0	6,701.4	7,834.7	8,131.3	7,673.0
Corporation Franchise Tax	1,181.7	1,220.3	1,268.7	1,150.3	1,029.9	937.0	774.4	808.3	870.6	1,111.6	1,105.9
Cigarette Excise**	294.5	298.4	296.6	290.6	287.7	282.5	281.3	599.9	557.5	577.7	1,084.1
Public Utility Excise Tax	653.5	672.9	708.0	670.6	675.3	674.3	300.0	255.5	263.3	140.9	187.2
Kilowatt-Hour Tax***	—	—	—	—	—	—	38.0	569.2	539.4	539.4	557.2

* Temporary two-year rate increase from 5% to 6% effective July 1, 2003. A permanent rate of 5.5% became effective July 1, 2005 (Fiscal Year 2006).

** Rate increased from 24 cents per pack in FY 2003 and to \$1.25 per pack in FY 2006.

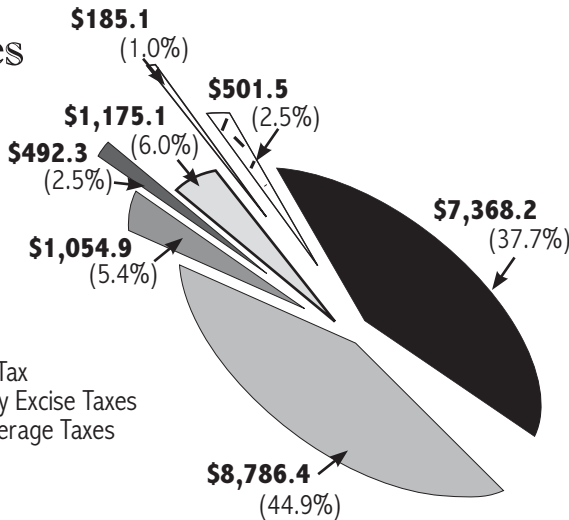
*** Replaced the public utility excise tax on electric and rural electric companies, effective May 1, 2001.

REVENUE FROM TAXES ADMINISTERED BY THE TAX COMMISSIONER

General Revenue Fund Tax Sources

Fiscal Year 2006
(figures in millions)

- Sales and Use Tax
- Individual Income Tax
- Corporation Franchise Tax
- Kilowatt Hour, and Utility Excise Taxes
- Cigarette/Alcoholic Beverage Taxes
- Commercial Activity Tax
- All other taxes*



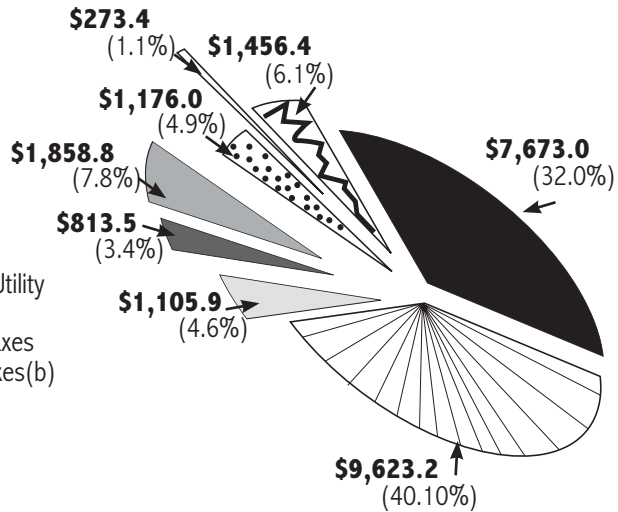
Total \$19,563.4 million

* This figure is comprised of the following state tax revenue sources: domestic insurance, foreign insurance, estate, and dealers in intangibles taxes.

All State Tax Sources (a)

Fiscal Year 2006
(figures in millions)

- Sales and Use Tax
- Individual Income Tax
- Corporation Franchise Tax
- Natural Gas, Kilowatt Hour, and Utility Excise Taxes
- Motor Vehicle Fuel & Fuel Use Taxes
- Cigarette/Alcoholic Beverage Taxes(b)
- Commercial Activity Tax
- All other Taxes(c)



Total \$23,980.2 million

- (a) Includes revenue distributed to non-General Revenue Fund accounts.
- (b) Includes tax on liquor of approximately \$33.4 million which is administered by the Department of Commerce, Division of Liquor Control.
- (c) This figure is comprised of the following state tax revenue sources shown in the chart at right:

Dealers in Intangibles	\$33,582,794
Replacement Tire	7,295,299
Horse Racing	12,868,648
Severance	7,676,830
Estate	272,683,861
Foreign Insurance	269,008,280
Motor Vehicle License	682,918,123
Domestic Insurance	170,408,850
Total	\$1,456,442,686

SUMMARY OF LEGISLATION

A mended Substitute House Bill 46, 126th General Assembly (effective August 17, 2006); Revised Code Sections: 9.833 and 305.172.

The act allows political subdivisions to offer and make contributions to health savings accounts. It also expressly allows them to use public monies to pay for or fund federally qualified high deductible health plans that are linked to health savings accounts or to make contributions to health savings accounts.

Substitute H.B. 294, 126th General Assembly (effective September 28, 2006); Revised Code Sections: 323.65-.78; 5323.01-.04; 5323.9, 5715.19, 5721.01, 5721.03, 5721.06, 5739.03, 5739.033, 5739.24, 5741.02.

The act provides for an expedited foreclosure procedure for unoccupied property that has delinquent taxes, and reduces the timeframe for designating delinquent vacant lands subject to judicial foreclosure. The act also makes changes to Ohio's laws that conform to the Streamlined Sales and Use Tax Agreement. Specifically, the act makes the switch to destination-based sourcing under the sales tax law for vendors with total delivery sales between \$5.0 million and \$30 million (scheduled to take place on May 1st, 2007), contingent upon the Tax Commissioner's determination, on or before February 1, 2007, that certified service provider (CSP) services are available for all delivery sales. (**Note:** The Tax Commissioner determined on February 1, 2007 that such services were not available, and the switch to destination-based sourcing is now scheduled to be made no later than January 1, 2008.) Finally, the act establishes an appeal procedure for challenging determinations of eligibility for the 10 percent "rollback" exemption from real property taxes.

Sub. H.B. 390, 126th General Assembly (effective September 28, 2006); Revised Code Sections: 109.082, 131.02, 131.022, 2305.26, 2329.07, 5703.06, 5703.58, 5733.18 (repealed), 5735.03, 5749.02.

The act establishes a statute of limitations within which the Attorney General must begin judicial proceedings to collect most unpaid state tax debts. The time limitation is the greater of seven years after an assessment has been issued, four years after an assessment has become final, or the expiration of the time period of a legal stay in collections. It also generally establishes a ten-year statute of limitations on formally assessing an unpaid tax as a result of a person not filing a tax return, except in cases of fraud or situations where the tax is collected on the state's behalf but not remitted to the state. In addition, the act requires the Attorney General to report on tax collection efforts every two years with the initial report due April 30, 2007. Substitute House Bill 390 establishes a 12-year time limit on enforcing judgment liens in the state's favor and on enforcing statutory liens on real or personal property. Additionally, it eliminates express provisions for statutory liens securing payment of certain taxes. Any lien for these unpaid taxes will attach when a judgment is entered for the amount due under the provisions of general law. The act also specifies that the current offers in compromise procedure can be used to provide relief for "innocent spouses."

Am. Sub. H.B. 530, 126th General Assembly (various effective dates). Revised Code Sections: Various. Debts Owed to the State: Revised Code Section 131.02.

The act outlines the time frames by which debts must be certified to the Attorney General for collection. It also allows the Attorney General to sell overdue claims, subject to the approval of the affected state agency and the Controlling Board, through a competitive process.

School District Debt Limits: Revised Code Sections 133.01, 133.06, 3313.372, 3318.052.

The act makes several changes to school district debt limits. First, the act makes a change to the calculation of net indebtedness by changing the definition of tax valuation. For calculating the net indebtedness of all political subdivisions, "tax valuation" is defined as the aggregate of the valuations of property in the jurisdiction that is subject to taxation according to its value. Because H.B. 66, the biennial budget/tax reform bill, phased out the taxes and the tax valuations of numerous types of business property over four years, H.B. 530 specifies that "tax valuation" for a school district does not include the valuation of those types of business property: tangible personal property used in business, telephone or telegraph property, inter-exchange telecommunications company property, or personal property used by a railroad company in its operations.

Second, the act allows school districts to issue debt in excess of either the 4.0 percent limitation or the 9.0 percent limitation not only for the district's portion of its state-approved classroom facilities project, but also for the cost of any "required locally funded initiatives" and the cost of site acquisition associated with the project, neither of which are paid for with state funds. (The School Facilities Commission may require school districts to pay the entire amount for certain items that do not meet the Commission's specifications but are closely associated with the state-assisted portion of the entire project.) The act also specifies that unvoted debt issued to pay a school district's share of its school facilities project under the "alternative finance method" does not count toward a separate 1.0 percent limit on unvoted debt, distinct from the 4.0 percent and 9.0 percent limits.

Third and finally, the act changes the deadlines for submitting requests for state consent to exceed the debt limits described above. Under prior law, if a school district proposed to issue debt that required the consent of the state Superintendent and the Tax Commissioner, the district had to request their consent at least 30 days prior to the election at which the question was to be submitted. The state Superintendent and the Tax Commissioner could waive that deadline or grant their consent after the election was held, if the district could show good cause for the waiver or for retroactive consent. H.B. 530 instead requires a district to submit its request for consent at least 105 days prior to the election and eliminates the waiver and retroactive consent provisions. At the same time, the act requires the state Superintendent to notify a school district of both the Superintendent's and the Tax Commissioner's decision on consent within 30 days after receipt of the requests. Thus, a district will know before the 75-day deadline for filing the ballot question whether or not the consents are granted. If a district's voters reject the issuance of debt, H.B. 530 permits the district to re-submit that question to the voters at the next election without again having to seek state consent (this applies only to the next election, not subsequent elections).

Sales Tax Increment Financing: Revised Code Sections 333.01, 333.02.

The act authorizes a board of county commissioners to return a portion of its piggyback sales and use taxes to a person who builds a retail facility that dedicates a portion of its property to education or exhibition activities and that will attract a large number of tourists. In order to qualify, this person will also have to make an investment of at least \$50 million in land, buildings, infrastructure, and equipment and create at least 150 new full-time jobs at the facility.

Tax Increment Financing Changes: Revised Code Sections 3317.021, 5709.40, 5709.42, 5709.43, 5709.73, 5709.74, 5709.75, 5709.78, 5709.79, 5709.80 and several temporary law provisions.

The act makes a number of changes to the Tax Increment Financing (TIF) law. These fall under three general headings: restrictions on TIFs, safeguarding of revenue from certain levies from TIF exemptions, and adjustments to how TIF-exempted values (and exempt values from other development tax incentives) are counted in the school foundation formula.

The act imposes some new restrictions on incentive district TIFs (those TIFs that are an aggregation of parcels in an area of up to 300 acres). Specifically, these restrictions include the following:

- A political subdivision may not create an incentive district TIF if it would cause the subdivision to have more than 25 percent of its potentially taxable real property value be exempt due to TIF incentive district exemptions.
- Municipalities, counties, and townships creating TIF incentive districts must provide additional information to the political subdivisions affected by the TIF exemptions, except that counties no longer have to provide any notice at all to affected municipalities (municipalities are no longer allowed to object to county incentive district TIFs or to enter into compensation agreements with the county creating the TIFs).
- TIF exemptions may not begin until the tax year following the effective date of the resolution or ordinance creating the TIF.

H.B. 66 protected certain tax levies from having their proceeds diverted to TIF equivalent funds. Essentially it tried to make the exempted parcels taxable for certain enumerated levies. The act instead requires that service payments — payments in lieu of taxes, or PILOTS — be made to the taxing authorities that are imposing the enumerated levies, in amounts equal to the amounts of tax money that the authorities would have received in the absence of the TIF exemptions. The PILOTS are required for incentive district TIFs created on or after January 1, 2006, but only if the foregone tax revenue is from a new levy, or is from the “new” portion of a replacement levy or renewal-with-increase levy. The act also added six additional levies to those already enumerated in H.B. 66 as being protected from revenue losses due to incentive district TIF exemptions.

Finally, the act made several clarifying changes to the H.B. 66 provisions that require compensation paid to school districts as a result of development tax incentives (not only incentive district TIFs but also enterprise zone exemptions, community reinvestment area exemptions, and others) to result in higher school district taxable values, higher “charge-off” amounts, and therefore lower state

aid payments to those districts. (Such compensation paid to school districts, whether as PILOTS or otherwise, is often referred to as “side payments,” and H.B. 66 essentially acted to reduce state aid proportionately when districts were both receiving additional state aid because of having exempted property but also receiving compensation for the lost tax revenues due to the exemptions.) The act also made changes to the reporting of school district compensation for these development tax exemptions.

County Cigarette Tax for the Arts: Revised Code Sections 1333.11, 3381.15, 3381.17, 5743.021, 5743.025, 5743.03, 5743.04, 5743.05, 5743.08, 5743.081, 5743.12, 5743.13, 5743.321, 5743.33, 5743.34, 5743.35.

The act authorizes a county with a population of more than 1.2 million to levy a cigarette tax, with voter approval, of up to 15 mills per cigarette (30 cents per pack) in order to support its regional arts and cultural district. Cuyahoga County voters passed a new 30 cents per pack levy in November 2006.

Income Tax Exemption — National Guard Death Benefits and Life Insurance Premium Reimbursements: Revised Code Section 5747.01.

Current law requires the Adjutant General to provide a \$100,000 death benefit to the designated beneficiary or beneficiaries of an Ohio National Guard member who has died while serving on active duty. It also requires the Adjutant General to reimburse any active duty member of the Ohio National Guard who purchases life insurance from the federal Servicemember’s Group Life Insurance Program for the monthly premium. The act allows the taxpayer to deduct the death benefit or reimbursement from Ohio adjusted gross income.

Income Tax Exemption for Certain Trusts and Their Business Holdings: Revised Code Sections 5747.01 and 5751.01.

The act allowed a trust created before 1972 to elect whether it, and any pass-through businesses it owns more than 5.0 percent of, would be subject to the commercial activity tax (CAT). If the election was made to be subject to the CAT, the trust would be exempt from the income tax. If the election was not made, the trust and its 5.0 percent-owned pass-through businesses are exempt from the CAT. The election was only available to a trust that was created before 1972, became irrevocable upon its creation, and the grantor of which was domiciled in Ohio when the trust was created. The trustee had to notify the Tax Commissioner that an election was made, thus resulting in an income tax exemption by April 15, 2006, and the election applied to taxes levied on and after January 1, 2006.

Alternative School District Income Tax Bases: Revised Code Section 5748.02.

School districts currently are allowed to utilize one of two different types of bases for the school district income tax: the traditional base, which is the same as the state base and which begins with Ohio adjusted gross income (OAGI); and a new base that essentially begins with compensation paid (and net earnings from self-employment) and excludes portfolio income and other items in OAGI. The act prevented school districts from levying under both bases at the same time.

Commercial Activity Tax Changes: Revised Code Section 5751.

The act excludes from the CAT tax base any taxes the taxpayer must collect on behalf of a taxing authority directly from a purchaser, not just sales and use tax collections. It also excludes payments between companies to reimburse one of the companies for payment of the tax. The act makes a number of other clarifying changes to the CAT tax statute as well.

Commercial Activity Tax Exemption – Qualifying Distribution Center Receipts: Revised Code Section 5751.01.

The act replaced an existing exemption for receipts from goods shipped from or delivered to certain locations in a qualifying foreign trade zone with an exemption for receipts of a supplier from certain property delivered to a qualifying distribution center located in Ohio. In order to qualify, a distribution center must have costs from suppliers exceeding \$500 million, ship more than 50 percent of qualified property (i.e., property included in determining the annual property costs) out of the State of Ohio, and must not be part of a combined taxpayer group. The supplier also cannot be a member of the qualifying distribution center's consolidated group.

Am. Senate Bill 190, 126th General Assembly (effective November 22, 2005); Revised Code Sections 5725.31, 5729.07, 5733.42, 5747.39.

Taxpayers that are corporations, financial institutions, dealers in intangibles, income taxpayers who invest in pass-through entities, and insurance companies may apply to the Director of Job and Family Services for a tax credit certificate. The tax credit is nonrefundable and is for a portion of the taxpayer's costs for providing certain job skill training. This act extends the tax credit for one year, to include costs paid or incurred on or before December 31, 2006.

Am. Sub. S.B. 269, 126th General Assembly (effective September 21, 2006); Revised Code Section 5741.02.

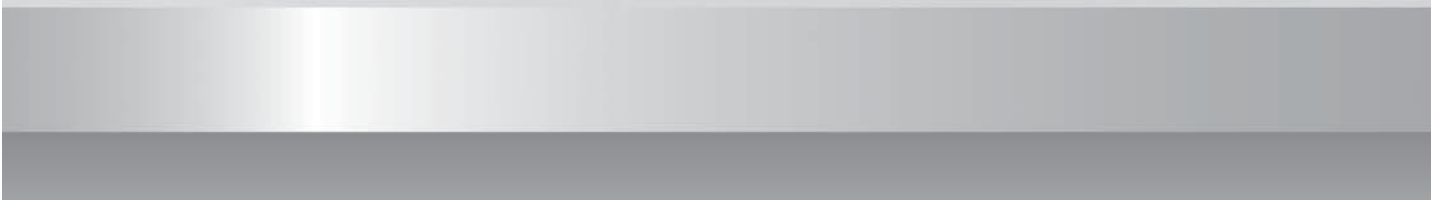
The act exempts from the state and local use tax items held by a person not for

the person's own use (typically inventory items) when donated to nonprofit charitable organizations, the state, or its subdivisions. Such donations would include donations to schools. Donations to the state and its subdivisions must be made exclusively for public purposes. The donation must be made without charge or compensation. No part of the net income of the nonprofit charitable organization receiving the donation may go to the benefit of a shareholder or individual. The charitable organization must not have a substantial part of its activities involve propaganda or attempting to influence legislation. The definition of charitable purposes for the use tax exemption is made by reference to the definition in the sales tax exemption statute (R.C. 5739.02 (B) (12)).

Sub. S.B. 321, 126th General Assembly (effective June 5, 2006, certain provisions effective September 5, 2006); Revised Code Sections: Various.

This act was the Tobacco Master Settlement Appropriation bill for the 126th General Assembly, but contained a number of tax provisions. The act modifies the tangible personal property tax replacement payment calculation for school districts when territory is transferred from one school district to another. The act also modifies the replacement payment calculation for districts in which the tangible personal property tax valuation has declined due to the relocation of property from a uranium enrichment facility. The act also makes fully refundable the tax credit that may be used to back loans to the Ohio Venture Capital Fund. The credit may be claimed against the personal income tax, the corporation franchise tax, the dealers in intangibles tax, the public utility excise tax, and the insurance company tax. The act also increases the maximum amount of technology investment tax credits (Edison Center credits) that may be issued by the Industrial Technology and Enterprise Advisory Council. The act increases the maximum amount of such credits from \$20 million to \$30 million.

SERVICE & SUPPORT



AUDIT DIVISION

The Audit Division began operating on July 1, 2001 as a direct result of one of many objectives that were born from the department's Strategic Planning retreat in January 2000. The vision behind the establishment of the Audit Division was to create a tax auditor agent series that would allow employees with the education, experience, and proficiency in auditing the major Ohio business taxes (sales and use tax, personal property tax, corporation franchise tax, pass-through entity tax, and employer withholding tax) the opportunity to devote most of their time to "field" auditing.

The emphasis on field auditing accomplishes three objectives which align themselves with the department's goals of "enhancing taxpayer services and taxpayer compliance with Ohio tax law" and "modernizing Ohio tax laws and the department's operations." One, it re-establishes a greater face-to-face contact with the taxpayers that this department serves. Second, it enhances the ability to educate these taxpayers on the ever-changing revisions to the Ohio statutes. Third, it educates the department on critical tax issues that will help improve how it administers the Ohio tax law.

In order to accomplish these objectives, the Audit Division has placed a special emphasis on the following initiatives:

- Create and use audit project plans for each audit assignment that guide auditors to better plan the scope of an audit, establish a timeline of deliverables to move the audit efficiently to a conclusion, and project and track the number of hours used to complete such assignments.
- Permit auditors to share their preliminary proposed audit findings prior to a formal review by the audit review staff, to encourage an interaction between auditor and taxpayer on the exact nature of audit issues.
- Enhance the use of a resolution process to address audit issues more quickly and efficiently in order to avoid lengthy and costly litigation.
- Increase the use of electronic downloads of taxpayer data in order to move audits to a quicker completion with more accurate results, and with fewer hours expended by all parties. This enables the department to more efficiently use its audit hours and thereby provides an opportunity to expand the audit base. A Computer Audit Assistance Group has also been created that helps auditors and taxpayers through these types of audits.
- Create basic and advanced tax-type courses and auditing courses to help auditors identify substantive audit issues and cross-tax initiatives. Every auditor is required to have knowledge in all business tax-types outside their previous tax expertise area.
- Create and implement a new audit template for each of the business taxes that the division audits.
- Enhance the division's audit selection capabilities to encourage auditing of a larger percentage of businesses.
- Create an audit program to use in conducting commercial activity tax (CAT) field audits.

As of June 30, 2006, the Audit Division included 303 employees who completed

the following types of audits:

Tax Type	Total Audits
Sales and Use	1,218
Personal Property	1,248
Corporation Franchise	1,212
Pass-Through Entity	99
Employer Withholding	76
Commercial Activity	1
Other	3
Totals	3,857

During the 2007 fiscal year, the Audit Division will work to develop a paperless audit file for each business tax-type and create a secure file transfer system to be able to share the entire audit file with our taxpayers/customers.

BUDGET AND FISCAL DIVISION

The Budget and Fiscal Division is comprised of three sections with the responsibilities of managing the department's fiscal operations, facilities, and reconciling and distributing tax revenue. The Budget and Fiscal sections are: Budget and Accounts Payable, Facilities Management, and Revenue Accounting.

Budget and Accounts Payable

This section prepares and monitors the department's operating budget with primary responsibilities that include centralized purchasing, processing payment of invoices, and travel expense reimbursement. This section also administers the department's payment cards, travel Visa program, petty cash funds, and contracts.

Facilities Management

This section is responsible for managing, equipping, and maintaining the department's office facilities, including safety and security. This section also administers the mail operations, inventory of all fixed assets, central supply services, and the vehicle fleet program.

Revenue Accounting

This section reconciles all tax revenue receipts and makes distributions to the state and local governments. The unit also works with bad check processing and resolution (see separate section on **Revenue Accounting** for additional information).

The Budget and Fiscal Division performs varied internal financial, accounting, and facilities management functions that help the department run its day-to-day operations while fulfilling the essential function of providing operating funds for both state and local governments.

COMMUNICATIONS OFFICE

The Communications Office of the Department of Taxation serves to convey ODT's policies and procedures to the news media and the general public while providing news and information to department staff about job-related topics and the people employed in the department. The office issues news releases to state

and local media to highlight significant events and policy changes, arranges news conferences or events to spotlight major issues, and is the first line of contact in responding to media questions and requests for interviews.

A wealth of general public information about ODT and the taxes it administers, including the latest tax news and information releases, frequently-asked-questions, contact information, and historical statistics, is available on the department's Web site, tax.ohio.gov. The content of this increasingly important resource is managed by the Communications Office, with the support of liaisons in every division who provide updates in their specific areas. The Web site registers over five million visits annually. An internal Intranet site, TAXI, provides a database of department and job-related information, while at the same time serving as an electronic bulletin board of upcoming events.

The Communications Office, in partnership with Information Services Division, launched a major new public outreach in Fiscal Year 2006 with the OHTAX-Alert e-mail notice system. This feature allows taxpayers to subscribe to either a tax-specific or a general tax list and receive the latest updates as well as news and information releases related to their topics of interest. More than 14,000 taxpayers subscribed to this service during the fiscal year.

Several publications coordinated and prepared by the Communications Office provide specific tax and statistical information to both the public and private sectors. These publications include the yearly **Annual Report and Ohio's Taxes: A Brief Summary of State and Local Taxes in Ohio** as well as the quarterly **Ohio's State Tax Report**, periodic **Business Tax Guide**, and several other informational brochures and papers.

Communications publishes a monthly newsletter, **The Collector**, in both a print and an electronic version. This publication serves the department's employees by reporting significant professional and personal milestones, updates on new procedures or procedural changes, and articles on departmental programs. The TAXI Intranet site also contains a weekly feature story on people and events within the department.

As of June 30, 2006, five full-time employees worked in the Communications Office.

The Communications Office uses news releases, media events, the Internet and Intranet, and publications to support the primary ODT mission of providing quality service through the timely delivery of information to both external and internal audiences that helps everyone understand their responsibilities and comply with the tax law.

OFFICE OF CHIEF COUNSEL

The Office of Chief Counsel is responsible for the tax legal affairs of the Department of Taxation. It is divided into five areas: the Problem Resolution Office, Appeals Management Division, Bankruptcy Division, and the Tax Appeals Division, as well as Legal Counsels that provide assistance with specific taxes. The Office of Chief Counsel is also responsible for enacting, amending or rescinding rules promulgated by the Tax Commissioner (see **Rule Review**

chapter) and shares responsibility for the issuance of information releases with other divisions of the department.

Appeals Management Division

The Appeals Management Division serves as liaison with the Attorney General's office for all litigation that involves the department, except personnel actions. Much of the work of the division involves the mediation of appeals at the Board of Tax Appeals and Ohio Supreme Court. In April 2005, the Resolution Unit was added to the division to work with the Offers in Compromise program and settlements concerning assessments certified to the Attorney General's Office. The Appeals Management Division had nine employees as of June 30, 2006.

Note: all case information shown below is on a calendar year basis.

Tax Appeals Cases		
Bd. of Tax Appeals	Courts of Appeals	Ohio Sup.Ct.
Cases on appeal beyond Taxation as of 12/31/05:		
397	1	32
as of 12/31/04:		
323	0	32

Bankruptcy Division

The Bankruptcy Division handles the filing of the department's Proofs of Claims with various Bankruptcy Courts throughout the country. The Bankruptcy Division had eleven employees as of June 30, 2006.

Bankruptcy Proofs of Claims Handled by Bankruptcy Division			
Cal.Yr. Filed	Total Notices Received	Total Proofs Processed	Total Amount Filed
Jan. — June 2006	4,633	2,384	\$98,181,434
2005	15,129	3,832	\$52,352,527

Problem Resolution Officer

The Problem Resolution Officer (PRO), assigned to the Office of Chief Counsel, is a special resource for taxpayers. This individual serves as a liaison between the Ohio Department of Taxation and taxpayers when the normal lines of communication break down. The PRO is authorized by Ohio Revised Code section 5703.52, which states that the PRO or additional persons designated for this office "shall receive and review inquiries and complaints concerning matters that have been pending before the department for an unreasonable length of time or matters to which a taxpayer has been unable to obtain a satisfactory response after several attempts to communicate with the employee of the department assigned to the taxpayer's case or the employee's immediate supervisor."

The PRO works with the appropriate employees and the taxpayer to determine the precise circumstances of the contested issue and to arrive at the appropriate

resolution. Education and explanation regarding the applicable laws and rules is a key part of this process. Most tax situations can be reviewed by the PRO, except for appeals of final determinations of the Tax Commissioner or cases certified to the Ohio Attorney General for collection. The PRO is available to assist taxpayers by mail, telephone, or through the department's Web site.

Tax Appeals Division

The Tax Appeals Division conducts most of the administrative appeal hearings within the department and issues the Tax Commissioner's final determination in these tax matters. The Tax Appeals Division had nineteen hearing officers and supervisors and four support staff as of June 30, 2006.

Final Determinations Issued by Tax Appeals Division

Cal. Yr.	Opening Balance	Cases Received	Cases Out	Ending Balance
2005	1,138	1,528	1,344	1,322
2004	756	1,422	1,040	1,138

Legal Counsels

The Department of Taxation has ten legal counsels. They are responsible for drafting and reviewing legislation, rules, and information releases. The counsels also draft formal and informal tax opinions.

Legal counsels are assigned to the Personal Property Tax, Office of Chief Counsel, Commercial Activity Tax/Excise, Estate Tax, Sales/Use Tax, Tax Equalization, Compliance, Legislation, and Individual Income/Corporation Franchise Tax divisions.

Formal Tax Commissioner Opinions Issued

Calendar Year 2005: 11

Calendar Year 2004: 6

The Office of Chief Counsel provides the legal support necessary to carry out the Department of Taxation's mission of providing quality service to Ohio taxpayers by helping them comply with their tax responsibilities and by fairly applying the tax law.

Information Releases Issued/Updated in

Fiscal Year 2006:

General Information Releases

G 2006-01 – "Automated Compliance Program Penalties," June 2006.

G 2005-02 – "OHTAX-Alert – ODT E-Mail Communication Channel of Pertinent Tax Information," issued November 2005.

Commercial Activity Tax

CAT 2006-07 – "Qualified Distribution Centers," June, 2006.

CAT 2006-06 – "Commercial Activity Tax Credit for Unused Franchise Tax Net Operating Losses," April 2006.

CAT 2006-05 – "Highway Transportation Services: Bright-Line Presence and

Situsing," April 2006; revised May 2006 and August 2006.

CAT 2006-04 – "Commercial Activity Tax Cash Discounts, Defined," April 2006; revised May, 2006, June, 2006, and August 2006.

CAT 2006-03 – "Commercial Activity Tax Definition of Agent," April 2006; revised July 2006 and October 2006.

CAT 2006-02 – "Suggested Document for the Exclusion for Automobile Dealers to Meet a Customer's Preference," March 2006.

CAT 2006-01 – "Applicable Excise Tax Rates for Purposes of the Commercial Activity Tax," January 2006.

CAT 2005-18 – "Temporary Motor Fuel Exemptions from the Commercial Activity Tax," November 2005; revised February 2006.

CAT 2005-17 – "Taxable Gross Receipt" Defined," revised January 2006 and April 2006.

CAT 2005-16 – "Examples of 'Common Owners' and Joint Ventures," November 2005; revised January 2006.

CAT 2005-15 – "Taxpayers Allowed to Change Registration Status Until Due Date of First Return," November 2005.

CAT 2005-14 – "Nonprofit Organizations," December 2005; revised June 2006.

CAT 2005-13 – "Estimated Payments for Calendar Quarter Taxpayers," October 2005; revised March 2006.

CAT 2005-12 – "Request for Member of a Combined Taxpayer Group to File Separately," December 2005.

CAT 2005-11 – "Qualified Foreign Trade Zone Area (Additional Information)," December 2005.

CAT 2005-10 – "Qualified Foreign Trade Zone Area," December 2005; revised April 2006.

CAT 2005-09 – "Sampling," December 2005.

CAT 2005-08 – "I.R.C. Section 1221 and 1231 Assets Excluded from 'Gross Receipts,'" September 2005; revised May 2006.

CAT 2005-07 – "Transfers of Property Into the State," December 2005.

CAT 2005-06 – "Situating Rules for Certain Services," September 2005; revised April 2006, October 2006, and December 2006.

CAT 2005-05 – "Application of 'Common Owners' and Joint Ventures," September 2005; revised March 2006.

CAT 2005-04 – "Quarterly Taxpayers Must File and Pay Electronically," December 2005.

CAT 2005-03 – "Excluded Person – Consolidated Elected and Combined Taxpayer Groups," December 2005.

CAT 2005-02 – "Nexus Standards," September 2005.

CAT 2005-01 – "Definition of 'Foreign Corporation' in Chapter 5751," December 2005, **repealed**, April 2006.

Corporation Franchise Tax

None.

Estate Tax

ET 2006-01 – "Estate Tax Updates as a Result of Amended Substitute House Bill 66 (H.B. 66)," January 2006.

ET 2005-01/PP 2005-02 – "Property and Estate Taxes Have New Interest Rate," September 2005.

Excise and Motor Fuel Taxes:**Alcoholic Beverages**

None.

Cigarette and Other Tobacco Products

None.

Motor Vehicle Fuel Tax**XT 2005-09** — “Temporary Provisions Regarding the Sale and Use of Dyed Diesel Fuel,” September 2005.**Replacement Tire Fee**

None.

Ohio Income Tax:**Individual****IT 2006-02** — “Inapplicability of Ohio Resident Credit with Kentucky Corporate Income Tax,” March 2006.**IT 2006-01** — “Individual Income and School District Income Taxes: Estimated Payment Allocation Process Revised Beginning April 1, 2006,” March 2006.**IT 2005-02** — “Employer Withholding Tables — Revised Beginning January 1, 2006,” November 2005.**IT 2005-01** — “Trusts: Estimated Income Tax Payment Due September 15, 2005,” August 2005.**Fiduciary**

None.

Property Tax:**Personal Property****PP 2005-03** — “Definition of ‘Primarily’ for Dealers in Intangibles Tax,” December 2005.**ET 2005-01/PP 2005-02** — “Property and Estate Taxes Have New Interest Rate,” September 2005.**Real Property**

None.

Sales and Use Tax**ST 1993-08** — “Employment Service,” revised May 2006.**ST 2005-05** — “Sales and Use Tax Calculation and Rounding Change Effective January 1, 2006,” December 2005.**ST 2005-01** — “Vendor Compensation,” April 2005; revised July 2005.**EMPLOYEE DEVELOPMENT & TRAINING/
QUALITY PROGRAMS DIVISION**

The Employee Development and Training/Quality Programs (ED&T/QP) Division provides practical and applied professional skills and career development opportunities for all Ohio Department of Taxation employees.

The division works with the tax and administrative divisions to assess their ongoing organizational and staff development needs. It presents appropriate and timely training for all ODT employees including bargaining unit clerical/support and administrative staff, and exempt professional and management/executive staff.

ED&T/QP offers the most comprehensive in-house Management Development Curriculum in state government. A foundation series of workshops for new supervisors — the Basics of Supervision Series (B.O.S.S.) — is augmented by many topic specific seminars in the areas of Leadership, Managing for Performance, Organizational Roles and Responsibilities, and Self-Discovery and Growth. These classes are enhanced by ODT’s membership in the Management Advancement Programs (MAPS) at OSU’s prestigious John Glenn School of Public Affairs. MAPS offers a year round series of workshops and seminars on topics which allow ED&T/QP to work with the management team to involve selected employees in unique learning experiences in an “off-site” environment.

Beyond maintaining a varied year round schedule of skill-based workshops for bargaining unit employees, ED&T/QP staff also coordinates with ODT’s Technical Training Managers to support and enhance technical training requirements throughout the department. ED&T/QP partners with the Information Services Division and other program areas to produce online training such as the annual disclosure training and the Network Remote Access training. Additionally, ED&T/QP coordinates most of ODT’s software and basic computer skills training.

ED&T/QP provides a range of career development services for ODT employees through its CAREER TRAIN cluster of resources which includes: providing individual career counseling/coaching and group career development workshops, coordinating the State of Ohio’s Exempt Professional Development Program (EPDP) and ODT’s TaxTAP tuition reimbursement programs for exempt employees, as well as providing assistance to bargaining unit employees seeking to utilize the Union Education Trust’s (UET) professional development services. ED&T/QP also coordinates ODT employee selection for and participation in the Ohio Certified Public Manager program (OCPM).

ED&T/QP also provides consulting/facilitation services for diverse training and/or organizational development projects such as the relocation in 2005 of over 800 employees to the new Northland facility, process improvement teams in the TPS and Processing Divisions, and representing ODT as “Team Taxation” in the statewide implementation of the new OAKS data management system.

A key responsibility that enhances the quality of all employee training and development efforts is ED&T/QP’s managing and maintaining of a department-wide learning management system (LMS) called TrAX. This LMS supports the goals of employee career and personal growth by supplying the workforce with a tool

that it can use to manage training requirements and career development plans. The ODT management team can use the LMS to support succession planning, to track employee progress toward achieving training goals, and to conduct unit competency gap analysis. It also serves as a platform for offering online training. This LMS is the most sophisticated LMS being used in Ohio state government.

Other core ED&T/QP responsibilities include:

- Coordinating ODT's Health and Wellness initiatives including facilitating the department-wide Health and Wellness Advisory Committee and creating, implementing, and monitoring ODT's yearly required Health and Wellness Plan and ODT's associated involvement in statewide Healthy Ohioans activities coordinated by the Governor's Office and the Department of Administrative Services.
- Coordinating corporate citizenship and job enrichment/employee recognition programs including the "PEP" employee recognition program, the department's "Partners In Education" and "OhioReads" programs, Take Your Child to Work Day, and the "My Idea Counts (MIC)" departmental suggestion awards program.
- Annually, the ED&T/QP staff also manages the three major statewide charitable campaigns — Operation Feed, the Combined Charitable Campaign, and the Holiday Food Basket drive throughout the department.
- Coordinating ODT's involvement in the statewide Public Practice Continuing Legal Education (PP/CLE) Coalition, including presenting a minimum of two ODT Public Practice CLE seminars per year.

The ED&T/QP Division provides practical and applied professional skill development for ODT employees and supports high standards of competence and professionalism within the department.

ENFORCEMENT DIVISION

The Department of Taxation's Enforcement Division is comprised of 26 sworn police officers that enforce the criminal provisions of Ohio tax laws. Their mission statement is "...to provide quality investigative services to the citizens of the State of Ohio."

The Enforcement Division came into existence in 1971, when it was organized primarily to combat cigarette smuggling and organized crime. Since that time, the division has grown in size and responsibilities. The Enforcement Division now enforces most of the taxes administered by the department, which include the cigarette tax, other tobacco products tax, motor fuel tax, income/withholding tax, and the sales and use tax.

In July 2002, the Enforcement Division achieved accreditation from the Commission on Accreditation for Law Enforcement Agencies, Inc. (CALEA). The Enforcement Division is the only revenue-type division in the world with this distinction. The accreditation means the division has met stringent guidelines related to policies and procedures governing the operation of a law enforcement agency. This is an important factor in helping the department achieve the highest level of professionalism possible. During Fiscal Year 2005, the division's policy and procedures, management, operations, and support services were again

evaluated by CALEA. The Enforcement Division received re-accreditation in July 2005.

As investigations are made more and more complex by changes in both technology and law, the Enforcement Division has had to become more skilled in combating tax fraud. Enforcement agents employ computers and surveillance equipment in the normal course of their duties. The division has also taken on a homeland security function through the investigation of cigarette smugglers involved in funneling proceeds to criminal or terrorist groups.

The Enforcement Division is a support branch of ODT. It is, also, a revenue generator for the State of Ohio. During fiscal years 2003 through 2006, over \$16 million was brought in as a direct result of Enforcement's efforts.

By fulfilling its mission of providing quality investigative services, the Enforcement Division fairly applies the tax law and aids in the collection of taxes used to provide daily services to Ohio citizens.

FORMS DIVISION

The Forms Division produces hundreds of forms utilized by most divisions of the Department of Taxation. These forms are ultimately used by tax practitioners and taxpayers.

The Forms Division is responsible for composing forms, preparing bid specifications for printing projects, ordering forms for various divisions, distributing forms, acting as a forms liaison between third-party vendors and payroll processing companies, and maintaining an inventory of forms.

When forms are requisitioned, a division submits a work order to the Forms Division. The form is edited and proofread for typographical and other errors, and a print order is submitted to the printer. At this point, the Forms Division is responsible for tracking form production and ensuring on-time delivery. Often, the Forms Division needs to compose or re-create forms in order to ensure consistency of style throughout the department.

The Forms Division continues to improve upon existing forms and services offered. The first improvement is the development of certain forms to be scanned and imaged by a full-page scanner. It has changed the look of some of ODT's most commonly used forms to enhance and make data capture more efficient. Also, the division is making some of the fill-in forms that are placed on the ODT Web site savable for the taxpayer. Before, if a taxpayer had Adobe Reader they could not save the completed form to their local hard drive. Now they will be able to do so. The last objective where improvement has been made is on the Web site. With other divisions and outside vendors Web content has been revised to make the search for forms more user-friendly.

Distributing most major forms and handling forms requests from the general public are other responsibilities of the Forms Division. The division also maintains the forms inventory, which entails overseeing a database of forms and envelopes, and a database of practitioners, libraries, post offices, and banks, as well as handling internal forms distribution and supplying Taxpayer Service Center office requests.

The forms section on the department's Web site is the most visited area of the site. It is the division's responsibility to continue to make sure that the most up-to-date forms are available on the Web site.

Providing forms for both departmental and public use, the Forms Division is one means by which the Department of Taxation is able to provide quality service to Ohio taxpayers by helping them comply with their tax responsibilities and by fairly applying the tax law.

HUMAN RESOURCES DIVISION

The Human Resources Division is the office in the Ohio Department of Taxation where employee-related and administrative support services reside.

The personnel duties performed by the division include staffing planning, vacancy postings, hiring, and civil service compliance. The labor relations duties include contract negotiation and administration for two labor-management agreements, the Ohio Civil Service Employee's Association and the Fraternal Order of Police #2. Additional labor-relations duties are grievance handling, arbitration services, and work rule compliance.

Payroll services is located here, as is benefit administration. Questions pertaining to health insurance plans and open enrollment can be answered by the staff. The disability program and Worker's Compensation plan are both maintained in this office.

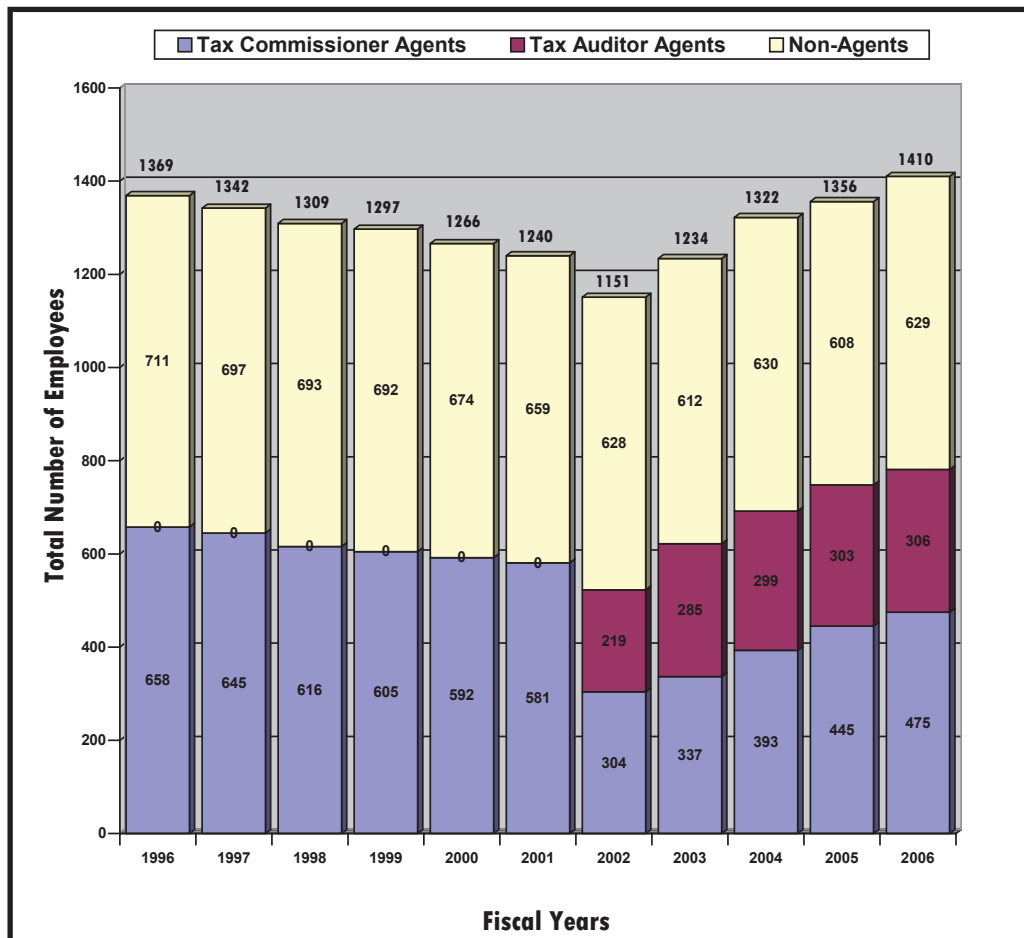
The Equal Employment Opportunity Program is administered here. This involves the EEO Strategic Plan development and handling of discrimination complaints, both formal and informal. Employment law training, policy and directive review, as well as liaison with the Attorney General's office and the Highway Patrol, is conducted by this group.

The department employs 247 intermittent and 1,410 permanent employees (as of June 30, 2006) located throughout Ohio and in three out-of-state locations. As such, the Human Resources Division is an important resource center which is committed to customer service for all employees, both management and bargaining unit.

INFORMATION SERVICES DIVISION

The Information Services Division (ISD) supports the Department of Taxation's business program areas through the development and support of computer in-

ODT TOTAL NUMBER OF PERMANENT EMPLOYEES, FISCAL YEARS 1996 - 2006



formation systems. It provides a secure, flexible, appropriately scaled architecture for the exchange of information with internal and external customers. ISD focuses on continuous improvement by measuring and reporting on information technology performance.

The statistics and initiatives listed below provide an overview of ISD's activities during Fiscal Year 2006:

- Designed, developed, and delivered a new tax administration system to support the new commercial activity tax in partnership with business liaisons and the Ohio Business Gateway.
- Significantly expanded the warehouse of data from internal and external sources to assist in identifying non-filers and under-payers of Ohio taxes for tax discovery and revenue enhancement.
- Implemented a support system for Ohio's Tax Amnesty program.
- Implemented a new quality assurance and training system for the Taxpayer Services division. This system enables the recording and monitoring of customer calls and is used to train agents and monitor taxpayer phone calls to assure the best quality of service to taxpayers.
- Launched a new enterprise-wide Assessment system that integrates with several other tax administration systems such as ITAS and IMOD to support the compliance initiatives of the department.
- Designed and implemented programming modifications to handle sweeping tax reforms specified in House Bill 66. Major modifications were made to sales tax, personal income tax, property tax, and corporation franchise tax.
- Implemented an automated Listserv server to enhance our communication with taxpayers and tax preparers.
- Implemented an automated audit system for pass-through entity tax.
- Implemented a new Offset system to interface with the Office of the Attorney General.
- Implemented state-of-the-art Internet monitoring tools to allow for monitoring and reporting on employee usage of the Internet.
- Implemented a secure e-mail gateway that allows for secure (encrypted) e-mail transmissions over the Internet. This enables expanded electronic communications with taxpayers, particularly for audit information.
- Processed 2,945,000 personal income tax returns electronically.
- Processed 15,000 credit card transactions for a total of \$8.6 million.
- Processed over \$11.9 billion in Automated Clearing House debit and credit payments.
- Processed 1.4 million refund direct deposits.
- Maintained network availability at 99.98 percent.
- Maintained mainframe availability at 99.94 percent.

The value of ISD comes from its ability to apply technology to increase effective use of information and to drive innovation. This is one critical way in which the division supports the department's mission of providing quality service to Ohio taxpayers.

INTERNAL AUDIT DIVISION

Internal Audit is a division within the Ohio Department of Taxation whose mission is to independently examine and evaluate the ongoing control processes of

the department and to provide counsel and recommendations for improvements whenever needed. The division also investigates areas with a high potential for risk and offers suggestions and recommendations to minimize ODT's exposure. In order to investigate internal controls, and to remain objective and independent, the Internal Audit Division reports directly to the Tax Commissioner. The Internal Audit Division is free of all operational and management responsibilities that might impair an ability to make independent reviews of all aspects of the department's operations. Additionally, the division has been authorized to have free and unrestricted access to all department records, functions, property, and personnel in order to investigate and/or maintain sound internal controls.

In addition to other investigatory issues, the Internal Audit Division serves as the contact for several other state agencies. The division coordinates the activities in the Internal Accounting Control Program (IACP) administered by the Office of Budget and Management. The division also serves as the contact and liaison for representatives from the Auditor of State's Office and the Enforcement and Collections Enforcement Section of the Attorney General's Office.

The Internal Audit Division helps ODT provide quality service to taxpayers by effectively monitoring the department's internal controls and making recommendations for improvement.

LEGISLATION DIVISION

The Legislation Division is the legislative coordinating unit for the Department of Taxation, monitoring all tax-related legislation as it progresses through the General Assembly. The division serves as the primary resource to members of the General Assembly, providing three main services:

- analyzing and reviewing proposed legislation;
- assisting with constituent inquiries or problems; and
- providing briefings or background information concerning tax issues.

The division's staff attends legislative committee hearings and prepares and presents testimony on tax policy issues. The division also provides information to the general public, state agencies, and elected officials about tax policy and the department's policies and procedures.

Other responsibilities include coordinating the department's review of proposed legislation and its response to the General Assembly and other interested parties.

A snapshot of the division's workload during Fiscal Year 2006 shows that the division focused on a number of bills that made important changes to Ohio's tax system.

Among them were the budget corrective bill, House Bill 530, which included numerous changes to the commercial activity tax, income tax, sales tax, personal property tax, and several other taxes; House Bill 390, a bill that establishes a statute of limitations on the collection of certain finalized but outstanding tax liabilities; Senate Bill 190, which extends the job training tax credit for an additional year; and Senate Bill 269, a bill that exempts certain charitable donations from the use tax (see **Summary of Legislation** chapter). In total, the Legislation Division monitored more than 250 bills during FY 2006.

The Legislation Division helps the Department of Taxation provide quality service by supporting the process of transforming tax policy into law. The division is also an important resource both for Ohio's elected leaders and the general public.

OHIO DEPARTMENT OF TAXATION'S PARTNERS

The Ohio Department of Taxation accomplishes many of its goals through collaborative partnerships with other governmental agencies.

The **Internal Revenue Service** provides data from federal returns which is used to check the accuracy of Ohio income tax returns. For example, the adjusted gross income reported by taxpayers on their federal returns is routinely compared with the adjusted gross income as reported on the Ohio returns. Discrepancies are researched by the department and taxpayers are contacted, if necessary, to verify their correct income.

Two sections of the Office of the **Ohio Attorney General** play key roles in the administration of Ohio taxes. The Taxation Section litigates cases for the Tax Commissioner at the Ohio Board of Tax Appeals and the Ohio Supreme Court, as well as at other state and federal courts. The Collections Enforcement Section of the Attorney General's office performs collection activities on delinquent tax accounts.

The **Treasurer of State** receives all revenue collected by the department. Income tax and other refund checks, as well as electronic deposits to taxpayers' accounts, are generated by the **Auditor of State** based on data provided by ODT. The **Ohio Department of Development** certifies to the department certain credits available to corporations. Pursuant to provisions of the Ohio Revised Code, ODT withholds income tax refunds from parents who are delinquent in their child support. Those amounts are forwarded to the **Ohio Department of Job and Family Services** which, in turn, disburses the money to the county child support enforcement agencies.

The Department of Taxation and the **Ohio Department of Commerce** share information pursuant to provisions of the Ohio Revised Code regarding businesses with liquor permits. The agencies work to ensure that holders of liquor permits remain current in their sales tax and employer withholding tax filings and payments.

The partnerships and collaborations established with other agencies support the Department of Taxation by fairly applying the tax law and by assisting in tax collection and litigation. The department, in turn, also helps several governmental agencies accomplish their missions by distributing revenue, monitoring business tax compliance, and withholding some taxpayer refunds pursuant to statute.

OPERATIONS CENTER

The Operations Center is the central processing unit for the majority of the business and individual tax returns filed with the Department of Taxation. Over

8.9 million tax returns were processed in 2003 alone. The primary function of the Operations Center is to facilitate voluntary compliance. This is accomplished through receiving and recording tax returns, documents and remittances, by issuing refunds, storing and retrieving tax documents, and through bank deposits of taxpayer payments for purposes of fund distribution to state and local governments. The payments processed from tax returns are the primary source of revenue for the State of Ohio, providing income to elementary/secondary schools, colleges and universities, law enforcement, human services, general government, and property tax relief.

The Operations Center's goals are:

- To provide timely service to each taxpayer and to perform in a manner that instills public confidence and satisfaction;
- To deposit monies in a timely manner;
- To maintain high productivity while providing a quality work product; and
- To utilize technology for a more cost efficient operation.

The Operations Center has experienced record-breaking use of electronic filing since its introduction in 1998. Electronic filing (TeleFile) was first introduced to Ohio taxpayers in 1998 when 232,548, or 4.0 percent, took advantage of that filing option. Electronic filing (through practitioners) was introduced to taxpayers in 1999 and was readily accepted by both taxpayers and tax practitioners alike. The number of electronically filed returns filed in 1999 grew to 19 percent of the total filed. Electronic filing has experienced a steady increase each year thereafter, particularly after the introduction in tax year 2002 of ODT's free Web-based service, Ohio I-File. For tax year 2005, all methods combined of electronic filing accounted for more than 2.98 million, or approximately 56 percent, of all individual income tax returns filed.

Electronic filing not only allows taxpayers to get their refund faster, but it also substantially reduces both the taxpayer and processing errors generally found on paper-filed returns. The ease and efficiency associated with electronically filed returns, versus the labor intensive manual process associated with paper filed returns, saves the citizens of Ohio millions of dollars in processing costs annually. For example, during the 2004 filing season, it cost about \$3.4 million to process over 2.9 million electronically filed returns. By contrast, it cost almost \$8.8 million to process the approximately 2.9 million paper returns filed. As taxpayers become more comfortable with electronic filing and the obvious benefits associated with it, its use is expected to continue to increase in the years ahead.

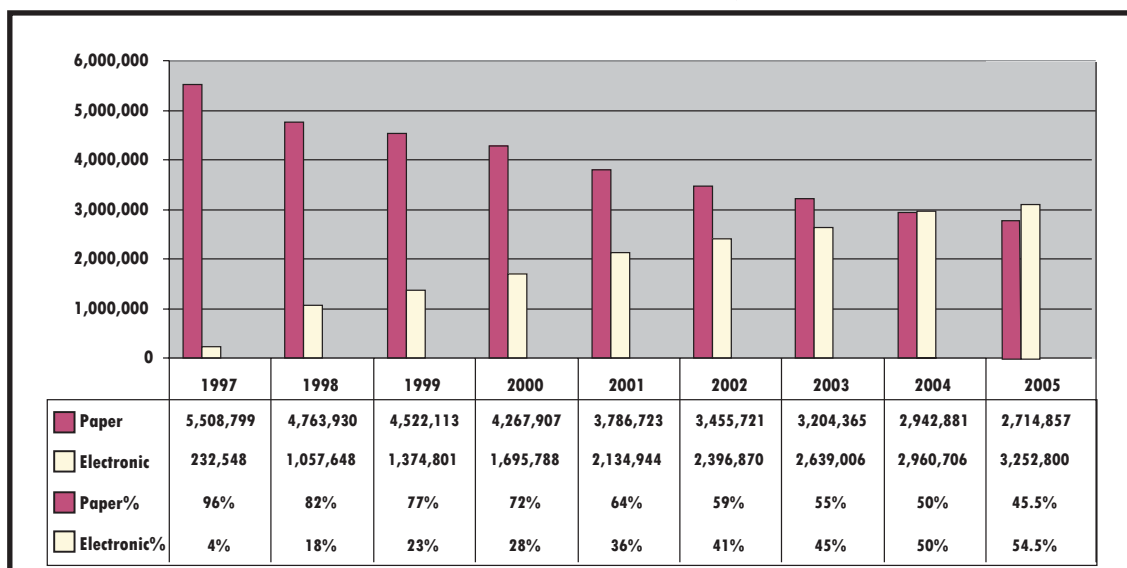
Beginning with the 2003 individual income tax return the Department of Taxation sent out post cards to taxpayers that had either filed electronically or filed with a practitioner. This step saves the state on booklets and postage costs each filing year.

INCOME & SCHOOL DISTRICT INCOME TAX RETURN FILING, 1997 - 2005

Tax Return Year	1997	1998	1999	2000	2001	2002	2003	2004	2005*
1040 Paper	4,289,454	3,195,691	2,967,340	2,645,743	2,585,136	2,430,889	2,259,825	2,116,327	1,719,515
EZ Paper	771,244	1,133,422	1,130,605	1,203,655	814,473	663,406	593,326	490,907	673,625
Total Paper	5,060,698	4,329,113	4,097,945	3,849,398	3,399,609	3,094,295	2,853,151	2,607,234	2,393,140
1040 ELF	-0-	645,300	879,837	1,141,239	1,396,931	1,616,387	1,837,659	2,069,655	2,348,330
1040 TEL	232,548	365,881	421,483	468,930	621,810	534,787	435,883	375,960	292,540
WEB File	-0-	-0-	-0-	-0-	-0-	118,444	213,815	303,844	345,963
Total Electronic	232,548	1,011,181	1,301,320	1,610,169	2,018,741	2,269,618	2,487,357	2,749,459	2,986,833
Total IT Returns	5,293,246	5,340,294	5,399,265	5,459,567	5,418,350	5,363,913	5,340,508	5,356,693	5,379,973
Paper%	95.6%	81.1%	75.9%	70.5%	62.7%	57.7%	53.4%	48.7%	44.5%
Electronic%	4.4%	18.9%	24.1%	29.5%	37.3%	42.3%	46.6%	51.3%	55.5%
SD100 Paper	448,101	434,817	424,168	418,509	387,114	361,426	351,214	335,647	321,717
SD 100 ELF	-0-	46,467	73,481	85,619	116,203	127,252	151,649	183,777	224,825
SD 100 WEB								27,470	41,142
Total School District Returns	448,101	481,284	497,649	504,128	503,317	488,678	502,863	546,894	587,684
Paper%	100%	90.4%	85.2%	83.0%	76.9%	64.0%	69.8%	61.4%	54.7%
Electronic%	-0-	9.6%	14.8%	17.0%	23.1%	26.0%	30.2%	38.6%	45.3%
Total IT & SD	5,741,347	5,821,578	5,896,914	5,963,695	5,921,667	5,852,591	5,843,371	5,903,587	5,967,657
Paper Total	5,508,799	4,763,930	4,522,113	4,267,907	3,786,723	3,455,721	3,204,365	2,942,881	2,714,857
Electronic	232,548	1,057,648	1,374,801	1,695,788	2,134,944	2,396,870	2,639,006	2,960,706	3,252,800
Total Paper %	96%	82%	77%	72%	64%	59%	55%	50%	45.5%
Total Electronic %	4%	18%	23%	28%	36%	41%	45%	50%	54.5%

*Projected totals for 2005 through Dec. 31, 2006.

PAPER VS. ELECTRONIC RETURNS, 1997 - 2005



By maximizing electronic means to ensure the timely and efficient processing of tax returns, the Operations Center aids the department in providing quality service through capturing revenue to fund state services while putting refunds back into the hands of Ohio taxpayers as soon as possible.

REVENUE ACCOUNTING

Revenue Accounting, one of four units within the Budget and Fiscal Division, is responsible for a variety of duties within the Department of Taxation that directly impact local governments and the services received daily by Ohio residents.

One of the primary duties of Revenue Accounting is the distribution of tax revenue. In Fiscal Year 2006, Revenue Accounting distributed more than \$4.2 billion to/from the following funds and agencies:

- Local Government Fund;
- Local Government Revenue Assistance Fund;
- Library and Local Government Support Fund;
- gasoline tax;
- sales and use tax;
- school district income tax;
- municipal income tax for electric light companies and telephone companies;
- property tax rollback;
- manufactured home tax;
- tangible personal property tax;
- Property Tax Replacement Fund (from kilowatt-hour and natural gas taxes);
- Property Tax Replacement Fund (from commercial activity tax);
- dealers in intangibles tax;
- political party check-off;
- resort tax;
- horse racing tax;
- Scenic Rivers, Wildlife, and Military Injury Relief check-offs;
- Cuyahoga County beer, wine, cigarette, and liquor taxes; and
- litter tax.

In addition, Revenue Accounting records most of the revenue receipts and refund deposits for the Department of Taxation for the following taxes:

- individual income tax;
- employer withholding tax;
- sales and use tax;
- corporation franchise tax;
- school district income tax;
- motor fuel and use tax;
- International Fuel Tax Agreement;
- commercial activity tax; and
- municipal income tax for electric light companies and telephone companies.

The unit also handles the accounting and reversals for all tax payment errors. This includes checks, electronic funds transfers (EFTs), Ohio Business Gateway (OBG), and Treasurer of State debits and credits.

Revenue Accounting reconciles EFT payments, OBG payments, and credit card payments.

Revenue Accounting has the additional responsibility of assisting the Office of Budget and Management with the state **Comprehensive Annual Financial Report**.

The Revenue Accounting unit supports the Budget and Fiscal Division in fulfilling the role of providing quality service by ensuring that tax dollars are properly deposited and distributed in accordance with current law.

TAX ANALYSIS DIVISION

The Tax Analysis Division (TAD) serves as the research arm of the Ohio Department of Taxation. Although it is a small unit, the division serves more types of customers than any other single department division, providing packaged data, quantitative analysis, revenue forecasts, and policy analysis to internal and external customers. The customers for TAD products include, but are not limited to, the Governor's office, members of the General Assembly, other divisions of the department, and all levels of local government.

Many of TAD's products are prepared on a regular basis. Each session of the Ohio General Assembly, the division provides revenue estimates for scores of bills that have proposed tax law changes and many proposals that never reach bill form. This activity is augmented by analyses of federal legislation that may impact Ohio state or local government finances. In addition to revenue estimates for specific law changes, TAD also does overall revenue estimating for the state budget, contributing to the formal process within the Office of Budget and Management.

The tax data series on the department's Internet site contains a number of data products that are updated monthly, quarterly, or annually. When the biennial budget is prepared, TAD provides assistance to the Office of Budget and Management (OBM) in forecasting tax revenues. Once the forecasts are finalized, the division then tracks revenue on a monthly basis and assists OBM with any updates of the forecasts. Tax Analysis also provides estimates of the Governor's tax proposals in the executive budget. In addition, TAD produces the Tax Expenditure Report, traditionally "Book Two" of the executive budget.

The division also produces or contributes to research publications that are meant as educational aids to decision makers. One such publication is the **Property Taxation and School Funding** report. In addition, the division produces statistics, tables, graphs, and interstate comparison data for departmental publications such as the **Brief Summary of Major State and Local Taxes in Ohio** and the **Annual Report**.

The division provides a number of services to local governments. It produces dozens of estimates of school district income tax revenues each year. The division also produces (in conjunction with the Revenue Accounting Division) estimates of the distributions to the three local government funds, and handles the estate tax settlements from local governments. TAD also provides informal consulting to school districts and other local governments on property tax ques-

tions and permissive sales tax questions. Tax Analysis staffers frequently make presentations to county auditors, school officials, and other local governments, discussing such topics as property tax law, school district income taxes, state revenue sharing, tax reform, and the impact of utility property tax law changes.

In addition to its regular duties, TAD is involved in a number of special projects each year. The projects themselves are rather diverse in nature and scope. For example, the division served a key supporting role for the Local Government and Library Revenue Distribution Task Force in its deliberations during 2006. TAD also completed all the calculations necessary to determine the amount of money each school district and local government is to receive through 2010 from the state in compensation for the elimination of the tangible personal property tax.

Fiscal year 2006 was an active and productive year largely devoted to providing data and information in the wake of the major tax reform package enacted in June 2005. For example, TAD provided explanatory materials on several aspects of the tax reform package. Furthermore, TAD was involved in estimating the revenue impact of the various tax changes contained in the "budget corrections" bill enacted in May 2006.

In fiscal year 2006, the division also continued to enhance its data assets and informational resources. Several new Tax Data Series tables were created and posted to the ODT Web site. TAD added to its database of large corporate taxpayers, providing an invaluable tool for simulating proposed changes in corporation franchise tax law. The division also refined its homestead exemption simulation model to better estimate the impact of various legislative proposals. TAD has also worked with other units of the Department of Taxation in providing new data that can enhance audit selection and tax compliance procedures.

In general, Tax Analysis continues to work on improving and expanding its research capability to better support the department's efforts to provide quality service not only throughout state government, but also to Ohio local governments and school districts.

TAX DISCOVERY DIVISION

Formed in 2005, Tax Discovery is charged with creating new ways to generate revenue for the State of Ohio by operating new tax compliance programs within the division, measuring the program's success, and then either referring the program to the appropriate operating division or keeping the program within Tax Discovery.

For the fiscal year ending June 30, 2006, Tax Discovery generated approximately \$25,200,000 in revenue from conducting specific programs mainly in the individual income, employer withholding, and sales and use tax areas. Other tax areas in which revenue was realized were school district income, school district employer withholding, and corporation franchise tax.

Also in FY 2006, the Tax Discovery division administered the Ohio Tax Amnesty program. The program generated \$66.8 million in otherwise uncollected revenue for the state.

The Tax Discovery Division supports the department's mission by implementing programs that help ensure the tax law is applied fairly by assisting all taxpayers in complying with their responsibilities.

TAXPAYER SERVICES/COMPLIANCE DIVISION

The Taxpayer Services/Compliance Division is actually comprised of three separate divisions: Taxpayer Services, Compliance, and the Taxpayer Service Centers. The Taxpayer Services Division and the Compliance Division were merged in a 1998 department reorganization. The Taxpayer Service Centers joined in 2002. This consolidation combined the cross functionality of these divisions, moving the department closer to the implementation of a global strategy to service taxpayers and conduct unified compliance initiatives. These divisions have continued to work together in an effort to streamline their operations, to capitalize on the resources available, and to implement changes that will allow efficiencies to be gained.

Taxpayer Services

The Taxpayer Services Division (TPS) is a functionalized contact center for the Department of Taxation's personal income, school district income, sales, use, employer withholding, employer school district withholding, corporation franchise, pass-through entity, and trust taxes. TPS is a multi-channel contact center that responds to inquiries by telephone, e-mail, correspondence, Interactive Voice Response (IVR), Web, fax, and walk-ins. A functionalized TPS has allowed, at least to the extent of the taxes serviced, for a "single point of contact" for taxpayers. This gives a common look and feel to the Department of Taxation and allows for consistency and accuracy in the information provided. TPS strives for "first call resolution" to taxpayer inquiries. Taxpayer inquiries include, but are not limited to, general and technical taxability issues, tax returns issues, filing requirements, business registrations, billings, assessments, Corporate Dissolutions and Reinstatements, Ohio Business Gateway Help Desk, form requests, refund requests, practitioner inquiries, etc.

TPS has a small central registration unit dedicated to answering business registration related telephone calls, and entering of business registrations into the system for employer withholding, school district withholding, and some sales tax vendor licenses. Other responsibilities include maintaining the cumulative vendor accounts, updating of demographic information, and the maintenance of the liquor license renewal as well as safekeeping information.

In addition to the contact center responsibilities TPS also administers a number of outreach and Education programs, such as VITA/TCE, small business workshops (SBW), federal/state employer withholding workshops, Ohio State University sponsored federal/state tax schools, e-file seminars, CLE programs for accountants and attorneys, annual meetings of tax preparers and enrolled agents, and other engagements as requested. The unit's intent has been to assist the department in increasing voluntary compliance and cost saving self-service solutions through the promotion of effective, innovative customer service strategies. The unit has focused on fostering professional relationships to increase communication opportunities and awareness of tax laws and regulations throughout the state.

Taxpayer Service Centers

The Department maintains eight Taxpayer Service Centers (SCs) located in major regions throughout Ohio (Akron, Cincinnati, Cleveland, two in Columbus, Dayton, Toledo, Youngstown, and Zanesville).

The SCs constitute both a local resource for assistance and a local presence to implement and enforce the various compliance and service programs, as well as providing support for outreach and education in an efficient and cost-effective manner. The SCs allow us to put a "face" to the department in the local regions. SCs offer the ability to provide assistance to walk-in taxpayers throughout the state, as well as support the telephone inquiries across the business and income tax lines and process correspondence arising from numerous billing programs generated by the Compliance Division.

The SCs are extensions of the Taxpayer Service and Compliance divisions. Our call center technology allows for the distribution of calls to our tax agents located across the SCs. The SCs also provide resources that support the compliance programs administered through the Compliance Division. A portion of the correspondence and telephone calls, as well as any walk-in taxpayers generated from these compliance programs, are serviced by the SCs. The SC staff also provides local resources to support various compliance programs. The SCs provide this service for the administering division.

Compliance

The Compliance Division, similar to TPS, is a functionalized division responsible for the billing, assessment, and certification of the major compliance programs, i.e., delinquencies, non-remittances, variances, federal matching programs, etc. These services are provided for the individual income, school district income, employer withholding, employer withholding school district, corporation franchise, sales and use, and pass-through entity taxes.

Bills are generated for actual or potential tax liabilities arising from an audit or a taxpayer's failure to file, pay, compute their taxes correctly, report their federal adjusted gross income consistently, or report all their income. When taxpayers do not respond to a billing notice an assessment is then issued. Assessments are the Tax Commissioner's final notification to a taxpayer of a tax deficiency or delinquency. An assessment informs the taxpayer of their legal rights if the assessment remains outstanding, and that their debt will be certified to the Ohio Attorney General's office for collection if an appeal is not filed in a timely fashion (see **Tables 1 - 3**, below).

The Compliance Division is responsible for responding to all taxpayer billing, assessment, and certification correspondence and the updating of the various department systems to resolve the notices. As stated previously, the telephone calls on the billing and assessment programs are routed through TPS allowing for the Compliance Division to concentrate their efforts on the correspondence; however, Compliance does provide resources to respond to the escalation of very technical telephone calls and the certification inquiries. Additionally, some administrative review responsibilities are handled by Compliance. Non-audit related assessment appeals (petitions) are serviced through Compliance. This enables taxpayers to resolve certain issues in an informal manner that supports the department's focus on timely, quality customer service.

The Compliance Division also serves as the department's liaison to the Ohio Attorney General's office with all communication regarding collection of deficient or delinquent taxes.

The services provided by the Compliance Division help the Department of Taxation ensure that the tax law is fairly applied by enabling the collection of delinquent taxes that help provide the revenue necessary for state programs and services.

TABLE 1
PERSONAL PROPERTY TAX ASSESSMENTS,* CALENDAR YEARS 2004 - 2005

Type of Tax	Amount of Assessments	
	Calendar Year 2004	Calendar Year 2005
Tangible Personal Property		
Single-County Corporations and Individual Unincorporated Businesses	\$11,158,008	\$11,138,440
Inter-County Corporations	88,364,622	118,029,735
Total Tangible Personal Property	\$99,522,630	\$129,168,175
Dealers in Intangibles	\$5,347,313	\$3,393,341
Total Personal Property and Dealers	\$104,869,943	\$132,561,516
* Resulting from audits or delinquent returns.		

SERVICE & SUPPORT

TABLE 2

SALES AND EXCISE TAX ASSESSMENTS LEVIED, AND UNPAID ASSESSMENTS CERTIFIED FOR COLLECTION, FISCAL YEARS 2005 - 2006

Tax Category	Assessments Levied*				Unpaid Assessments Certified for Collection**	
	FY 2005		FY 2006		FY 2005	FY2006
	Amount	Number	Amount	Number		
Sales & Use	\$277,258,317	140,435	\$507,993,278	241,439	\$147,948,544	\$246,819,553
Motor Vehicle Fuel	11,920,314	108	6,986,834	143	5,700,619	5,076,616
Motor Fuel Use	3,038	10	1,659	8	\$710	\$3,616
Cigarette	60,167	1	2,535,588	10	-	\$462,676
Other Tobacco Products	965,226	79	704,844	55	\$111,262	\$676,225
Alcoholic Beverage***	101,758	9	61,796	14	-	\$37,854
Severance	12,841	10	329,919	101	\$42,105	\$76,948
Horse Racing	-	0	-	0	-	-
Replacement Tire Fee	88,514	2	73,918	5	\$45,225	\$86,584
IFTA****	432,355	170	608,628	178	\$233,086	\$212,290
Kilowatt Hour	28,267	2	207,110	11	\$276,635	-
Natural Gas Distribution	-	0	-	0	-	-
Master Settlement Agreement*****	24,250	20	29,750	15	\$34,000	\$29,423
Total	\$290,895,047	140,846	\$519,533,324	241,979	\$154,392,186	\$253,481,785

* Represents only assessments levied and not assessments collected.

** Data do not relate to current assessments shown in "Assessments Levied" column. It represents those assessments certified for collection after taxpayers have exhausted all avenues of appeal, and may be from a prior fiscal year.

*** Beer, wine, and mixed beverages.

**** International Fuel Tax Agreement.

***** Master Settlement Agreement (tobacco).

TABLE 3

INDIVIDUAL INCOME TAX AND CORPORATION FRANCHISE TAX ASSESSMENTS LEVIED, FISCAL YEARS 2002 - 2006

Tax Category	Fiscal Year 2002		Fiscal Year 2003		Fiscal Year 2004		Fiscal Year 2005		Fiscal Year 2006	
	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number
Corporation										
Franchise	\$52,046,091	9,439	\$57,203,517	7,755	\$57,968,371	4,363	\$496,524,746	83,419	\$312,324,996	24,892
Individual										
Income	\$142,824,765	154,172	\$32,785,324	20,989	\$74,387,712	85,759	\$155,353,096	132,765	\$162,714,937	109,424
Total	\$194,870,856	163,611	\$89,988,841	28,744	\$132,356,083	90,122	\$651,877,842	216,184	\$475,039,933	134,316

TAXES ADMINISTERED



ALCOHOLIC BEVERAGE TAX

The Ohio Department of Taxation and the Division of Liquor Control, under the Ohio Department of Commerce, share responsibility for the administration of laws governing alcoholic beverages. The Department of Taxation is responsible for the administration of the taxes on beer, wine, and mixed beverages. This does not include distilled beverages over 21 percent alcohol by volume. The Division of Liquor Control, Ohio Department of Commerce, is responsible for issuing, suspending, and revoking permits to manufacture, distribute, and sell all alcoholic beverages. This chapter covers only the role of the Department of Taxation.

Tax payments from excise taxes on beer, wine, and mixed beverages were approximately \$58.3 million in Fiscal Year 2006. These payments are made to the General Revenue Fund, except for five cents of the tax on each gallon of wine. This revenue is designated for the research and study of grapes and grape products under the direction of the Ohio Grape Industries Committee.

In 1986, the Ohio General Assembly authorized county governments to levy a permissive tax of \$3.00 per gallon on liquor for the purpose of funding sports facilities. Then in 1990, the General Assembly authorized counties to levy taxes on all alcoholic beverages to operate or service the debt of a sports facility operated by the county or a development corporation.

The law allowed counties to levy a tax of up to 32 cents per gallon on wine and mixed beverages, 24 cents per gallon on cider, and 16 cents per gallon on beer. Cuyahoga County enacted such levies at the maximum rates effective August 1, 1990. The Department of Taxation and the Division of Liquor Control administer the tax and collect the county levies through a local tax return filed with the state. All exemptions and credits allowed for the state tax on alcoholic beverages apply to the county levies. Tax collected is returned to Cuyahoga County in the month following collection. The Department of Taxation retains 2.0 percent of the collections from the county beer and wine taxes for administrative expenses.

TAXPAYER

Type of Product	Revised Code Section	Taxpayer
Bottle and canned beer	4301.42	Manufacturer, bottler, canner, or wholesale dealer
Wine	4301.43	Manufacturer, wholesale dealer, or retail dealer
Mixed Beverages	4301.43	Manufacturer, wholesale dealer, or retail dealer
Beer in barrels	4305.01	Manufacturer or consignee

TAX BASE (OHIO REVISED CODE 4301.01):

Type of Product	Definition
Beer	Brewed or fermented from malt products and containing not less than 0.5% and not more than 12% alcohol by volume.
Mixed Beverages	Mixture of wine or distilled spirits with carbonated or noncarbonated flavoring materials and containing not less than 0.5% and not more than 21% alcohol by volume.
Wine (including sparkling wine and vermouth)	Fermented juices of grapes, fruits or other agricultural products and containing not less than 0.5% and not more than 21% alcohol by volume.
Cider	Fermented juices of apples including flavored, sparkling, or carbonated cider containing more than 0.5% and not more than 6.0% alcohol by weight.

ALCOHOLIC BEVERAGE TAX RATES:

Type of Product	Revised Code Section	Unit of Measure	Tax Rate
Beer in bottles or cans	4301.42	6 oz. or fractional part thereof	0.84 cent(s)*
Wine (containing alcohol 4.0 - 14% by volume)	4301.43 – 4301.432	Gallon	32 cents
Wine (containing alcohol 14 - 21% by volume)	4301.43 – 4301.432	Gallon	\$1.00
Vermouth	4301.43 – 4301.432	Gallon	\$1.10
Sparkling and carbonated wine and champagne	4301.43 – 4301.432	Gallon	\$1.50
Cider	4301.43	Gallon	24 cents
Mixed Beverages	4301.43	Gallon	\$1.20
Beer in barrels	4305.01	31 gallons	\$5.58

* The rate on bottles and cans having less than 12 ounces is 0.14 cent(s) per ounce.

COUNTY LEVIES:

Type of Product	Revised Code Section	Unit of Measure	Tax Rate
Wine and mixed beverages	4301.421	Gallon	Up to 32 cents
Beer	4301.421	Gallon	Up to 16 cents
Cider	4301.421	Gallon	Up to 24 cents

EXEMPTIONS AND REFUNDS (R.C. 4301.23, 4303.332, 4303.333, 4307.05):

1. Sacramental wine used in religious rites.
2. Sales to the federal government.
3. Sales in interstate commerce.
4. Any licensed Ohio brewer whose total production, wherever produced, does not exceed 31,000,000 gallons in a calendar year will receive a credit against their excise tax the following year, and a refund on any excise tax paid during the current year, on up to 9,300,000 gallons of beer distributed in Ohio.
5. Any licensed Ohio wine producer whose production does not exceed 500,000 gallons in a calendar year will be granted an exemption from the excise tax during the following year and a refund on any excise tax paid during the current year.



(R.C. 4303.33):

Beer Permit Holders:

Advance Payment — On or before the 18th day of each month for that month's estimated tax liability.

Monthly Payment — On or before the 10th day of the month for the previous month's liability.

ALCOHOLIC BEVERAGE TAX

Wine and Mixed Beverage Permit Holders:

Monthly Payment — On or before the 18th day of each month for the previous month's liability.

County Permissive Levies (R.C. 4301.422):

Monthly Payment — On or before the last day of the month for the previous month's liability.

DISCOUNTS AND ADDITIONAL CREDITS (R.C. 4303.33):

Discounts and additional credits are available for collection and timely payment of tax liability by permit holders.

Beer Permit Holders:

Advance Pay Credit — Three percent of the amount of tax received by the 18th day of the month for which the tax is paid.

Discount — A discount is offered on the balance of tax due (after the advance payment) if received by the 10th day of the following month. It is the smaller of the following: 3.0 percent of 10 percent of the advance payment or 3.0 percent of the net amount of tax due after deducting the advance payment.

Wine and Mixed Beverage Permit Holders:

Three percent discount on the amount of monthly payment if the payment is received on or before the 18th day of the month for the previous month's tax liability.

County Permissive Levies (R.C. 4301.422):

Taxpayers filing timely returns and making timely payments receive a 2.5 percent discount on the tax liability due.

DISPOSITION OF REVENUE (R.C. 924.51-.55, 4301.43, 4301.432, 4301.46, 4305.01):

Grape Industries Special Account: Five cents per gallon of the excise tax

levied on wine is paid into this account to provide funds for research, development, and marketing of grape products in Ohio.

General Revenue Fund: Remainder of the excise tax levied on wine and all of the excise tax levied on beer, cider, and mixed beverages is paid into this fund.

County Permissive Levies (R.C. 4301.423): The Local Excise Tax Administrative Fund receives 2.0 percent of all collections, while the remaining revenue collected is distributed to the county.

ADMINISTRATION (R.C. 4307.04):

The Tax Commissioner administers alcoholic beverage taxes, and the Division of Liquor Control, under the Ohio Department of Commerce, administers the liquor gallonage tax.

OHIO REVISED CODE CITATIONS:

Chapters 924, 4301, 4303, 4305, 4307, 4309.

**Amended Substitute House Bill 66, 126th General Assembly (FY 2006-2007 biennium budget bill, effective July 1, 2005). R.C. 4301.43:**

Enacted a two-year continuation of the two cents per gallon additional credit to the Ohio Grape Industries Fund on tax paid on wine, vermouth, and sparkling and carbonated wine and champagne.

TABLE 1

ALCOHOLIC BEVERAGE TAXES - PAYMENTS AND CREDITS, FISCAL YEAR 2006

Type of Beverage	Gross Tax	Credits and Discounts	Net Tax Receipts
Beer			
Advance tax payments	\$42,980,802	\$1,242,618	\$41,738,184
Payment with return	6,729,457	65,121	6,664,336
Total	\$49,710,259	\$1,307,739	\$48,402,520
Wine and mixed beverages			
Payment with return	\$10,240,256	\$340,029	\$9,900,227
Total	\$59,950,515	\$1,647,768	\$58,302,747

Source: Department of Taxation, as reported on tax returns.

ALCOHOLIC BEVERAGE TAX

TABLE 2

ALCOHOLIC BEVERAGE TAXES - LIABILITY AS
REPORTED ON RETURNS
FISCAL YEARS 2004 - 2006

Type of Beverage	2004	2005	2006
Beer	\$49,710,161	\$47,697,154	\$49,622,845
Wine less than 14% alcohol	4,123,117	4,320,690	4,546,619
Wine 14-21% alcohol	1,106,171	1,111,829	1,200,710
Mixed Beverages	2,936,334	3,046,523	3,206,023
Vermouth	97,851	89,708	102,187
Sparkling Wine	877,344	870,063	877,231
Cider	29,910	32,752	32,187
Total	\$58,880,888	\$57,168,719	\$59,587,802

Note: Amounts represent tax liability as opposed to tax payments reported in Table 1.

TABLE 3

CUYAHOGA COUNTY BEER AND WINE LIABILITIES AS
REPORTED ON RETURNS
FISCAL YEARS 2004 - 2006

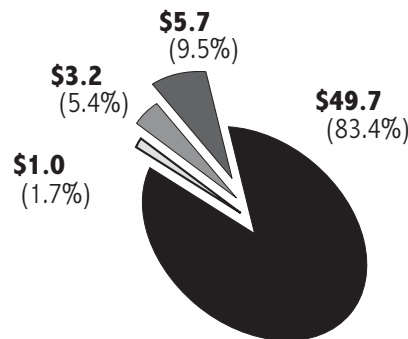
Type of Beverage	2004	2005	2006
Beer	\$4,941,408	\$4,913,129	\$4,870,856
Wine	1,056,232	1,236,114	1,209,091
Total	\$5,997,640	\$6,149,243	\$6,079,947

Alcoholic Beverage
Tax Liabilities
By Beverage
(State Only)

Fiscal Year 2006

(figures in millions)

- Beer
- Wine
- Mixed
- Other*



Total \$59.6 million

* Other includes vermouth, sparkling wine, and cider.

CIGARETTE AND OTHER TOBACCO PRODUCTS TAX

An excise tax on cigarettes has been levied in Ohio since 1931. In 1981, cigarettes also became subject to the Ohio sales tax. The excise tax rate increased to \$1.25 per pack from 55 cents per pack effective July 1, 2005, under the provisions of House Bill 66, the Fiscal Year 2006-2007 biennium budget bill.

The tax is paid primarily by wholesale dealers through the purchase of stamps (tax indicia) that are affixed to cigarette packs. Retailers, individuals, and other consumers are responsible for paying the tax on cigarettes not taxed at the wholesale dealer level. The Tax Commissioner can authorize dealers to purchase the tax indicia on credit payable within 30 days during July through April. The cigarette tax is credited to the state General Revenue Fund. In FY 2006, total receipts from the sale of stamps were almost \$992.3 million (not including other tobacco products).

An excise tax on "other tobacco products" was enacted effective February 1, 1993. These products include cigars, chewing tobacco, snuff, smoking tobacco, and other tobacco products. The tax is levied on the wholesale price of other tobacco products manufactured in Ohio or imported into Ohio that are to be sold for resale at retail. The rate is 17 percent of the wholesale price. The other tobacco products tax is credited to the state General Revenue Fund. In FY 2006, total net receipts were over \$29.8 million.

In 1986, the Ohio General Assembly gave authorization to county governments to levy a permissive tax of .225 cents per cigarette (4.5 cents per pack of 20) for the purpose of funding the operation or servicing the debt of a sports facility operated by the county or a development corporation. Cuyahoga County enacted such a levy at the maximum rate effective August 1, 1990.

The Department of Taxation administers and collects the tax. Collection is made through sales of tax indicia for cigarettes to be sold in Cuyahoga County. The revenues are distributed to Cuyahoga County in the month following their collection. The Department of Taxation retains 2.0 percent of the collections for administrative expenses. The levy produced revenues of more than \$3.65 million during FY 2005.

All state cigarette tax exemptions and credits apply to the county levies.

TAXPAYER (OHIO REVISED CODE 5743.01):

Cigarettes:

Wholesale Dealers —

Those who purchase cigarettes directly from manufacturers, producers, importers, or other wholesalers, who then sell cigarettes to retailers for the purpose of resale.

Retail Dealers —

Includes everyone, other than a wholesale dealer, engaged in the sale of cigarettes. Retail dealers must remit the tax on any cigarettes not previously taxed.

Persons —

Individuals, companies, and other consumers who have cigarettes in their possession on which the excise tax has not been paid.

Other Tobacco Products:

Wholesalers —

Distributors who receive other tobacco products for sale to retailers or wholesalers for resale within the state.

Manufacturers —

Any person who manufactures and sells other tobacco products or cigarettes.

Retailers —

Any person engaged in the business of selling cigarettes or tobacco products to consumers in this state.

TAX BASE (R.C. 5743.02, 5743.32, 5743.51):

1. The sale of cigarettes in Ohio (R.C. 5743.02, 5743.023).
2. The use, consumption, or storage for consumption of cigarettes in Ohio (R.C. 5743.32, 5743.322).
3. The receipt or import of other tobacco products for resale (R.C. 5743.51).

RATES (R.C. 5743.02, 5743.32, 5743.024, 5743.51):

Ohio Revised Code Section	Tax Rate Per Pack of 20	Tax Rate Per Pack of 25
5743.02 (Sales)		
5743.32 (Use)	125.0 cents	156.25 cents
5743.024 (County)	4.5 cents	5.625 cents

The rate on other tobacco products is 17 percent of the wholesale price (R.C. 5743.51, 5743.63).

METHOD OF TAX PAYMENT:

All cigarette taxpayers are required to pay for stamps from the Treasurer of State at the time of purchase. When it is more practical to collect the tax without the use of stamps (for example, consumers who have out-of-state purchases), the tax is paid with returns or by direct payment to the Department of Taxation.

EXEMPTIONS (R.C. 5743.05):

Cigarettes sold in interstate or foreign commerce or to the U.S. government or its agencies.

CIGARETTE AND OTHER TOBACCO PRODUCTS TAX



Permissive Cigarette Tax (R.C. 5743.024):

Counties may, with voter approval, levy a permissive cigarette tax of up to 2.25 mills (4.5 cents per pack of 20) per cigarette. The levy must be for the purpose of servicing the debt of a sports facility. Cuyahoga County currently levies this tax. (Note: A voter-approved levy to support arts and culture increases the Cuyahoga County tax by 1.5 cents per cigarette, or 30 cents per pack, effective February 1, 2007.)

Discounts (R.C. 5743.05 and 5743.52):

As a consideration for affixing and canceling cigarette stamps, wholesale dealers receive a discount of 1.8 percent of the face value of stamps. Other tobacco products taxpayers receive a 2.5 percent discount for timely payment of the tax.



Wholesale dealers are required to file a semi-annual return even though they may have paid all their tax through the purchase of stamps. Any payment due on cigarettes not previously taxed is included. Others who have untaxed cigarettes file a monthly use tax return along with payment of the tax (see the chart on the following page for exact filing dates).

ADMINISTRATION:

Both state and county taxes on cigarettes and other tobacco products are administered by the Department of Taxation.

OHIO REVISED CODE CITATIONS:

Chapter 5743.



Amended Substitute House Bill 66, 126th General Assembly (FY 2006-2007 biennium budget bill, effective July 1, 2005).

Increase for the Cigarette Tax (R.C. 5743.02 and 5743.32; R.C. 612.27; R.C. 557.06): The tax levied on the sale, use, consumption, or storage of cigarettes in the state was increased from 27.5 mills per cigarette (2.75 cents per cigarette; 55 cents per pack of 20) to 62.5 mills per cigarette (6.25 cents per cigarette; \$1.25 per pack). This increase took effect on July 1, 2005. The new law requires that wholesale and retail dealers with inventories of cigarettes on July 1, 2005 must pay a "net additional tax" on their existing inventory (floor stock tax), as well as on any tax stamps in their possession that have not yet been affixed to merchandise.

Unstamped Cigarette Prohibitions (R.C. 5743.10, 5743.111, and 5743.112; R.C. 612.21):

The law prohibited the possession of or trading of unstamped cigarettes (that is, cigarettes in packages that do not display the stamp indicating that the tax has been paid). It is a crime for any person to possess 1,200 or more unstamped cigarettes. It is also a crime for any person to ship, transport, deliver, distribute, or otherwise trade 1,200 or more unstamped cigarettes.

DISPOSITION OF REVENUE:

Tax Rate	Revised Code Section	Disposition Revenue
6.25 cents per cigarette effective July 1, 2005	5743.02	State General Revenue Fund
17 percent of wholesale price of other tobacco products	5743.51	State General Revenue Fund
County levy: Up to .225 cent(s) per cigarette	5743.024	2.0 percent to Local Excise Tax Administrative Fund and the remainder to the county



CIGARETTE AND OTHER TOBACCO PRODUCTS TAX

Type of Return	Filing Date	Revised Code Section	Taxpayer
Semi-annual	By July 31 for the preceding January - June period; by January 31 for the preceding July-December period.	5743.03	Wholesale dealers
Monthly	By the 15 th of each month for the preceding month.	5743.33	Persons with untaxed cigarettes
	By the last day of each month for the preceding month.	5743.52	Distributors or importers of tobacco products
Quarterly	By April 30, July 31, October 31, and January 31 for the previous quarter's liability.	5743.52	Distributors or importers of tobacco products

Method of Payment	Revised Code Section	Description of Payment
Cash payments	5743.03	Dealers are required to pay for stamps at the time of purchase unless they have been authorized to make credit purchases.
Credit payments	5743.05	The Tax Commissioner may authorize wholesale dealers to purchase stamps on credit payable within 30 days. Credit sales are allowed during July through April of each fiscal year.
Direct payments	5743.33	Direct payments are made primarily by manufacturers on gift samples of cigarettes, but also include assessments and deficiency payments, and voluntary payments by consumers.

Prior law had a similar prohibition, but it was based on the wholesale value of the cigarettes, not the physical quantity. The old law prohibited the possession or transfer of unstamped cigarettes with a wholesale value of \$60 or more. Also, the old law applied the prohibition against possessing unstamped cigarettes only to retail dealers. The new law imposes the penalty on "any person."

Persons Subject to Ohio Laws Governing Sale, Distribution, and Taxation of Cigarettes (R.C. 5743.01):

The law provided that "dealer" includes every person, other than a wholesale dealer, who is engaged in the business of selling cigarettes in this state. This definition applies to dealers located in Ohio, as well as dealers located outside of Ohio. The law now makes it clear that, for purposes of Ohio's cigarette laws, a "sale" of cigarettes includes transactions in interstate and foreign commerce.

Tax Stamps (R.C. 5743.031):

The law specified who may affix tax stamps and established rules governing the shipping of unstamped cigarettes through Ohio.

Monthly Reports to be Filed (R.C. 5743.072):

The law required that manufacturers and importers shipping cigarettes into or within Ohio must file monthly reports with the Tax Commissioner.

Seizure and Forfeiture of Cigarettes (R.C. 5743.08):

The law gave the Tax Commissioner authority to seize and take possession of any cigarettes that are held for sale or distribution in Ohio in violation of any of Ohio's cigarette laws. This expands the prior law, which gave the commissioner the authority to confiscate cigarettes for which the taxes had not been paid.

CIGARETTE AND OTHER TOBACCO PRODUCTS TAX

The law now also gives the Tax Commissioner authority to either destroy or sell any cigarettes that have been confiscated. The destruction of confiscated cigarettes does not make the owners immune from possible fines or penalties.

Tax Commissioner's Inspection Powers (R.C. 5743.14):

The law authorized the Tax Commissioner to inspect facilities and records belonging to cigarette manufacturers, importers, wholesalers, and retailers, and requires that any inspection not conducted during normal business hours be conducted pursuant to a search warrant. The law also authorizes the commissioner or an agent of the commissioner to stop and inspect any vehicle where there is reasonable cause to believe that it is illegally transporting cigarettes.

Licenses to Traffic in Cigarettes (R.C. 5743.15):

The law required that cigarette manufacturers and importers obtain a license from the Tax Commissioner before trafficking in cigarettes in Ohio. The law also specifies additional information to be included in applications for licenses to traffic in cigarettes in Ohio.

Authorized Sales (R.C. 5743.20):

The law specified from whom and to whom manufacturers, importers, wholesalers, and retailers may buy and sell cigarettes. The bill provides that the identities of licensed distributors of tobacco products are subject to public disclosure. The Tax Commissioner must maintain a list of distributors and post the list on a Web site on the Internet. This list is to be updated periodically.

Authorized Recipients of Cigarettes (R.C. 2927.023 (A), (B), and (D)):

The law required that cigarettes coming into Ohio may only be transported or shipped to an "authorized recipient of tobacco products." These authorized recipients are: (1) a licensed cigarette wholesale dealer; (2) a licensed distributor of tobacco products; (3) an export warehouse proprietor; (4) an operator of a customs bonded warehouse; (5) an officer, employee, or agent of the federal or state government acting in the person's official capacity; (6) a department, agency, instrumentality, or political subdivision of the federal or state government; and (7) a person receiving consent for consumer shipment issued from the Tax Commissioner.

The law now makes it an offense punishable by a fine up to \$1,000 to transport, or cause to be shipped, cigarettes to a person other than an "authorized recipient of tobacco products."

Shipping Containers and Wrappings (R.C. 2927.023 (C) and (D)):

The law required that cigarettes be shipped in a way that identifies them clearly. This requirement is met if the cigarettes are shipped or transported in their original containers or wrappings or if the substitute containers or wrappings are marked with the word "cigarettes" in a plain and visible manner. Anyone who ships cigarettes in violation of this rule can be fined up to \$1,000 for each violation.

Consent for Consumer Shipment (R.C. 5743.71):

The law provided a means for any person who is not an "authorized recipient" to receive shipments of tobacco products that are not reasonably available at a retail location. The person may apply to the Tax Commissioner for a "consent for consumer shipment." The consent for consumer shipment must be obtained before any cigarettes or other tobacco products are purchased for shipment into Ohio.

Amended Substitute H.B. 95, 125th General Assembly (effective September 26, 2003). R.C. 5743.05, 5743.051:

Allowed wholesale cigarette dealers in good standing for five years to purchase stamps and meter impressions on credit without a bond. Payment by electronic funds transfer (EFT) is required.

R.C. 1346.04 – 1346.10 (effective July 1, 2003):

Provided that the office of the Ohio Attorney General list on their Web site the cigarette brands that may be sold in Ohio that the manufacturers have certified to be in compliance with the tobacco Master Settlement Agreement. Cigarette wholesalers and other tobacco products distributors must provide the Department of Taxation with an e-mail address so they can be notified of additions and deletions to the list.

Am. Sub. Senate Bill 242, 124th General Assembly (various effective dates). R.C. 1333.11, 2927.02 and 5743.03 (effective July 1, 2002):

(R.C. 1333.11) The wholesale cigarette minimum markup was increased from 2.5 percent to 3.5 percent and the retail cigarette minimum markup was increased from 6.0 percent to 8.0 percent. (R.C. 2927.02) This law prohibits the manufacture, sale, or distribution of packs of cigarettes containing fewer than 20 cigarettes or packages of roll-your-own tobacco containing less than six-tenths of one ounce. Cigarettes may not be sold in a smaller quantity than that placed in by the manufacturer, effective September 19, 2002. (R.C. 5743.03) Persons filing cigarette or other tobacco products tax returns are required to report the quantity of all cigarettes and roll-your-own cigarette tobacco sold in Ohio for each brand not covered by the tobacco Master Settlement Agreement. A penalty of up to \$250 per month may be imposed for not filing the report (replaces requirements in Rule 5703-15-19).

Recent Information Releases:

XT 2006-01 – "Excise and Motor Fuel Tax Division Information Release – Tobacco Requirements," July 2006.

CIGARETTE AND OTHER TOBACCO PRODUCTS TAX

TABLE 1
 CUYAHOGA COUNTY CIGARETTE STAMP SALES,
 FISCAL YEARS 2001 - 2006

Fiscal Year	Gross Stamp Tax	Discount	Net Sales
2001	\$5,333,080	\$191,991	\$5,141,089
2002	4,894,766	129,619	4,765,147
2003	4,455,341	80,196	4,375,145
2004	4,350,822	78,315	4,272,507
2005	4,329,850	77,937	4,251,913
2006	3,721,103	66,980	3,654,123

Source: Treasurer of State

TABLE 2
 CIGARETTE TAX RECEIPTS,
 FISCAL YEARS 2001 - 2006

Fiscal Year	Gross Stamp Tax	Discount	Net Tax Collected
2001	\$272,598,343	\$9,813,540	\$262,784,803
2002	264,300,240	7,008,887	257,291,353
2003	548,764,842	9,877,767	538,887,075
2004	540,376,592	9,726,779	530,649,813
2005	561,492,445	10,106,864	551,385,581
2006	1,010,469,343	18,188,448	992,280,895

Source: Treasurer of State

TABLE 3
 OTHER TOBACCO PRODUCTS TAX RECEIPTS,
 FISCAL YEARS 2001 - 2006

Fiscal Year	Gross Stamp Tax	Discount	Net Sales
2001	\$23,963,624	\$578,178	\$23,385,446
2002	25,353,802	620,798	24,733,004
2003	26,382,986	643,520	25,739,466
2004	27,394,131	682,290	26,711,841
2005	28,370,283	672,118	27,698,165
2006	30,589,487	761,678	29,827,809

Source: Treasurer of State

COMMERCIAL ACTIVITY TAX

The commercial activity tax (CAT) is a tax imposed on the privilege of doing business in Ohio. It is not a tax on the transaction, like the sales tax. The CAT is paid either quarterly or annually and is applicable to all business types, located both in Ohio and outside Ohio, that operate in Ohio. The revenue from the CAT replaces the revenue from the phase-out of the corporation franchise tax and the tangible personal property tax. The CAT was enacted in 2005 as part of the tax reform measures contained in House Bill 66, and became effective July 1, 2005.

In fiscal year 2006, the CAT produced \$273.4 million in total revenue. Of this amount, \$185.1 million, or 67.7 percent, was deposited in the General Revenue Fund. The School District Property Tax Replacement Fund received \$61.8 million, or 22.6 percent. The remaining \$26.5 million, or 9.7 percent, was placed in the Local Government Property Tax Replacement Fund. Beginning in fiscal year 2007 and for a number of years thereafter, all CAT revenues will be deposited in the school district and local government property tax replacement funds and no revenues will be deposited in the General Revenue Fund.

Tables in this chapter provide information by industrial classification and by taxpayer size. The information was taken from the returns due and filed in fiscal year 2006 (specifically, from returns due in February 2006 and May 2006). Manufacturing taxpayers accounted for the largest share of tax liability, reporting \$71.5 million or 27.5 percent of the total; they accounted for 8.6 percent of all taxpayers. The retail sector produced the largest number of taxpayers, at 13.9 percent, and had 18.7 percent of total liability (the second-largest group). Taxpayers with taxable gross receipts over \$100 million accounted for nearly one-half (47.5 percent) of total CAT liability and just 0.3 percent of the number of taxpayers. In contrast, taxpayers whose receipts were \$1.0 million and below reported only 10.9 percent of total tax liability but made up 81.4 percent of all taxpayers.

TAXPAYER (OHIO REVISED CODE 5751.01):

The CAT is paid by any person with taxable gross receipts of \$150,000 or more in a calendar year. This includes sole proprietors, partnerships, or corporations, as well as service providers such as medical professionals, attorneys, and accountants, and persons engaged in the sale or rental of most types of real property. The tax also applies to out of state businesses that either: (a) have at least \$500,000 in taxable gross receipts in Ohio; (b) have at least \$50,000 in real or personal property in Ohio; (c) expend at least \$50,000 in payroll for work in Ohio; or (d) have at least 25 percent of their total property, payroll, or gross receipts in Ohio.

There are a limited number of exceptions to the CAT, namely nonprofit organizations; financial institutions; insurance companies; affiliates of financial institutions and insurance companies; dealers in intangibles; and certain receipts by public utilities that are subject to the public utility excise tax. Sales of motor fuel are exempted from inclusion in gross receipts for two years. In addition, there is an exception for distribution centers whose annual costs to their suppliers for goods shipped into their facility equal or exceed \$500 million and that ship more than 50 percent of their goods out of state. However, such qualified distribution centers are subject to a \$100,000 annual fee (effective January 1, 2007;

this replaced a temporary exception for qualified foreign trade zone areas that expired December 31, 2006).

TAX BASE (R. C. 5751.001 (F)):

The base of the CAT is gross receipts, defined as the total amount realized, without deduction for the cost of goods sold or other expenses incurred, from activities that contribute to the production of gross income. Examples are sales; performance of services; and rentals or leases. A taxpayer's method of accounting for gross receipts for a tax period shall be the same as the taxpayer's method of accounting for federal income tax purposes for the taxable year that includes the tax period (i.e., accrual or cash basis).

RATES (R. C. 5751.03 AND 5751.031):

The tax is being phased-in over a five-year period that began July 1, 2005. By tax year 2010, when the full rate is in effect, the rate is 0.26 percent on annual gross receipts over \$1.0 million.

- The CAT rate for the first tax period from July 1 to December 31, 2005 was 0.06 percent on gross receipts over \$500,000; the rate for January 1, 2006 to March 31, 2006 was 0.06 percent on gross receipts over \$1.0 million; and the rate for the remainder of 2006 was 0.10 percent.
- The rate is being phased in by approximately 20 percent increments over the next three years.
- The rate for January 1, 2007 to March 31, 2007 is 0.10 percent; the rate from April 1, 2007 to December 31, 2007 is 0.16 percent.
- The rate from January 1, 2008 to March 31, 2008, is 0.16 percent; the rate from April 1, 2008 to December 31, 2008 is 0.21 percent.
- The rate from January 1, 2009 to March 31, 2009 is 0.21 percent; the rate from April 1, 2009 to December 31, 2009 is 0.26 percent.
- On January 1, 2010, the permanent rate of the CAT is 0.26 percent.
- Annual gross receipts from \$150,001 - \$1.0 million are subject to a minimum \$150 tax (the minimum tax for the first tax period was \$75).
- Businesses with annual gross receipts of \$150,000 or less are not subject to the CAT.

CREDITS (R.C. 5751.98):

The following credits are allowed against CAT liability beginning July 1, 2008:

- Job Creation Tax Credit.
- Job Retention Tax Credit.
- Credit for Qualified Research Expenses.
- Credit for Research and Development Loan Payments.



(R.C. 5751.051):

- All businesses liable for the CAT must register prior to filing a return.
- Taxpayers with taxable gross receipts of \$1.0 million or more must

file quarterly returns on the Ohio Business Gateway. The due date is 40 days from the end of each calendar quarter (i.e., May 10, August 9, November 9, and February 9).

- Taxpayers with taxable gross receipts of less than \$1.0 million are liable for the annual minimum tax of \$150. Annual returns are due on or before February 9 of the next succeeding year for the prior year's activity. The minimum tax for the current year is due along with this return.
- The initial return, for the semi-annual period July 1, 2005 to December 31, 2005, was due February 10, 2006.
- For calendar year 2006, the annual minimum tax of \$150 was due May 10, 2006.

DISPOSITION OF REVENUE (R.C. 5751.20):

School District Tangible Property Tax Replacement Fund: In fiscal year 2006, 22.6 percent of the revenue generated by the CAT was dedicated to the School District Tangible Property Tax Replacement Fund. Thereafter, until fiscal year 2018, 70 percent of the revenue is dedicated to this fund.

Local Government Tangible Property Tax Replacement Fund: In fiscal year 2006, 9.7 percent of the revenue generated by the CAT was dedicated to the Local Government Tangible Property Tax Replacement Fund. Thereafter, until fiscal year 2011, 30 percent of the revenue is dedicated to this fund.

General Revenue Fund: The remainder of the revenue generated by the CAT in fiscal year 2006 was paid into the General Revenue Fund.

ADMINISTRATION:

The Tax Commissioner administers the CAT and distributes the revenue to the various funds.

OHIO REVISED CODE CITATIONS:

Sections 5751.01 – 5751.99.



Amended Substitute House Bill 66, 126th General Assembly (FY 2006-2007 biennium budget bill, effective July 1, 2005).

Added a new chapter, Ohio Revised Code 5751, establishing the CAT.

Sub. H.B. 530, 126th General Assembly (various effective dates). R.C. 5751.01, 5751.011, 5751.04, 5751.051, 5751.10:

Excludes certain pre-income tax trusts from the CAT unless the trustee makes an election for the trust to be subject to the CAT. Excludes from gross receipts reimbursements of tax liability made between members of a consolidated or combined group. Excludes from gross receipts any taxes that are required to be collected by a taxpayer from a consumer. Excludes certain gross receipts

that a supplier receives from shipments of property to a Qualified Distribution Center (QDC). Establishes the registration procedure and the criteria that must be met in order to qualify as a QDC. Clarifies deductions from gross receipts and taxable gross receipts. Clarifies the definition of "foreign corporation" as non-U.S. entities. Limits the information required on a CAT registration and clarifies the registration fee. Extends the time allowed for a taxpayer that has gone out of business to file a final CAT return. Changed the date that the temporary exclusion extended to qualified foreign trade zones expires from June 30, 2007 to December 31, 2006.

RECENT INFORMATION RELEASES:

CAT 2006-07 – "Commercial Activity Tax: Qualified Distribution Centers," June 2006.

CAT 2006-06 – "Commercial Activity Tax Credit for Unused Franchise Net Operating Losses," April 2006.

CAT 2006-05 – "Highway Transportation Services: Bright-Line Presence and Siting," April 2006.

CAT 2006-04 – "Commercial Activity Tax Cash Discounts, Defined," April 2006.

CAT 2006-03 – "Commercial Activity Tax Definition of 'Agent'," April 2006.

CAT 2006-02 – "Suggested Document for the Exclusion for Automobile Dealers to Meet a Customer's Preference," March 2006.

CAT 2006-01 – "Applicable Excise Tax Rates for Purposes of the Commercial Activity Tax," March 2006.

CAT 2005-18 – "Temporary Motor Fuel Exemptions from the Commercial Activity Tax," November 2005.

CAT 2005-17 – "'Taxable Gross Receipt' Defined," January 2006.

CAT 2005-16 – "Examples of 'Common Owners' and Joint Ventures," November 2005.

CAT 2005-15 – "Taxpayers Allowed to Change Registration Status until Due Date of First Return," November 2005.

CAT 2005-14 – "Nonprofit Organizations," December 2005.

CAT 2005-13 – "Estimated Payments for Calendar Quarter Taxpayers," October 2005.

CAT 2005-12 – "Request for Member of a Combined Taxpayer Group to File Separately," December 2005.

CAT 2005-11 – "Qualified Foreign Trade Zone Area (Additional Information)," December 2005.

CAT 2005-10 – "Qualified Foreign Trade Zone Area," December 2005.

CAT 2005-09 – "Sampling," December 2005.

CAT 2005-08 – "I.R.C. Section 1221 and 1231 Assets Excluded from 'Gross Receipts'," September 2005.

CAT 2005-07 – "Transfers of Property Into the State," December 2005.

CAT 2005-06 – "Siting Rules for Certain Services," September 2005.

CAT 2005-05 – "Application of 'Common Owners' and Joint Ventures," September 2005.

CAT 2005-04 – "Quarterly Taxpayers Must File and Pay Electronically," December 2005.

CAT 2005-03 – "Excluded Person -- Consolidated Elected and Combined Taxpayer Groups," December 2005.

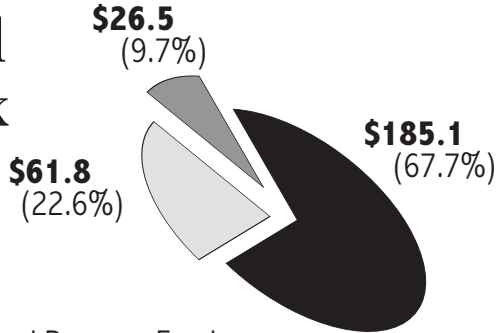
CAT 2005-02 – "Nexus Standards," September 2005.

CAT 2005-01 – "Commercial Activity Tax: Definition of 'Foreign Corporation' in Chapter 5751," December 2005.

COMMERCIAL ACTIVITY TAX

Commercial Activity Tax

Fiscal Year 2006
(figures in millions)



- General Revenue Fund
- Local Government Property Tax Replacement Fund
- School District Property Tax Replacement Fund

Total \$273.4 million



COMMERCIAL ACTIVITY TAX

TABLE 1
FISCAL YEAR 2006
FEBRUARY & MAY TAX RETURNS, BY INDUSTRIAL CLASSIFICATION (a)(b)
(DOLLAR AMOUNTS ARE IN THOUSANDS)

Industrial Classification	NAICS Code Ranges	Number of Taxpayers	Taxable Gross Receipts	Exclusion (c)	Net Taxable Gross Receipts	Tax at 0.06%		Annual Minimum Tax (d)	Total Tax Due: 0.06% Tax and Minimum Tax (e)
						Rate	Minimum Tax (d)		
Agriculture, Forestry, and Fishing	111100-115310	5,711	\$4,858,172	\$2,540,750	\$2,317,422	\$1,390	\$1,141	\$2,531	
Mining	211110-213110	758	3,114,240	387,000	2,727,240	1,636	148	1,785	
Utilities (excluding telecommunications)	221100-221300	126	13,830,010	67,500	13,762,510	8,258	25	8,282	
Construction	236110-238900	18,192	29,278,775	8,826,250	20,452,525	12,272	3,510	15,781	
Manufacturing	311110-339900	14,651	122,452,398	7,985,500	114,466,898	68,680	2,831	71,511	
Wholesale Trade	423100-425120	8,853	48,858,503	4,754,500	44,104,003	26,462	1,718	28,181	
Retail Trade	441110-454390	23,691	85,248,092	11,572,250	73,675,842	44,206	4,553	48,758	
Transportation and Warehousing	481000-493100	4,867	10,555,740	2,291,000	8,264,740	4,959	926	5,884	
Information (including telecommunications)	511110-519100	1,708	19,450,748	843,750	18,606,998	11,164	325	11,489	
Finance and Insurance	522110-525990	5,478	8,438,010	2,482,250	5,955,760	3,573	1,066	4,639	
Real Estate, and Rental & Leasing of Property	531110-533110	14,377	14,903,978	6,593,250	8,310,728	4,986	2,806	7,792	
Professional, Scientific and Technical Services	541110-541990	15,145	24,146,188	7,093,500	17,052,688	10,232	2,940	13,171	
Management of Companies (holding companies)	551111-551112	917	15,820,800	537,000	15,283,800	9,170	178	9,348	
Administrative & Support Services, and Waste Management & Remediation Services	561110-562000	4,382	6,876,800	2,054,000	4,822,800	2,894	843	3,736	
Education, Health Care, and Social Assistance	611000-624410	12,790	15,557,617	6,321,750	9,235,867	5,542	2,531	8,072	
Arts, Entertainment, and Recreation	711100-713900	1,692	1,928,607	779,750	1,148,857	689	325	1,015	
Accommodation and Food Services	721110-722410	8,903	9,650,013	4,107,750	5,542,263	3,325	1,711	5,036	
Other Services	811110-812990	8,759	6,918,875	3,966,750	2,952,125	1,771	1,708	3,479	
Unclassified	n/a	19,660	18,166,547	8,175,000	9,991,547	5,995	3,717	9,712	
TOTAL		170,660	\$460,054,113	\$81,379,500	\$378,674,613	\$227,205	\$32,999	\$260,204	

(a) The total tax liability shown in this table does not match actual commercial activity tax revenues in fiscal year 2006. This is due to several reasons. For one thing, this table reflects reported tax liability, not actual payments made. Furthermore, the table reflects information from tax returns on the computer system as of the dates when the February 2006 and May 2006 return data was extracted; any subsequently filed tax returns or subsequent corrections made to the tax returns are not reflected in this table.

(b) Table reflects nine months of gross receipts: July 2005 - March 2006. In future years, this table will reflect 12 months of activity. This will result in significantly higher dollar amounts for this table (except for the "minimum tax", which should go down in fiscal year 2007).

(c) On a quarterly basis, each taxpayer's first \$250,000 in taxable gross receipts is excluded from the 0.06% tax. For the July-December 2005 period the exclusion was \$500,000. The total exclusion on returns filed in fiscal year 2006 was \$750,000.

(d) The July-December 2005 minimum tax was \$75 (due in February 2006); the calendar year 2006 minimum tax was \$150 (due in May 2006).

(e) Tax due before the registration fee credit.

COMMERCIAL ACTIVITY TAX

TABLE 2
FISCAL YEAR 2006
FEBRUARY & MAY TAX RETURNS,
BY TAXABLE GROSS RECEIPTS (a)
(DOLLAR AMOUNTS ARE IN THOUSANDS)

Size of Taxable Gross Receipts as reported on February 2006 and May 2006 returns (b)	Number of Taxpayers	Taxable Gross Receipts	Exclusion (c)	Net Taxable Gross Receipts	Tax at 0.06% Rate	Annual Minimum Tax (d)	Total Tax Due: 0.06% Tax and Minimum Tax (e)
\$1,000,000 and below (f)	138,946	\$62,026,108	\$59,314,000	\$2,712,108	\$1,627	\$26,596	\$28,223
\$1,000,001 - \$2,000,000	12,576	18,009,507	8,594,250	9,415,257	5,649	2,471	8,120
\$2,000,001 - \$3,000,000	5,516	13,473,692	3,848,000	9,625,692	5,775	1,119	6,895
\$3,000,001 - \$4,000,000	2,843	9,816,145	1,991,500	7,824,645	4,695	579	5,273
\$4,000,001 - \$5,000,000	1,907	8,485,918	1,337,500	7,148,418	4,289	390	4,679
\$5,000,001 - \$10,000,000	4,043	28,235,117	2,850,500	25,384,617	15,231	835	16,066
\$10,000,001 - \$25,000,000	2,787	42,809,222	1,976,250	40,832,972	24,500	579	25,079
\$25,000,001 - \$50,000,000	965	32,988,592	691,250	32,297,342	19,378	202	19,581
\$50,000,001 - \$100,000,000	544	37,940,278	391,750	37,548,528	22,529	116	22,645
Over \$100,000,000	533	206,269,535	384,500	205,885,035	123,531	113	123,644
TOTAL	170,660	\$460,054,113	\$81,379,500	\$378,674,613	\$227,205	\$32,999	\$260,204

(a) The total tax liability shown in this table does not match actual commercial activity tax revenues in fiscal year 2006. This is largely because the table reflects reported tax liability, not actual payments made. Furthermore, the table reflects information from tax returns on the computer system as of the dates when the February 2006 and May 2006 return data was extracted; any subsequently filed tax returns or subsequent corrections made to the tax returns are not reflected in this table.

(b) Table reflects nine months of gross receipts: July 2005 - March 2006. In future years, this table will reflect 12 months of activity. This will cause some taxpayers to shift to a higher taxable gross receipts category and also result in significantly higher dollar amounts for this table (except for the "minimum tax", which should go down in fiscal year 2007).

(c) On a quarterly basis, each taxpayer's first \$250,000 in taxable gross receipts is excluded from the 0.06% tax. However, for the one-time six-month reporting period during July-December 2005, the exclusion was \$500,000. The total combined exclusion on returns filed during fiscal year 2006 was \$750,000.

(d) The July-December 2005 minimum tax was \$75 (due in February 2006), the calendar year 2006 minimum tax was \$150 (due in May 2006).

(e) Tax due before the registration fee credit.

(f) The taxable gross receipts of most May 2006 minimum taxpayers are not included. This is because the May 2006 return required such taxpayers to report only their \$150 tax liability. In addition, there were \$2.7 billion in net taxable gross receipts for this category because some of the taxpayers had taxable gross receipts over \$500,000 on their February 2006 return, had over \$250,000 on their May 2006 return, or both, and thus were subject to the 0.06% tax on such receipts.

CORPORATION FRANCHISE TAX



Ohio first imposed a corporation franchise tax in 1902 at a rate of one mill (.001) on the value of capital stock (net worth) in Ohio. That rate remained until 1959 when it was raised to three mills, followed by one-mill increases in 1967 and 1969. This five-mill net worth tax was joined in 1971 by an alternate tax on net income in Ohio. The current corporation franchise tax requires taxpayers to compute the tax on both net worth and net income and pay on the base that produces the highest tax. However, for most taxpayers the franchise tax is now being phased out over a five-year period (see **Franchise Tax Phase-Out**).

During the 1980s and 1990s there were many changes to the corporation franchise tax, but rates settled from 1988-98 at 5.82 mills on net worth with tax on net income staying at 5.1 percent on the first \$50,000 of income and 8.9 percent on remaining net income.

In 1999, the corporation franchise tax was significantly changed, including rate cuts on net worth to four mills and net income to 8.5 percent. In addition, the net worth tax was capped at \$150,000 for non-financial institutions and the formula for determining how net worth is established (apportioned) for tax purposes was replaced with a new apportionment formula for net income (see **Exhibits 1 and 2** for details on the apportionment formula).

The corporation franchise tax applies differently to financial institutions than it does to general corporations. Financial institutions are subject only to a net worth tax with a rate of 13 mills and must apply a different apportionment formula than applies to general corporations.

All corporations, except family farm corporations and financial institutions, are also subject to a litter tax which is likewise determined using the net worth and net income bases.

In Fiscal Year 2006, the corporation franchise tax generated just under \$1,105.9 million in total revenue (for all funds, and includes some payments for previous year(s) liabilities). Prior to its phase-out this tax was the third largest source of revenue among taxes supporting Ohio's General Revenue Fund (just ahead of the cigarette tax).

Most of the FY 2006 revenue, amounting to \$1,054.9 million, or 95.4 percent, was distributed to the General Revenue Fund. The Local Government Fund received \$41.5 million or 3.8 percent; and \$5.9 million or 0.5 percent was distributed to the Local Government Revenue Assistance Fund. The amount distributed to each fund was established by House Bill 66, the biennium budget bill for FY 2006-2007.

The tables in this chapter provide data from tax year 2005 taken from reports due and filed in 2005. For all corporations except financial institutions, the reported tax liability (including litter tax) before credits was \$1,044.8 million. After tax credits, liability was \$845.3 million. Data on financial institutions are reported separately from general corporations and are shown in the final table. Financial institutions reported tax liability before credits of \$149.7 million for tax year 2005.

Of the total tax liability before credits for general corporations, about 81 percent came from net income taxpayers. Of all corporation franchise taxpayers, approximately 21 percent paid tax on net income, 30 percent paid tax on net worth, and the remaining 49 percent paid the minimum tax.

Of financial institutions, banks filed 66 percent of all returns and paid 76 percent of the total tax liability. Savings and loans filed 26 percent of returns and paid 23 percent of the total liability. Other types of financial institutions accounted for the balance of returns and tax liability.

Franchise Tax Phase-Out:

For most taxpayers the franchise tax is phasing out (see also **Recent Legislation**) at the rate of 20 percent per year over each of the five franchise tax years 2006 through 2010 (taxable years ending in 2005 through 2009). During the same period Ohio's new commercial activity tax (CAT) is phasing in. As a result of the phase-out, the 2009 franchise tax report (based on the taxpayer's taxable year ending in 2008) will be the last franchise tax report for most taxpayers. The franchise tax phase-out does not apply to: (1) financial institutions and certain affiliates of financial institutions when such affiliates are engaged in financial institution-type activities; (2) certain affiliates of insurance companies when such affiliates are engaged in insurance-type activities; and (3) securitization companies. Those entities remain subject to the franchise tax if not otherwise exempt under Ohio Revised Code 5733.09 and are not subject to the CAT.

TAXPAYER (OHIO REVISED CODE 5733.01):

The Ohio corporation franchise tax is imposed on both domestic and foreign corporations for the privilege of doing business in Ohio. It is paid by corporations that:

- are organized for-profit;
- own capital or property in Ohio;
- hold a charter or certificate of compliance authorizing business operations in Ohio; or
- have nexus with Ohio.

Unless exempted, both domestic and foreign for-profit corporations and nonprofit agricultural cooperatives (i.e., Chapter 1729 or like corporations) are subject to the corporation franchise tax. Business trusts defined in R.C. 1746.01 and having nexus with Ohio are also subject to the corporation franchise tax.

TAX BASE (R.C. 5709.50, 5709.65, 5733.04, 5733.05, 5733.051, 5733.056):

The franchise tax is levied on the value of a corporation's issued and outstanding shares of stock. Generally a corporation must determine the value of that stock under both the net income and net worth base, and pay on the base that produces the greater tax.

Financial institutions are not subject to the tax on net income but are subject to the tax on the net worth base at a higher rate than other taxpayers.

CORPORATION FRANCHISE TAX

EXHIBIT 1 - CORPORATION FRANCHISE TAX
NET WORTH TAX BASE**Ohio****Taxable = Net Value**

Value of Stock* x [(**Property factor** x .20)** + (**Payroll factor** x .20)** + (**Sales Factor** x .60)]**

* Excludes value of pollution control, coal conversion, and energy conversion facilities property, qualified property in an enterprise zone, and land devoted exclusively to agriculture. See **Exhibit 2** for explanation of factors.

** Net income base apportionment ratio adjusted to include nonbusiness property, payroll, and sales excluded from the net income base apportionment factors.

EXHIBIT 2 - CORPORATION FRANCHISE TAX
NET INCOME TAX BASE (DOES NOT APPLY TO FINANCIAL INSTITUTIONS)

Ohio Taxable Income*	=	Business Income Apportioned to Ohio	+	Nonbusiness Income Allocated to Ohio	—	Ohio Net Operating Loss Carry Forward Deduction
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* Also includes income (or deducts a loss) from a transferor corporation and includes positive adjustments (or deducts negative adjustments) for related entities and related members.

1. Net Income Apportionment Formula:

**Ohio Apportioned
Net Income** = **Apportionable
Income** x [(**Property Factor** x .20) + (**Payroll Factor** x .20) + (**Sales factor** x .60)]

2. The factors are computed as follows (a):

Property Factor (b) =
$$\frac{\text{Average cost of owned or rented real and tangible personal property used in business in Ohio}}{\text{Average cost of such property used everywhere}}$$

Payroll Factor (c) =
$$\frac{\text{Total compensation paid in Ohio}}{\text{Total compensation paid everywhere}}$$

Sales Factor (d) =
$$\frac{\text{Sales in Ohio}}{\text{Sales everywhere}}$$

(a) The net income base factors do not include property, payroll, or sales relating to nonbusiness income.

(b) Excludes from both the numerator and the denominator the original cost of:

- (1) property within Ohio with respect to which the state has issued an Air Pollution, Noise Pollution, or an Industrial Water Pollution Control Certificate; and
- (2) property used exclusively during the taxable year for qualified research. Excludes from only the numerator the original cost of qualifying improvements to land or tangible personal property at an enterprise zone facility for which the taxpayer holds a Tax Incentive Qualification Certificate issued by the Ohio Department of Development.

(c) Excludes from both the numerator and the denominator compensation paid in Ohio to employees engaged in qualified research. Excludes from only the numerator compensation paid to certain new employees at an enterprise zone facility for which the taxpayer holds a Tax Incentive Qualification Certificate issued by the Ohio Department of Development.

(d) For sales of tangible personal property, sales inside and outside of Ohio are determined by the final destination of the property sold; other sales are situated according to where the purchaser received the benefit of that which was purchased. Sales derived from nonbusiness allocable income are not included in this factor. Interest and dividends likewise are not included in the sales factor.

CORPORATION FRANCHISE TAX

Qualifying holding companies and certain high-tech start-up companies pay tax on the net income base only.

1. Net Worth Base* (R.C. 5733.05 (C)):

The net worth base value of issued and outstanding shares of stock is determined by subtracting from book net worth those items excluded by statute (see **Exemptions and Exclusions**). The tax is calculated by multiplying the taxpayer's adjusted net worth by the net worth apportionment ratio by the net worth tax rate of four mills (.004). For financial institutions, the tax is determined by multiplying the taxpayer's adjusted net worth by the taxpayer's Ohio apportionment ratio by the net worth rate of 13 mills (.013). (* See **Exhibit 1**).

2. Net Income Base* (R.C. 5733.05 (B)):

The net income base value of issued and outstanding shares is calculated by making certain deductions from and additions to federal taxable income before net operating loss deductions and special deductions for the taxable year (see **Exemptions and Exclusions**). The adjusted income is then allocated (nonbusiness income) or apportioned (business income) in and outside Ohio.

Allocable Income (for taxable years ending after June 25, 2003)(R.C. 5733.051):

Unless the Tax Commissioner requires an alternative method of allocation or approves the taxpayer's requested alternative method, only nonbusiness income is allocated in and outside Ohio.

Apportionable Income (for taxable years ending after June 25, 2003):

All income is presumed to be apportionable business income unless the taxpayer shows otherwise or the Tax Commissioner approves or requires an alternative method of apportionment. Business income is apportioned to Ohio according to a weighted three-factor formula: property, payroll, and sales (*See **Exhibit 2**).

Net Income:

Ohio taxable (net) income is equal to the sum of nonbusiness income allocated to Ohio and business income apportioned to Ohio less Ohio net operating losses carried forward from an earlier year.

(* See **Exhibit 2**).

RATES (R.C. 5733.06):

1. Franchise Tax Rates:

Net Worth –

Net worth taxable value is taxed at the rate of four mills (.004). The maximum tax on the net worth base is \$150,000 per taxpayer (non-financial institutions).

Net Income –

Net income is taxed at the rate of 5.1 percent on the first \$50,000 of Ohio taxable income and 8.5 percent on Ohio taxable income in excess of \$50,000. Corporations that meet the ownership requirements to file a combined report must share the \$0 to \$50,000 tax bracket to which the 5.1 percent rate applies, regardless of whether or not they actually file a combined return.

Minimum fee –

For taxable years ending after June 25, 2003, the minimum tax liability for certain large taxpayers is \$1,000, and for taxpayers other than large taxpayers, the minimum fee is \$50.

For franchise tax report years 2006, 2007, 2008, 2009, and 2010 franchise taxpayers that are subject to the phase-out will pay 80 percent, 60 percent, 40 percent, 20 percent, and 0 percent, respectively, of the franchise tax after non-refundable credits that they would otherwise be required to pay. Nevertheless, the nonrefundable credit for tax paid by a qualifying pass-through entity is not subject to the phase-out percentages and thus this credit remains recoverable at 100 percent over the course of the phase-out.

2. Litter Tax Rates (R.C. 5733.065 and 5733.066):

Tier I litter tax applies to all corporations except family farm corporations and financial institutions. The rates are:

- Net Worth** — 0.14 mills (.00014) on the taxable value (adjusted net worth) of the corporation, or
- Net Income** — 0.11 percent (.0011) on the first \$50,000 of Ohio taxable income plus 0.22 percent (.0022) on taxable income in excess of \$50,000.

The maximum Tier I litter tax charged any taxpayer or group of combined taxpayers is \$5,000.

Tier II litter tax applies to taxpayers that manufacture or sell litter stream products in Ohio. The rates are:

- Net Worth** — 0.14 mills (.00014) on the taxable value of the corporation, or
- Net Income** — 0.22 (.0022) percent on Ohio taxable income in excess of \$50,000.

The maximum Tier II litter tax charged any taxpayer or group of combined taxpayers is \$5,000.

Litter stream products include general beverages, beverage containers and packaging, take-out food packaging, tobacco products, candy, and gum.

3. Financial Institutions Rate (R.C. 5733.06):

Financial institutions are subject to tax on the net worth base at a rate of 13 mills (.013).

EXEMPTIONS, EXCLUSIONS, DEDUCTIONS AND ADDITIONS:

1. Corporations not Subject to the Franchise Tax (R.C. 1733.43, 5733.01, 5733.04, 5733.06, 5733.09, and 5733.10):

- (a) Nonprofit corporations (except certain agricultural and consumer cooperatives);
- (b) Municipal corporations;
- (c) Public utilities subject to public utility excise tax;

CORPORATION FRANCHISE TAX

- (d) Credit unions;
- (e) Dealers in intangibles;
- (f) Corporations required to file annual reports with the Ohio Superintendent of Insurance;
- (g) Subject to certain restrictions, "real estate investment trusts," "regulated investment companies," and "real estate mortgage investment conduits" as defined in the Internal Revenue Code (I.R.C.);
- (h) Corporations electing treatment as an "S" corporation under the I.R.C. and their qualified subchapter S subsidiaries (QSSS);
- (i) Limited liability companies (LLCs), if treated as a partnership for federal tax purposes; and
- (j) Corporations in Chapter 7 bankruptcy proceedings except for the portion of the current tax year such corporation had the power to exercise its corporate franchise unimpaired by such proceedings.

2. Additions and Deductions in Determining Net Worth (R.C. 5709.25, 5709.35, 5709.50, 5709.65, 5915.29, 6111.36 and 5733.056):

Add to book net worth (assets minus liabilities) the "qualifying amount" (see R.C. 5733.05 (D) (1)) (does not apply to financial institutions).

Deduct from book net worth:

- (a) Certified Ohio civil defense structures;
- (b) Land in Ohio devoted exclusively to agriculture;
- (c) Qualified improvements to property located in an enterprise zone (generally does not apply to financial institutions); and
- (d) Appreciation and goodwill (applies only to financial institutions).

3. Adjustments in Determining Ohio Net Income (R.C. 5709.35, 5733.04, 5733.042, 5733.053, 5733.054, 5733.055, and 5733.058):

- (a) Deduct certain income from sources outside the United States;
- (b) Deduct I.R.C. section 243 dividends received deduction;
- (c) To the extent not otherwise deducted, deduct dividends received from public utilities, insurance companies, and financial institutions in which the taxpayer has the ownership interests as described by statute (receipts from these companies are eliminated in determining the sales factor for apportioning net income and net worth);
- (d) Deduct gains and add losses from the sale of capital assets and I.R.C. section 1231 assets to the extent such gains and losses occurred prior to becoming a taxpayer;
- (e) Deduct interest on Ohio public and purchase obligations and gains from the sale of Ohio public obligations (losses from sales of Ohio public obligations are added to net income);
- (f) Deduct wage and salary expense not otherwise deducted for federal tax purposes because of the targeted jobs tax credit and/or the work opportunity tax credit;
- (g) Deduct net interest income on federal government obligations;
- (h) Deduct Ohio net operating loss carried forward from the prior 20 years (there is no Ohio net operating loss carry back provision);
- (i) Deduct amounts contributed to an individual development account program;
- (j) Deduct net income attributable to an "exempted investment" in

- a public utility (net loss from exempted investment in a public utility is added to net income);
- (k) Deduct taxable temporary differences in connection with the commercial activity tax credit for franchise tax net operating losses (beginning July 1, 2005; see R.C. section 5751.53 (H) (3));
- (l) Add the amount claimed as a credit for taxes paid by a qualifying pass-through entity to the extent that the amount was deducted or excluded from the corporation's federal taxable income;
- (m) Add interest and intangibles expense paid to certain related members;
- (n) Add income (and deduct losses) earned by a transferor corporation that merges into the taxpayer in a tax-free reorganization;
- (o) Add depreciation expense adjustment for I.R.C. section 168(k) bonus depreciation and additional I.R.C. section 179 depreciation and miscellaneous federal tax adjustments as required. Deduct 1/5 of this add back in each of the five subsequent years. Deduct any miscellaneous federal tax adjustments as required;
- (p) Add distributive or proportionate share of pass-through entity expenses paid to, losses incurred from transactions with, and excess inventory costs paid to related members for taxable years ending after June 29, 2005; and
- (q) Add deductible temporary differences in connection with the commercial activity tax credit for franchise tax net operating losses (beginning July 1, 2005; see R.C. section 5751.53 (H) (2)).

CREDITS AND GRANT:

1. Credit for Recycling and Litter Prevention Donations (R.C. 5733.064):

Taxpayers may claim a nonrefundable credit equal to 50 percent of cash donations for litter control made to municipalities, counties, and townships that qualify for grants from the litter control and recycling special account. This credit is limited to the lesser of cash donations or 50 percent of the additional tax liability from the litter tax rates.

2. Enterprise Zone Day Care and Training Credits (R.C. 5709.65(A)):

Taxpayers that locate in an enterprise zone and hold a Tax Incentive Qualification Certificate issued by the Ohio Department of Development may claim a nonrefundable credit equal to:

- (1) The amount reimbursed to specified employees for the cost of day care services up to a maximum of \$300 per child; or
- (2) The amount reimbursed to specified employees for training costs up to a maximum of \$1,000 per employee.

3. Credit for Savings and Loan Association Fees (R.C. 5733.063):

Savings and loan associations are permitted a nonrefundable credit against the tax due that is equal to the annual assessment the association paid to the Division of Savings and Loan Associations under R.C. 1155.13, less the amount the association paid in supervisory fees during the taxable year to the Federal Savings and Loan Insurance Corporation (or the amount it would have paid if insured).

4. Credit for Taxes Paid by a Qualifying Pass-Through Entity (R.C. 5733.0611):

A corporation that is a qualifying investor in a qualifying pass-through entity can claim a nonrefundable credit equal to the corporation's proportionate share of the tax paid by the qualifying pass-through entity.

5. New Jobs Credit (R.C. 5733.0610):

A taxpayer may claim a refundable credit for new jobs created pursuant to an agreement with the Tax Credit Authority created under R.C. 122.17. The credit equals a designated percentage of the total Ohio income tax withheld from new employees during the taxable year. The percentage is established by agreement between the taxpayer and the Tax Credit Authority. The credit is permitted for a period of up to ten years.

6. Credit for Grape Production Property (R.C. 5733.32):

A taxpayer may claim a nonrefundable credit equal to 10 percent of the cost of purchasing and installing or constructing qualifying property used to produce grapes in Ohio.

7. Credit for Eligible New Employees in an Enterprise Zone (R.C. 5709.66):

A taxpayer that is issued a tax credit certificate for an eligible employee may claim a \$1,000 nonrefundable credit for each taxable year covered under the enterprise zone agreement during which the eligible employee is employed by the taxpayer.

8. Technology Investment Tax Credit (R.C. 5733.35):

Investors that provide capital to certain qualifying small, Ohio-based research and development or technology transfer companies may be eligible for a nonrefundable credit equal to 25 percent of the taxpayer's at-risk investment. The credit must be approved by the state Industrial Technology and Enterprise Board. The maximum cumulative value of credits granted to all taxpayers cannot exceed \$10 million.

9. Grant for Purchases of New Manufacturing Machinery and Equipment:

For taxable years ending on or after July 1, 2005, the manufacturer's credit converts to a grant administered by the Ohio Department of Development. Because the taxable year for the 2007 franchise report and reports thereafter will end after July 1, 2005, only the grant will be available on the franchise tax form for tax years 2007 and thereafter. The qualifying purchase period for the credit and the grant ended on June 30, 2005. (Under prior law the credit would have applied to qualifying purchases of new manufacturing machinery and equipment through December 31, 2015.) So, franchise taxpayers may not claim a grant for new manufacturing machinery and equipment purchased after June 30, 2005.

The nonrefundable grant equals 7.5 percent of the amount by which the cost of qualifying equipment purchased during a calendar year for use in an Ohio county exceeds the taxpayer's "base investment"

for that county. The grant rate for investments in certain eligible areas (inner city areas, distressed areas, labor surplus areas, situational distress areas, and certain Ohio counties) is 13.5 percent. One-seventh of the credit/grant may be claimed in each of the seven tax years following the purchase year. For those taxpayers that are subject to the franchise tax phase-out, the grant will end with their final (2009) franchise tax report because the unused 1/7 grant amounts cannot be applied against the CAT.

10. Day Care Credit (R.C. 5733.37):

A nonrefundable tax credit equal to 50 percent of the start-up expenses of a day care center established on the taxpayer's site and used by the taxpayer's employees (the maximum credit is \$100,000) may be claimed for tax years 1999 through 2003. No new credit is generated for tax year 2004 and thereafter. Unused credits may be carried forward for five taxable years.

11. Credit for Qualifying Affiliated Groups (R.C. 5733.068):

If as a result of the related entity and related member adjustments, an affiliated group would pay over \$3.5 million more franchise tax than the members of the group otherwise would have paid had the members of the group not made the related entity and related member adjustment, then the members of the affiliated group may claim a nonrefundable credit equal to the difference between the additional tax and \$3.5 million. However, the credit is limited to \$1.5 million for the affiliated group (even if the additional tax exceeds \$5.0 million).

12. Job Training Credit (R.C. 5733.42):

This temporary nonrefundable credit applies to franchise taxpayers for tax years 2004, 2005, and 2006 that incurred "eligible training costs" and received a tax credit certificate from the Ohio Director of Job and Family Services with respect to an "eligible training program" for "eligible employees." The credits cannot exceed \$20 million per calendar year and are granted to qualified applicants through means of a lottery-based allocation.

13. Credit for Maintaining Railroad Crossing Warning Devices (R.C. 5733.43):

Railroad companies can claim a nonrefundable credit for maintaining signs, signals, gates, and other electrical warning devices at public highway-railway crossings in Ohio at common grade. The credit equals 10 percent of the annual maintenance costs for each active grade-crossing warning device in Ohio and cannot exceed \$200 for each device.

14. Job Retention Credit (R.C. 5733.0610(B)):

This nonrefundable credit applies to manufacturers that make a capital investment of at least \$200 million (or under certain conditions \$100 million) at a single Ohio site during three consecutive calendar years in the period beginning January 1, 2002 and ending December 31, 2006. To qualify, the taxpayer must employ an average of 1,000 full-time

employees at the site during each of the 12 months preceding application. In addition, the taxpayer must retain at least 1,000 full-time employees at the site for the entire term of the credit agreement.

The credit is determined in an agreement between the taxpayer and the Ohio Tax Credit Authority and equals a percentage (not to exceed 75 percent) of the Ohio income tax withheld from the wages paid to the taxpayer's employees at the project site. The credit began in tax year 2003 and is limited to a term of ten years.

For those franchise taxpayers that are subject to the franchise tax phase-out and the CAT phase-in, the last franchise report year for which the R.C. 5733.0610 (B) nonrefundable job retention credit applies is the 2008 report. The franchise tax credit then automatically converts to a nonrefundable credit against the CAT for tax periods beginning on or after July 1, 2008 for the remaining years of the taxpayer's agreement with the Ohio Tax Credit Authority.

15. Ethanol Plant Investment Credit (R.C. 5733.46 and 901.13):

This nonrefundable credit equals 50 percent of the taxpayer's investment in a R.C. 901.13 certified ethanol plant in the calendar year preceding the tax year. The credit is limited to \$5,000 per taxpayer per plant. The credit began in tax year 2003.

16. Credit for Qualified Research Expense (R.C. 5733.351):

For years 2004 and thereafter this nonrefundable credit equals 7.0 percent of the amount by which the taxpayer's "qualified research expense" (see I.R.C. section 41) in Ohio during the taxable year exceeds the taxpayer's average annual qualified research expenses for the three preceding years. For those franchise taxpayers that are subject to the franchise tax phase-out and the CAT phase-in, the last franchise report year for which the nonrefundable credit for qualified research expense will apply is the 2008 report. The franchise tax credit then automatically converts to a nonrefundable credit against the CAT and any unused franchise tax credit carry forward can be applied toward the CAT for tax periods beginning after June 30, 2008, provided that the total number of carry forward years under the franchise tax and the CAT does not exceed seven.

17. Lottery Commission Withholding Credit (R.C. 5747.062 (B) (2)):

This refundable credit equals the amount the Ohio Lottery Commission withheld from payments to the taxpayer.

18. Credit for Small Telephone Companies (R.C. 5733.57):

For tax years 2005 through 2009 certain small telephone companies can claim a credit equal to a percentage of the amount by which the telephone company's tax before credits exceeds the public utility gross receipts tax that would have been charged had the public utility gross receipts tax continued to apply to the taxpayer.

19. Nonrecurring 9-1-1 Charges Credit for Telephone Companies (R.C. 5733.55):

Beginning in tax year 2005, a telephone company is allowed a nonrefundable credit equal to the amount of the company's eligible nonrecurring 9-1-1 charges. A telephone company must claim this credit for the taxable year in which the 9-1-1 service becomes available for use.

20. Credit for Providing Programs to Aid the Communicatively Impaired (R.C. 5733.56):

Beginning in tax year 2005, a telephone company can claim a nonrefundable credit if it provides a telephone service to aid the communicatively impaired in accessing the telephone network under R.C. 4905.79. The credit equals the cost of providing the program during the taxable year, excluding any costs incurred prior to July 1, 2004. The R.C. 5733.56 credit for providing programs to aid the communicatively impaired can be claimed as a refundable credit only for tax years 2006, 2007, and 2008. The credit is nonrefundable for report year 2005 and for amounts carried forward from 2005 to 2006 and/or 2007 (see R.C. 5733.56 as amended by Amended Substitute House Bill 530, 126th Ohio General Assembly, effective June 30, 2006). This credit is substantially the same as the credit granted under the public utility excise tax (compare R.C. 5733.56 to R.C. 5727.44).

21. Research and Development Loan Repayment Credit (R.C. 5733.352):

The amount of the credit equals the borrower's qualified research and development loan payments during the calendar year immediately preceding the tax year. The payments include principal and interest on a loan made to the borrower from Ohio's research and development fund administered by the Ohio Department of Development. For those taxpayers that are subject to the franchise tax phase-out and the CAT phase-in, the last franchise tax report year for which the nonrefundable research and development loan repayment credit will apply is the 2008 report. The franchise tax credit then automatically converts to a nonrefundable credit against the CAT for tax periods beginning on or after January 1, 2008, and any unused franchise tax credit carry forward can be applied toward the CAT as provided in R.C. section 5751.52.



1. Corporations ceasing business in Ohio may be subject to an "exit tax" on unreported Ohio net income earned in the two calendar years prior to the tax year (see R.C. 5733.06 (H)).
2. A transferee corporation in a tax-free reorganization is required to include in its income the income of the transferor if the transferor is not subject to the franchise tax (see R.C. 5733.053).

3. A corporation claiming the credit for its proportionate share of taxes paid by a qualifying pass-through entity must add to federal taxable income the amount claimed as a credit, to the extent such amount was deducted or excluded from the corporation's federal taxable income (see R.C. 5733.04 (I) (14)).
4. Qualifying pass-through entities (partnerships, S corporations, and LLCs treated as a partnership for federal income tax purposes) doing business in or having nexus with Ohio:
 - are required to pay tax on the qualifying investors' share of the entity's Ohio profits.
 - are subject to a 5.0 percent withholding tax on the sum of the (individual's) distributive shares of the entity's Ohio income and gain.
 - are subject to an 8.5 percent tax on the sum of the (non-individual's) distributive shares of Ohio income and gain. For the pass-through entity's taxable year ending in 2006, the pass-through entity's tax rate on its Ohio income that passes through to its qualifying investors that are subject to the franchise tax phase-out is 5.1 percent. The tax is due only if the adjusted qualifying amount exceeds \$1,000 (see R.C. 5733.40, 5733.41, 5733.04 (I) (14), 5733.0611, 5747.41 through 5747.453, 5747.01 (A) (16) and 5747.059).
5. The net worth tax for financial institutions differs substantially from the net worth tax for regular corporations (see R.C. 5733.056).
6. Each taxpayer must include in its adjusted qualifying amounts, allocable and apportionable income or loss, property, compensation, and sales, the taxpayer's proportionate or distributive share of such items for any pass-through entity in which the taxpayer has a direct or indirect ownership interest (see R.C. 5733.057).
7. If more than half of a taxpayer's capital stock (with voting rights) is owned or controlled by another corporation or by a related interest, the Tax Commissioner may permit or require the combining of net income to calculate the tax base. A qualifying controlled group of taxpayers may elect to file a combined report if each has nondividend income from Ohio sources. This election may not be changed by the taxpayer without the Tax Commissioner's consent. Combination provisions do not apply to the net worth base (see R.C. 5733.052).
8. Intangible expenses and costs paid to certain related members are added to income (see R.C. 5733.042).

minimum fee, the corporation must make full payment by January 31.

March 31:

By March 31, the corporation must either file its franchise tax report and pay the remaining tax due or the corporation must file a request for extension (form FT 1120 ER) and pay the second one-third of its estimated tax liability.

May 31:

By May 31, a corporation must either file the annual report and pay the remaining tax due or file a request for additional extension (form FT 1120 EX) and pay the remaining one-third of its estimated tax liability. A corporation filing this extension must file its annual report and pay any remaining tax liability by the 15th day of the month following the extended due date for filing its federal corporation income tax return.

The interest rate on both underpayments and overpayments is based on the average federal short-term rate in effect in July of the previous year plus three percentage points. For calendar year 2006, the rate was 6.0 percent. The rate increases to 8.0 percent in calendar year 2007.

DISPOSITION OF REVENUE (R.C. 4981.09, 5733.12, 5733.122):

After necessary deposits to the Attorney General Claims Fund, the Litter Control Tax Administration Fund, and the Recycling and Litter Prevention Fund, the Local Government Fund receives 4.2 percent, the Local Government Revenue Assistance Fund receives 0.6 percent, and the General Revenue Fund receives 95.2 percent of franchise tax collections.

This distribution has been temporarily replaced, however (see the chart **Distribution of Revenue from Corporation Franchise Tax** for the FY 2006 distribution). An uncodified provision of House Bill 66, the FY 2006-2007 biennium budget bill, froze FY 2006 and FY 2007 local government fund distributions at FY 2005 levels. The FY 2005 levels were set by H.B. 95, 125th General Assembly, the FY 2004-2005 biennium budget bill, which continued a freeze on local government funds that began in 2002 and froze the funds at their FY 2001 levels. For each month of FY 2006, the Local Government Fund and Local Government Revenue Assistance Fund received the same amount they received for the corresponding month of the July 2004 - June 2005 period.

The amount appropriated annually for administration of the litter tax is credited to the Litter Control Tax Administration Fund. The annual amount credited to the Recycling and Litter Prevention Fund equals the litter tax liability in the second preceding year.

ADMINISTRATION:

The corporation franchise tax is administered by the Department of Taxation. Some tax credits and grants are administered by the Ohio Department of Development. Tax payments are payable to the Treasurer of State but are received by the Department of Taxation.

Taxpayers are required to pay by electronic funds transfer (EFT) if for the second preceding tax year the taxpayer's total franchise tax liability after reduction



(R.C. 5733.02, 5733.021, 5733.022 AND 5733.13):

January 31:

If by January 31 the corporation does not file the annual report and make full payment of the tax due, then the corporation must file form FT 1120 E and pay one-third of that estimated liability. If the estimated tax liability is the

for nonrefundable credits exceeded \$50,000. Taxpayers that are required to pay by EFT must register through the Treasurer of State.

OHIO REVISED CODE CITATIONS:
Chapters 122, 1733, 4981, 5703, 5709, 5733, 5751 and 5915.



Amended Substitute House Bill 530 (House Bill 530), 126th Ohio General Assembly (effective march 30, 2006):

Among other provisions this new law enacted a new Ohio Revised Code section 5701.11 which for all of Title 57 of the Ohio Revised Code defines the term "Internal Revenue Code 'as amended'" as being the Internal Revenue Code existing on the effective date of R.C. 5701.11 as enacted by H.B. 530 (R.C. 5701.11 became effective on March 30, 2006). By enacting R.C. 5701.11, the Ohio General Assembly adopted for franchise tax purposes all the changes to the Internal Revenue Code enacted by Congress since the General Assembly last amended R.C. 5733.04 (R.C. 5733.04 was last amended December 30, 2004).

Amended Substitute H.B. 66, 126th General Assembly (FY 2006-2007 biennium budget bill, effective June 30, 2005 for taxable years ending on or after July 1, 2005).

Phase-Out of the Corporation Franchise Tax:

The corporation franchise tax phases out for most corporations over a five-year period starting in 2006. A corporation will continue to compute its corporation franchise tax liability during that five years, but will pay a smaller percentage of the tax computed each year until the tax is totally phased out in 2010. A corporation will pay either the minimum tax (\$50 for small companies and \$1,000 for large companies), or its computed tax, whichever is greater. In calculating its corporation franchise tax, a corporation will take any nonrefundable credits first (except for the pass-through entity tax credit). Then, the corporation will reduce its remaining liability by a percentage: 20 percent for 2006, 40 percent for 2007, 60 percent for 2008, and 80 percent for 2009. The pass-through entity tax credit and the refundable tax credits are then taken after making that calculation. For most corporations, there will be no franchise tax payable for tax year 2010 and forward.

Most corporations will continue to claim any unused net operating loss carry forwards on their franchise tax report during the phase-out period. However, certain companies with Ohio net operating losses in excess of \$50 million will be allowed to claim a portion of their unused net operating losses and other net deferred tax assets as a credit against the commercial activity tax. That portion of the net operating losses on which the taxpayer claims the CAT credit cannot be deducted on the franchise report.

Certain corporations will continue to pay the franchise tax. These include: banks and other financial institutions (and their majority-owned affiliates engaged in financial institution-type activities), and securitization types of companies. The franchise tax for these companies will be based on the law prior to its amendment by H.B. 66 (no phase-out).

Ohio law allows businesses to take a credit (now a grant) against their franchise tax for purchases of new manufacturing machinery and equipment. This credit/grant is no longer available for purchases of qualifying equipment made after June 30, 2005. In addition, the qualifying machinery and equipment purchased prior to July 1, 2005 must be installed by June 30, 2006. The law also clarifies an existing requirement that a "Notice of Intent" must be filed with the Ohio Department of Development. For taxable years ending after June 30, 2005, the credit is replaced by a grant administered by the Ohio Department of Development. The same eligibility requirements applicable to the former credit for new manufacturing machinery and equipment also apply to the grant. The terms and conditions for the new grants are essentially the same as those for the former credit. Any benefits that could be taken under the credit must now be taken under the grant.

Additionally, taxpayers that are subject to the franchise tax phase-out and the CAT phase-in may not claim their unused nonrefundable franchise tax credits or credit carry forwards as a credit against the CAT. Exceptions to that general rule include the following three nonrefundable credits: the job retention credit, the credit for qualified research expense, and the research and development loan repayment credit.

H.B. 66 amended R.C. 5733.98 changing the order in which nonrefundable franchise tax credits are recovered for report years 2006 and thereafter. For franchise tax years 2006 and thereafter, the credit for tax paid by a qualifying pass-through entity is deducted after all other nonrefundable credits and the research and development loan repayment credit is deducted immediately before the credit for tax paid by a qualifying pass-through entity. The credit for tax paid by a qualifying pass-through entity is not subject to the phase-out and therefore is recoverable at 100 percent.

Credit for Losses on Loans to the Ohio Venture Capital Program:

If the taxpayer elected to claim the credit as a refundable credit and the amount of the credit as shown on the tax credit certificate issued by the Ohio Venture Capital Authority is less than or equal to the franchise tax (including the litter taxes) after all nonrefundable credits are deducted, then the taxpayer can claim a refundable credit equal to the amount shown on the credit certificate.

If the taxpayer elected to claim the credit as a refundable credit and the amount of the credit as shown on the tax credit certificate issued by the Ohio Venture Capital Authority is greater than the franchise tax (including the litter taxes) after all nonrefundable credits are deducted, then the taxpayer can claim a refundable credit equal to the sum of: (1) the franchise tax (including the litter taxes) after all nonrefundable credits are deducted; and (2) 75 percent of the amount by which the refundable credit exceeds the tax after all nonrefundable credits.

Caution: This credit may not be claimed until the beginning of the fifth year after the authority establishes its investment policy. The authority established its investment policy on June 13, 2004. Thus, this credit cannot be claimed on the 2007 franchise tax report and is not included on the tax form.

Recent Significant Court Decisions

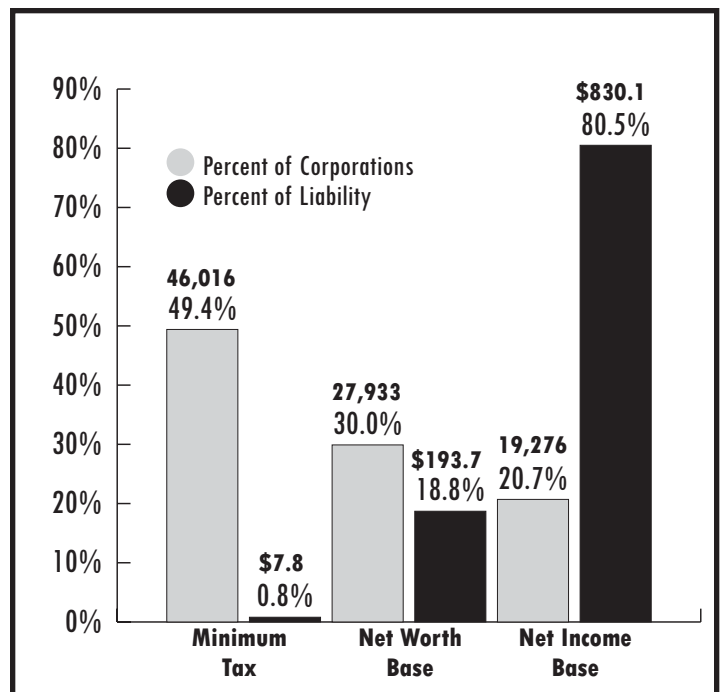


Daimler Chrysler Corp. v. Cuno, 547 U.S. (2006). The United States Supreme Court held that the plaintiffs had not established their standing to challenge the 7.5 percent-13.5 percent credit. Because the plaintiffs had no standing to challenge the credit, the lower courts erred by considering the plaintiffs' claims on the merits. Because of this decision, taxpayers can continue to claim the 7.5 percent-13.5 percent credit/grant as provided by Ohio law. (For taxable years ending on or after July 1, 2005 the 7.5 percent-13.5 percent manufacturer's credit converts to a nonrefundable grant. The Court's decision here does not convert the grant back to a credit. Taxpayers claiming the grant must file the grant request form with their tax return or with an amended return filed within the refund statute of limitations.)

Federated Department Stores v. Wilkins, 107 Ohio St.3d 165, 2005-Ohio-6181 (December 7, 2005). Agreeing with the taxpayer and the earlier decision of the Board of Tax Appeals, the Ohio Supreme Court held that following the taxpayer's emergence from Chapter 11 bankruptcy reorganization, the taxpayer properly reflected on its 1993 franchise tax report (for the taxable year February 1, 1991 to January 31, 1992) the taxpayer's February 1, 1992 lower net worth "pre-fresh-start" values (as opposed to the taxpayer's higher net worth fresh-start values applicable subsequent to the taxpayer's emergence from bankruptcy) because the date when all material conditions precedent to Federated's reorganization were resolved and the earliest date that Federated could have adopted fresh-start reporting was February 4, 1992 — the date it emerged from Chapter 11 reorganization. (On its 1993 franchise tax report Federated reported the lower pre-fresh-start values. But, on its form 10-K filed with the Securities and Exchange Commission and on its annual report to shareholders, Federated showed the higher fresh-start values and expressly stated that Federated adopted fresh-start reporting on February 1, 1992.)

PERCENTAGE OF CORPORATIONS AND TAX LIABILITY BY TAX BASE, TAX YEAR 2005

Total Number of Corporations 93,225
Total Reported Tax Liability \$1,031.6 million
(figures in millions)
(excludes litter tax)
(excludes financial institutions)



National City Bank, Cleveland (n/k/a National City Bank), c/o National City Corporation v. Zaino (July 22, 2005), BTA Case No. 2003-A-1328. The taxpayer appealed this decision to the Ohio Supreme Court where at this writing the matter is still pending. The Board of Tax Appeals affirmed the commissioner's findings in determining that increases in the cash surrender values (CSV) of the taxpayer's bank-owned life insurance (BOLI) contracts are not considered appreciation and therefore should not be excluded in computing the taxpayer's net worth subject to franchise tax.

CORPORATION FRANCHISE TAX

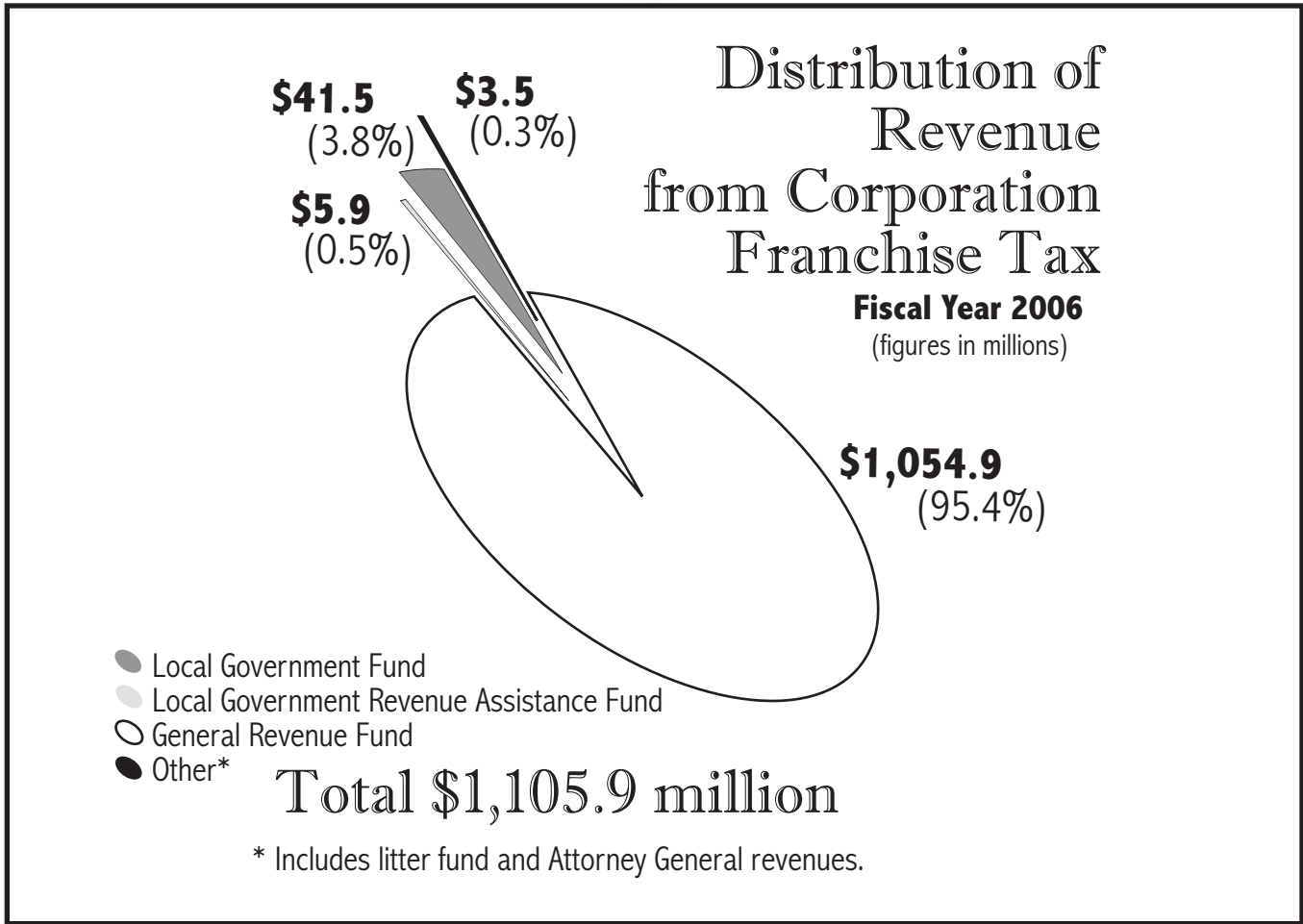


TABLE 1
CORPORATION FRANCHISE TAX COLLECTIONS,
FISCAL YEARS
2002 - 2006

Fiscal Year	Gross Tax Collections	Refunds	Net Tax Collections
2002	\$1,011,443,330	\$237,075,921	\$774,367,410
2003	1,015,027,341	206,770,271	808,257,070
2004	1,060,594,780	190,009,406	870,585,374
2005	1,282,059,637	170,495,325	1,111,564,312
2006	1,309,521,936	203,658,836	1,105,863,100

TABLE 2
CORPORATION FRANCHISE TAX
NUMBER OF CORPORATIONS BY TAX BASE AND
INDUSTRY, TAX YEAR 2005

Industry	Number of Corporations by Tax Base			
	Minimum	Net Worth	Net Income	Total
Agriculture & Forestry	558	514	321	1,393
Mining	278	256	138	672
Construction	4,234	2,978	1,635	8,847
Manufacturing	3,639	4,250	2,423	10,312
Transport, Communication, Utility	2,367	1,323	1,106	4,796
Wholesale Trade	2,414	2,413	1,646	6,473
Retail Trade	5,966	4,470	2,767	13,203
Finance, Insurance, Real Estate	6,697	3,666	2,615	12,978
Services	15,635	7,145	5,696	28,476
Unknown*	4,228	918	929	6,075
TOTAL	46,016	27,933	19,276	93,225

* Industry classification was not indicated by the taxpayer.

TABLE 3
CORPORATION FRANCHISE TAX
NUMBER OF CORPORATIONS BY TAX BASE AND
TAX LIABILITY CLASS, TAX YEAR 2005

Tax Liability Class	Number of Corporations by Tax Base			
	Minimum	Net Worth	Net Income	Total
Minimum	46,016	--	--	46,016
\$51 - 1,000	--	14,625	6,205	20,830
1,001 - 2,000	--	4,579	3,252	7,831
2,001 - 3,000	--	2,049	1,689	3,738
3,001 - 4,000	--	1,093	806	1,899
4,001 - 5,000	--	764	690	1,454
5,001 - 10,000	--	1,666	1,886	3,552
10,001 - 15,000	--	743	948	1,691
15,001 - 20,000	--	378	563	941
20,001 - 25,000	--	273	359	632
25,001 - 30,000	--	209	290	499
30,001 - 35,000	--	176	249	425
35,001 - 50,000	--	329	501	830
50,001 - 100,000	--	450	707	1,157
100,001 - 200,000	--	599	469	1,068
200,001 - 500,000	--	--	406	406
500,001 - 1,000,000	--	--	141	141
Over \$1,000,000	--	--	115	115
TOTAL	46,016	27,933	19,276	93,225

CORPORATION FRANCHISE TAX

TABLE 4
CORPORATION FRANCHISE TAX
REPORTED TAX LIABILITY BY TAX BASE AND INDUSTRY
TAX YEAR 2005

Industry	Tax Liability Before Litter Tax and Credits By Tax Base			Litter Tax (a)	Liability Before Tax Credits	Tax Credits	Liability After Tax Credits
	Minimum	Net Worth	Net Income				
Agriculture & Forestry	\$50,700	\$856,147	\$1,901,285	\$2,808,132	\$63,405	\$2,871,537	\$2,795,761
Mining	45,250	1,657,690	6,824,345	8,527,285	136,866	8,664,151	5,025,026
Construction	659,150	8,674,023	24,517,264	33,850,437	623,634	34,474,071	33,021,595
Manufacturing	904,900	61,385,425	273,827,659	336,117,984	3,870,984	339,988,968	233,212,800
Transport, Communication, Utility	471,750	16,136,247	181,268,399	197,876,396	1,018,315	198,894,711	158,798,179
Wholesale Trade	465,550	14,780,061	80,708,071	95,953,682	1,312,324	97,266,006	88,494,068
Retail Trade	1,114,350	22,611,156	88,238,911	111,964,417	1,771,028	113,735,445	105,506,221
Finance, Insurance, Real Estate	1,020,750	23,835,133	53,464,054	78,319,937	1,396,795	79,716,732	66,542,330
Services	2,364,450	36,118,408	109,894,008	148,376,865	2,540,388	150,917,253	135,475,245
Unknown (b)	679,750	7,682,670	9,439,525	17,801,945	449,805	18,251,750	16,427,365
Total	\$7,776,600	\$193,736,960	\$830,083,521	\$1,031,597,081	\$13,183,544	\$1,044,780,624	\$845,298,590

(a) Combines Tier I of litter tax, which is paid by all corporations, and Tier II of litter tax, which is paid only by "litter stream" corporations.

(b) Industry classification was not indicated by taxpayer.

TABLE 5
CORPORATION FRANCHISE TAX
REPORTED TAX LIABILITY BY TAX BASE AND TAX LIABILITY CLASS
TAX YEAR 2005

Tax Liability Class	Tax Liability Before Litter Tax and Credits By Tax Base			Litter Tax*	Liability Before Tax Credits	Tax Credits	Liability After Tax Credits
	Minimum	Net Worth	Net Income				
Minimum	\$7,776,600	--	--	--	\$7,776,600	\$5,351,224	\$2,425,376
\$51 -	1,000	\$4,996,461	\$2,478,790	\$229,829	7,705,079	139,136	7,565,943
1,001 -	2,000	6,197,217	4,539,442	305,434	11,042,093	459,211	10,582,882
2,001 -	3,000	4,854,837	4,014,639	254,854	9,124,330	498,106	8,626,224
3,001 -	4,000	3,654,952	2,738,069	6,393,021	6,580,420	454,788	6,125,632
4,001 -	5,000	3,303,786	3,024,902	6,328,688	6,509,099	685,583	5,823,516
5,001 -	10,000	11,357,211	13,162,334	24,519,545	25,211,482	2,364,595	22,846,888
10,001 -	15,000	8,763,636	11,364,733	20,128,369	20,700,131	2,007,206	18,692,925
15,001 -	20,000	6,283,418	9,540,832	15,824,250	16,268,395	1,908,217	14,360,178
20,001 -	25,000	5,916,826	7,783,255	13,700,081	14,078,517	1,716,890	12,361,627
25,001 -	30,000	5,561,100	7,775,764	13,336,864	13,695,594	1,505,665	12,189,929
30,001 -	35,000	5,577,083	7,874,869	13,451,952	13,820,554	1,431,953	12,388,601
35,001 -	50,000	13,471,437	20,510,439	33,981,876	34,880,498	4,660,231	30,220,267
50,001 -	100,000	30,327,066	48,861,962	79,189,028	81,244,193	12,746,680	68,497,513
100,001 -	200,000	83,471,930	63,886,136	147,358,066	150,841,259	44,655,368	106,185,891
200,001 -	500,000	--	124,911,660	124,911,660	126,687,490	27,196,534	99,490,956
500,001 -	1,000,000	--	99,651,662	99,651,662	100,210,492	19,478,966	80,731,526
Over	\$1,000,000	--	397,964,033	397,964,033	398,404,398	72,221,681	326,182,717
TOTAL	\$7,776,600	\$193,736,960	\$830,083,521	\$1,031,597,081	\$1,044,780,624	\$199,482,034	\$845,298,590

*Combines Tier I of litter tax, which is paid by all corporations, and Tier II of litter tax, which is paid only by "litter stream" corporations.

CORPORATION FRANCHISE TAX

TABLE 6
CORPORATION FRANCHISE TAX
NUMBER OF MANUFACTURING CORPORATIONS, BY TAX BASE AND INDUSTRY
TAX YEAR 2005

Industry	Number of Corporations by Tax Base			
	Minimum	Net Worth	Net Income	Total
Food	188	206	157	551
Tobacco Manufacturers	4	2	5	11
Apparel and Other Textiles	73	63	39	175
Lumber and Wood Products	129	154	82	365
Paper	78	102	46	226
Printing and Publishing	256	284	133	673
Chemicals	250	306	215	771
Petroleum and Coal	40	39	27	106
Rubber and Plastics	232	267	163	662
Leather Products	9	11	4	24
Stone, Clay and Glass Products	108	158	91	357
Primary Metal	153	152	99	404
Fabricated Metal	789	1,066	546	2,401
Machinery (non-electrical)	379	448	208	1,035
Electrical Machinery	316	336	173	825
Transportation Equipment	130	140	106	376
Miscellaneous Manufacturing	505	516	329	1,350
TOTAL	3,639	4,250	2,423	10,312



CORPORATION FRANCHISE TAX

TABLE 7
 CORPORATION FRANCHISE TAX
 NUMBER OF MANUFACTURING CORPORATIONS,
 BY TAX BASE AND TAX LIABILITY CLASS
 TAX YEAR 2005

Liability Class	Number of Corporations by Tax Base			
	Minimum	Net Worth	Net Income	Total
Minimum	3,639	--	--	3,639
\$51 - 1,000	--	1,357	335	1,692
1,001 - 2,000	--	782	317	1,099
2,001 - 3,000	--	380	165	545
3,001 - 4,000	--	216	96	312
4,001 - 5,000	--	173	92	265
5,001 - 10,000	--	367	296	663
10,001 - 15,000	--	188	164	352
15,001 - 20,000	--	117	109	226
20,001 - 25,000	--	80	73	153
25,001 - 30,000	--	66	61	127
30,001 - 35,000	--	42	47	89
35,001 - 50,000	--	115	96	211
50,001 - 100,000	--	136	182	318
100,001 - 200,000	--	231	141	372
200,001 - 500,000	--	--	142	142
500,001 - 1,000,000	--	--	59	59
Over \$1,000,000	--	--	48	48
TOTAL	3,639	4,250	2,423	10,312



CORPORATION FRANCHISE TAX

TABLE 8
CORPORATION FRANCHISE TAX
REPORTED TAX LIABILITY FOR MANUFACTURING CORPORATIONS,
BY TAX BASE AND INDUSTRY CLASSIFICATIONS
TAX YEAR 2005

Industry	Tax Liability Before Litter Tax and Credits by Tax Base				Litter Tax*	Liability Before Tax Credits	Tax Credits	Liability After Tax Credits
	Minimum	Net Worth	Net Income	Total				
Food	\$57,850	\$4,114,645	\$34,846,371	\$39,018,866	\$337,832	\$39,356,698	\$8,318,915	\$31,037,783
Tobacco Manufacturers	200	163,982	9,016,701	9,180,883	34,373	9,215,256	917,476	8,297,780
Apparel and Other Textiles	19,800	579,450	1,167,775	1,767,025	42,667	1,809,692	72,318	1,737,374
Lumber and Wood Products	23,550	1,115,019	3,538,802	4,677,371	81,840	4,759,211	1,615,431	3,143,780
Paper	21,000	2,461,419	1,901,546	4,383,965	101,678	4,485,643	3,346,000	1,139,643
Printing and Publishing	40,350	2,218,900	6,872,462	9,131,712	147,734	9,279,446	2,711,507	6,567,939
Chemicals	96,100	9,132,497	73,050,002	82,278,599	547,888	82,826,487	10,707,068	72,119,419
Petroleum and Coal	12,450	1,079,749	12,275,097	13,367,296	60,004	13,427,300	4,837,226	8,590,074
Rubber and Plastics	57,200	3,902,048	7,732,350	11,691,598	260,555	11,952,153	3,958,304	7,993,849
Leather Products	4,250	177,022	29,312	210,584	6,924	217,508	6,199	211,309
Stone, Clay and Glass Products	25,350	2,626,913	4,954,492	7,606,755	149,351	7,756,106	4,148,625	3,607,481
Primary Metal	39,950	3,200,064	14,673,232	17,913,246	193,565	18,106,811	9,752,276	8,354,535
Fabricated Metal	157,250	7,415,577	25,300,901	32,873,728	540,436	33,414,164	10,766,133	22,648,031
Machinery (non-electrical)	103,500	5,278,326	8,627,705	14,009,531	286,054	14,295,585	4,258,832	10,036,753
Electrical Machinery	86,100	5,855,722	18,788,125	24,729,947	344,642	25,074,589	7,866,404	17,208,185
Transportation Equipment	44,500	5,200,200	29,450,099	34,694,799	310,409	35,005,208	27,731,189	7,274,019
Miscellaneous Manufacturing	115,500	6,863,892	21,602,687	28,582,079	425,032	29,007,111	5,762,265	23,244,846
TOTAL	\$904,900	\$61,385,425	\$273,827,659	\$336,117,984	\$3,870,984	\$339,988,968	\$106,776,168	\$233,212,800

*Tier I of litter tax is paid by all corporations. Tier II of litter tax is paid only by "litter stream" corporations.

TABLE 9
 CORPORATION FRANCHISE TAX
 REPORTED TAX LIABILITY FOR MANUFACTURING CORPORATIONS,
 BY TAX BASE AND TAX LIABILITY CLASS
 TAX YEAR 2005

Tax Liability Class	Tax Liability Before Litter Tax and Credits By Tax Base				Litter Tax*	Liability Before Tax Credits	Tax Credits	Liability After Tax Credits
	Minimum	Net Worth	Net Income	Total				
Minimum	\$904,900	--	--	\$904,900	--	\$904,900	\$639,192	\$265,708
\$51 - 1,000	--	\$529,518	\$135,799	665,317	\$21,185	686,502	61,940	624,562
1,001 - 2,000	--	1,054,746	445,568	1,500,314	44,650	1,544,964	205,141	1,339,823
2,001 - 3,000	--	899,759	392,888	1,292,647	39,704	1,332,351	196,541	1,135,810
3,001 - 4,000	--	726,309	326,013	1,052,322	32,374	1,084,696	212,429	872,267
4,001 - 5,000	--	748,811	403,301	1,152,112	34,414	1,186,526	293,951	892,575
5,001 - 10,000	--	2,517,216	2,067,372	4,584,588	137,143	4,721,731	1,007,860	3,713,871
10,001 - 15,000	--	2,200,427	1,953,206	4,153,633	122,278	4,275,911	1,086,208	3,189,703
15,001 - 20,000	--	1,936,441	1,870,740	3,807,181	111,174	3,918,355	1,000,014	2,918,341
20,001 - 25,000	--	1,722,948	1,606,224	3,329,172	93,209	3,422,381	950,632	2,471,749
25,001 - 30,000	--	1,745,415	1,645,680	3,391,095	97,209	3,488,304	652,339	2,835,965
30,001 - 35,000	--	1,335,437	1,483,787	2,819,224	80,087	2,899,311	621,979	2,277,332
35,001 - 50,000	--	4,673,986	4,013,234	8,687,220	245,877	8,933,097	2,093,065	6,840,032
50,001 - 100,000	--	9,247,976	12,663,115	21,911,091	558,506	22,469,597	6,296,128	16,173,469
100,001 - 200,000	--	32,046,436	19,394,658	51,441,094	1,264,768	52,705,862	29,629,475	23,076,387
200,001 - 500,000	--	--	44,783,993	44,783,993	576,964	45,360,957	16,566,543	28,794,414
500,001 - 1,000,000	--	--	43,442,123	43,442,123	219,508	43,661,631	13,297,979	30,363,652
Over \$1,000,000	--	--	137,199,958	137,199,958	191,934	137,391,892	31,964,752	105,427,140
TOTAL	\$904,900	\$61,385,425	\$273,827,659	\$336,117,984	\$3,870,984	\$339,988,968	\$106,776,168	\$233,212,800

*Combines Tier I litter tax, which is paid by all corporations, and Tier II litter tax, which is paid only by "litter stream" corporations.

CORPORATION FRANCHISE TAX

TABLE 10
CORPORATION FRANCHISE TAX
NUMBER OF FINANCIAL INSTITUTIONS AND REPORTED TAX LIABILITY,
BY TYPE OF INSTITUTION
TAX YEAR 2005

Tax Liability Class	Number of Corporations By Type				Tax Liability Before Credits By Type				
	Banks	Savings & Loans	Other *	Total	Banks	Savings & Loans	Other *	Total	Tax Credits
Minimum (\$50 or \$1000)	9	1	1	11	\$6,150	\$50	\$50	\$6,250	\$95,133
\$51 - 1,000	1	3	11	15	91	1,379	1,551	3,071	3,243
1,001 - 2,000	2	1	9	12	2,689	1,000	9,040	12,729	1,954
2,001 - 3,000	3	2	1	6	7,198	4,878	2,158	14,234	--
3,001 - 4,000	4	--	--	4	12,944	--	--	12,944	--
4,001 - 5,000	2	--	--	2	8,940	--	--	8,940	--
5,001 - 10,000	4	--	--	4	25,609	--	--	25,609	--
10,001 - 15,000	11	1	--	12	129,870	11,459	--	141,329	--
15,001 - 20,000	5	1	3	9	88,454	17,869	52,743	159,066	41,642
20,001 - 25,000	4	--	--	4	84,982	--	--	84,982	--
25,001 - 30,000	7	1	2	10	191,465	29,168	56,550	277,183	4,056
30,001 - 35,000	4	1	--	5	133,057	33,079	--	166,086	--
35,001 - 50,000	13	10	2	25	557,626	424,618	76,006	1,058,250	57,624
50,001 - 100,000	49	21	1	71	3,588,398	1,619,891	51,623	5,259,912	237,183
100,001 - 200,000	65	24	--	89	9,303,875	3,437,766	--	12,741,641	250,054
200,001 - 500,000	47	22	1	70	14,837,525	7,108,343	202,922	22,148,790	844,630
500,001 - 1,000,000	19	8	--	27	12,612,757	5,731,598	--	18,344,355	558,593
Over \$1,000,000	12	6	--	18	72,768,384	16,489,666	--	89,258,050	22,625,240
TOTAL	261	102	31	394	\$114,360,014	\$34,910,714	\$452,643	\$149,723,371	\$24,719,352

* Primarily credit agencies that accept deposits.

DEALERS IN INTANGIBLES TAX

Ohio law provides for the taxation of shares in and capital employed by dealers in intangibles. In calendar year 2006, tax assessments on dealers in intangibles resulted in collections totaling nearly \$19.4 million, with approximately \$12.1 million distributed to local governments and \$7.3 million to the state General Revenue Fund. In addition, approximately \$11.1 million in tax was assessed on qualifying dealers in intangibles, payable to the state General Revenue Fund.

House Bill 405, 124th General Assembly, mandated that beginning in tax year 2003, a “qualifying dealer” is defined to be a dealer in intangibles that is a member of a controlled group of which a financial institution or insurance company is also a member. The tax paid by qualifying dealers is credited to the state General Revenue Fund.

TAXPAYER (OHIO REVISED CODE 5725.01):

Firms having an office in Ohio and engaged in:

- lending money;
- discounting, buying, or selling bills of exchange, drafts, acceptances, notes, mortgages, or other evidences of indebtedness; or
- buying or selling bonds, stocks, or other investment securities.

TAX BASE (R.C. 5725.13-15):

The tax base for dealers in intangibles is either:

1. Shares of stock of incorporated dealers in intangibles and unincorporated dealers in intangibles with capital stock divided into shares; or
2. Capital employed in Ohio by an unincorporated dealer in intangibles with capital stock not divided into shares.

For dealers in intangibles with offices in more than one state, the tax base is allocated to Ohio based on gross receipts from offices in Ohio as compared to gross receipts from all offices.

RATES (R.C. 5707.03):

Rate on fair value of shares or capital employed is eight mills (.008).

EXEMPTIONS (R.C. 5725.01 AND 5725.26):

The following are excluded from the definition of a dealer in intangibles:

1. Institutions used exclusively for charitable purposes;
2. Insurance companies; and
3. Financial institutions.

CREDITS (R.C. 150.07, 150.10, 5707.031):

Starting with tax year 2006, qualifying dealers in intangibles may claim a refundable or nonrefundable venture capital credit against the dealer's tax due. The credit amount and tax year in which the venture capital credit may be claimed shall be listed on a tax credit certificate issued by the Ohio Venture Capital Authority.



(R.C. 5725.10, 5725.14, 5725.16, 5725.22):

Second Monday in March — Returns must be filed by this date unless a time extension (not to exceed 30 days) is allowed by the Tax Commissioner.

First Monday in May — Tax Commissioner certifies the assessment of the shares or property representing capital to the Treasurer of State.

The Treasurer of State issues a tax bill within 20 days of certification by the Tax Commissioner with payment due 20 to 30 days from the date the bill is mailed. Taxes are collected by the Treasurer of State.

DISPOSITION OF REVENUE (R.C. 5725.24):

1. Three mills of receipts credited to the state General Revenue Fund for dealers that are not “qualifying dealers.”
2. Five mills of receipts distributed to the county where the firm's capital was employed (determined on the basis of gross receipts) for dealers that are not “qualifying dealers,” placed in each county's undivided Local Government Fund and distributed among the local subdivisions by the county budget commission.
3. All the tax paid by “qualifying dealers” is paid to the state General Revenue Fund.

ADMINISTRATION (R.C. 5725.14):

Returns are filed with the Tax Commissioner who determines the taxable values.

OHIO REVISED CODE CITATIONS:

Chapters 5707, 5719, and 5725.



Amended Substitute House Bill 66, 126th General Assembly (effective July 1, 2005). R.C. 150.07, 150.10, 5727.241:

Created a qualifying dealer in intangibles tax venture capital credit as listed on an Ohio Venture Capital Credit tax credit certificate. The amount of the venture capital credit and the tax year in which it may be claimed will be listed on the tax credit certificate. The qualifying dealer in intangibles may elect to take either a refundable or nonrefundable credit.

DEALERS IN INTANGIBLES TAX

Also, as a result of a requirement set forth in Am. Sub. H.B. 66 and R.C. 5725.01 (B) (2), the Tax Commissioner promulgated Ohio Administrative Code rule 5703-

3-32, effective December 2005, which defined the term "primarily" as used in R.C. 5725.01 to describe a dealer in intangibles.

TABLE 1
DEALERS IN INTANGIBLES TAXES LEVIED, CALENDAR YEARS 2002-2006

Distribution	2002	2003	2004	2005	2006
Local Share	\$11,229,780	\$7,176,496	\$10,587,846	\$11,265,677	\$12,094,989
State Share*	<u>7,072,345</u>	<u>4,305,900</u>	<u>6,352,710</u>	<u>6,759,411</u>	<u>7,256,993</u>
TOTAL	\$18,302,126	\$11,482,396	\$16,940,556	\$18,025,088	\$19,351,982

*Does not include taxes levied on qualifying dealers in intangibles, amounting to \$24,299,670 in 2003, \$23,044,589 in 2004, \$17,970,397 in 2005, and \$11,125,886 in 2006.

TABLE 2
COUNTY SHARE OF INTANGIBLE PROPERTY TAXES
ASSESSED ON DEALERS IN INTANGIBLES, TAX YEAR 2005

County	County Share of Assessed Taxes	County	County Share of Assessed Taxes	County	County Share of Assessed Taxes
ADAMS	\$12,925	HARDIN	\$3,817	PICKAWAY	\$5,629
ALLEN	42,628	HARRISON	1	PIKE	33,457
ASHLAND	18,778	HENRY	15,866	PORTAGE	33,444
ASHTABULA	26,810	HIGHLAND	6,175	PREBLE	3,449
ATHENS	5,470	HOCKING	17,367	PUTNAM	1,173
AUGLAIZE	14,755	HOLMES	538	RICHLAND	62,235
BELMONT	5,530	HURON	23,623	ROSS	11,423
BROWN	2,339	JACKSON	19,833	SANDUSKY	6,699
BUTLER	79,217	JEFFERSON	28,756	SCIOTO	35,460
CARROLL	320	KNOX	20,782	SENECA	4,003
CHAMPAIGN	3,234	LAKE	111,266	SHELBY	11,734
CLARK	36,062	LAWRENCE	7,683	STARK	231,398
CLERMONT	45,234	LICKING	141,009	SUMMIT	665,392
CLINTON	4,485	LOGAN	25,542	TRUMBULL	47,338
COLUMBIANA	10,031	LORAIN	167,433	TUSCARAWAS	34,826
COSHOCTON	12,819	LUCAS	403,024	UNION	16,803
CRAWFORD	15,926	MADISON	14,404	VAN WERT	14,859
CUYAHOGA	2,795,704	MAHONING	145,196	VINTON	0
DARKE	9,163	MARION	31,345	WARREN	104,061
DEFIANCE	15,753	MEDINA	134,609	WASHINGTON	22,887
DELAWARE	20,239	MEIGS	883	WAYNE	32,402
ERIE	14,118	MERCER	7,565	WILLIAMS	14,012
FAIRFIELD	78,397	MIAMI	27,888	WOOD	10,478
FAYETTE	4,995	MONROE	4,545	WYANDOT	1,353
FRANKLIN	3,436,168	MONTGOMERY	605,086		
FULTON	1,495	MORGAN	1	Total Local Revenue	\$12,094,989
GALLIA	29,793	MORROW	1,266	(5 mills)	
GEAUGA	3,250	MUSKINGUM	34,598	State General	
GREENE	37,844	NOBLE	0	Revenue	\$7,256,993
GUERNSEY	24,419	OTTAWA	2,076	(3 mills)*	
HAMILTON	1,835,808	PAULDING	79		
HANCOCK	43,445	PERRY	1,069	TOTAL	\$19,351,982

*Does not include \$11,125,886 in taxes levied on qualifying dealers in intangibles.

ESTATE TAX

The basic Ohio estate tax is levied against the value of a resident decedent's gross estate less deductions and exemptions. Graduated rates range up to \$23,600 plus 7.0 percent on that portion of taxable value which exceeds \$500,000. Ohio also taxes nonresident estates on real and tangible personal property situated in Ohio.

Total revenue produced by Ohio's estate tax amounted to \$272.7 million in Fiscal Year 2006, as shown in the table in this chapter. The table displays the breakdown of monies distributed to local governments and the remainder retained by the state.

For dates of death on or after January 1, 2002, every estate receives a tax credit of \$13,900.

TAXPAYER:

Administrator, executor, or other estate representative, in possession of the property subject to tax.

TAX BASE:

1. Resident:

The net taxable estate is the value of a decedent's gross estate, less deductions (Ohio Revised Code 5731.15-17). In general, the gross estate equals the aggregate market value at time of death, or on the alternate valuation date (see **Special Provisions**) of all property, wherever situated, held by the decedent. Excepted are real and tangible personal property situated outside of Ohio, and "qualified farm property," which may be valued according to its actual "qualified use" (R.C. 5731.01, 5731.011, 5731.03-13).

The "net taxable estate" equals the gross estate less the following deductions:

- (a) Marital deduction, where there is a surviving spouse;
- (b) Funeral expenses and costs of administering the estate;
- (c) Outstanding and unpaid claims against the estate at time of the decedent's death;
- (d) Unpaid mortgage or other indebtedness against property where the value of that property is included in the gross estate valuation;

EXHIBIT— ESTATE TAX TAXABLE ESTATE BRACKETS

NET TAXABLE ESTATE	TAX RATE
For dates of death on or after January 1, 2002:	
<i>If the net taxable estate is:</i>	The tax shall be:
Over \$338,333 but not over \$500,000	\$13,900 plus 6% of the excess over \$338,333
Over \$500,000	\$23,600 plus 7% of the excess over \$500,000
For dates of death on or after January 1, 2001 but before January 1, 2002:	
<i>If the net taxable estate is:</i>	The tax shall be:
Over \$200,000 but not over \$300,000	\$6,600 plus 5% of the excess over \$200,000
Over \$300,000 but not over \$500,000	\$11,600 plus 6% of the excess over \$300,000
Over \$500,000	\$23,600 plus 7% of the excess over \$500,000
For dates of death on or after July 1, 1968 but before January 1, 2001:	
<i>If the net taxable estate is:</i>	The tax shall be:
Not over \$40,000	2% of the net taxable estate
Over \$40,000 but not over \$100,000	\$800 plus 3% of the excess over \$40,000
Over \$100,000 but not over \$200,000	\$2,600 plus 4% of the excess over \$100,000
Over \$200,000 but not over \$300,000	\$6,600 plus 5% of the excess over \$200,000
Over \$300,000 but not over \$500,000	\$11,600 plus 6% of the excess over \$300,000
Over \$500,000	\$23,600 plus 7% of the excess over \$500,000

- (e) Charitable contributions; and
- (f) A maximum deduction not to exceed \$675,000, for a decedent's qualified interest in a family-owned business, for dates of death occurring on or before June 30, 2005 (see **Recent Legislation**).

2. Nonresident:

The nonresident estate tax base is comprised of real and tangible personal property located or having a situs in Ohio, and intangible personal property used in business within Ohio unless exempt pursuant to R.C. 5731.34.

Tax for both nonresident estate and nonresident additional tax, if applicable, is determined by:

- (1) calculating tax which would be due from the estate, at a rate applicable to resident estates, if the decedent had died a resident of Ohio with all property situated or located in Ohio; and
- (2) multiplying the resultant amount by a fraction representing the ratio of gross estate value attributable in Ohio to gross estate value wherever situated.

RATES (OHIO REVISED CODE 5731.02):

Rates are generated through "taxable estate" brackets, as shown in the **Exhibit**. The rates range from not less than 2.0 percent to not more than 7.0 percent plus \$23,600.

FILING REQUIREMENTS (R.C. 5731.21):

For dates of death prior to January 1, 2001, estates with gross values over \$25,000 were required to file an estate tax return.

For dates of death on or after January 1, 2001 through December 31, 2001, estates with gross values over \$200,000 were required to file an estate tax return.

For dates of death on or after January 1, 2002, estates with gross values over \$338,333 are required to file an estate tax return.

MARITAL DEDUCTION (R.C. 5731.15):

A marital deduction is allowed in an amount equal to the net value of any asset passing from the decedent to the surviving spouse to the extent that the asset is included in the value of the gross estate.

TAX CREDITS (R.C. 5731.02):

For estates with dates of death from July 1, 1983 through December 31, 2000, \$500 or the full amount of the tax, whichever was less.

For estates with dates of death from January 1, 2001 through December 31, 2001, \$6,600 or the full amount of the tax, whichever was less.

For estates with dates of death on or after January 1, 2002, \$13,900 or the full amount of the tax, whichever is less.



1. The Ohio additional tax (R.C. 5731.18) is a pick-up tax that captures any unused portion of the allowable federal estate tax credit for state death taxes paid. The additional tax comes into play where the federal credit allowed for state death taxes actually exceeds the Ohio basic estate tax assessed. In these instances, the additional tax picks up the difference between the federal estate tax credit for state death taxes and the basic state estate tax liability (inclusive of any estate taxes paid to Ohio, any other U.S. state, territory, or the District of Columbia). For dates of death occurring on or after July 1, 2005, House Bill 66, 126th General Assembly, constructively repealed the Ohio additional tax (see **Recent Legislation**).
2. An alternate valuation date (R.C. 5731.01) may be elected, which is the date six months after the decedent's death, or, in the case of the property's earlier disposition, on such dates of disposition. If the alternate valuation date is elected, the election is required to be made within one year from the time the return is required to be filed.
3. Under certain conditions, an extension of time to pay Ohio estate tax because of undue hardship (R.C. 5731.25) applies. An estate may receive an extension of the time to pay the estate tax, not to exceed one year beyond the time the tax would otherwise be due, if conditions exist as defined in R.C. 5731.25. In the case of continuing undue hardship, the estate may apply for an additional extension(s). The total of all extensions granted may not exceed 14 years.
4. A qualified farm property valuation and recapture provision (R.C. 5731.011) applies to some estates. Under certain conditions, an estate may elect to have farm property that passes to a qualified heir valued at its agricultural use value. A prospective supplemental tax lien remains on the property for four years when this election is used. The lien is equal to the tax savings realized due to the election and becomes effective if the farm property is disposed of (other than to another qualified heir), or ceases to be devoted exclusively to agricultural use within the four-year limitation.



Filing & Payment Dates

In general, as follows:

Tax Return (R.C. 5731.21) —

To be filed within nine months of the decedent's death with the probate court of the county in which the estate is administered, unless an extension is granted. However, an automatic six-month extension is granted to all estates.

Tax Payment (R.C. 5731.23) —

Due within nine months of the decedent's death, regardless of any extension of time to file, to the treasurer of the county in which the decedent resided.

DISPOSITION OF REVENUE (R.C. 5731.48-5731.51):

In general, for revenue distribution purposes, the tax on the transfer of real and tangible personal property located within Ohio originates in the municipal corporation(s) or township(s) in which such property is physically located. In the case of a resident decedent's intangible or tangible personal property located outside of Ohio, the domicile of the decedent is determinative. In the case of intangibles of a nonresident decedent, origin is derived from Ohio domicile, location or place of business or custody of the person, bank, institution, or other entity having such property in possession or custody.

For estates with dates of death on or after January 1, 2002, 80 percent of gross estate tax revenues is distributed to the municipal corporations or townships in which the tax originates and 20 percent (less costs of administration) is distributed to the state General Revenue Fund.

ADMINISTRATION (R.C. 5731.44, 5731.45, 5731.46):

The Tax Commissioner is responsible for administration of the estate tax. The tax is collected locally by the treasurer of the county in which the decedent was a resident.

OHIO REVISED CODE CITATIONS:
Chapter 5731.



Recent Legislation

Amended Substitute House Bill 66, 126th General Assembly (FY 2006-2007 biennium budget bill, effective July 1, 2005).

R.C. 5731.01 (F):

A general definition of the Internal Revenue Code was adopted for purposes of Ohio estate tax law.

R.C. 5731.18:

The additional tax statute was amended to incorporate any federal changes made by Congress to the Internal Revenue Code as of June 30, 2005. Since the federal credit for state death taxes was repealed, the state additional estate tax is eliminated for all decedents who die on or after July 1, 2005. A temporary credit was created (uncodified R.C. 557.03) so that this change can be incrementally retroactive to January 1, 2002.

R.C. 5731.181:

The generation-skipping transfer tax statute was amended to incorporate any changes made by Congress to the Internal Revenue Code as of June 30, 2005. Since the federal credit for generation-skipping transfers was terminated, the state generation-skipping transfer tax was terminated for all taxable distributions and taxable terminations occurring on or after July 1, 2005.

R.C. 5731.20:

The estate tax deduction for qualifying family-owned business interests was repealed effective for decedents' dates of death occurring on or after July 1, 2005.

R.C. 5703.47 and 5731.23:

Through June 30, 2005, the "federal short-term rate" plus 3.0 percent was used to calculate the interest owing on both underpayments and overpayments of Ohio estate tax. Effective July 1, 2005, the "federal short-term rate" will be used without adjustment. Accordingly, any portion of estate tax that is subject to interest was reduced by 3.0 percent effective July 1, 2005.

R.C. 5731.41:

In addition to the undivided inheritance or estate tax fund in their respective county treasury, county auditors are now authorized to use revenue from the county real estate assessment fund for estate tax enforcement.

TABLE 1
ESTATE TAX COLLECTIONS AND DISTRIBUTIONS
FISCAL YEARS 2002 - 2006 (FIGURES IN MILLIONS)

Fiscal Year	Total Collections	State General Revenue Fund*	Local Governments*
2002	\$375.5	\$116.3	\$259.2
2003	357.7	100.8	256.9
2004	290.3	64.2	226.1
2005	304.6	60.4	240.5
2006	272.7	54.1	218.6

* State General Revenue Fund figures are based on actual receipts reported by the Office of Budget and Management. Local government figures represent a liability because it is based on the certification of the local share (including fees) from the semi-annual settlements that occur each year. The state share was 36% from July 1, 1983 to December 31, 2000; the local share was 64% during this same period. From Jan. 1, 2001, to December 31, 2001, the state received 30% while the local share was 70%. Effective Jan. 1, 2002, the state share decreased to 20% and the local share increased to 80%. For fiscal year 2006, the "total collections" and "local governments" figures do not include the February 2006 settlement amounts for Mercer, Pickaway, and Vinton counties.

TABLE 2
DISTRIBUTION OF TAXABLE ESTATES, GROSS AND NET VALUES, AND
TAX LIABILITY BY NET TAXABLE VALUE BRACKETS,
FISCAL YEAR 2006
(RESIDENTS ESTATES ONLY)

Net Taxable Value	Number of Estates	Aggregate Gross Value	Aggregate Net Taxable Value	Aggregate Tax Liability
Under \$40,000	62	\$2,925,515	\$1,917,570	\$10,351
\$40,001 - 100,000	129	11,048,031	8,343,989	136,720
100,001 - 200,000	77	14,434,463	11,531,687	315,468
200,001 - 300,000	80	29,088,352	19,422,509	348,025
300,001 - 500,000	2,504	1,289,342,721	1,029,632,594	12,008,456
500,001 - 1,000,000	3,053	3,077,118,715	2,113,265,235	71,419,467
Over 1,000,000	1,801	5,525,191,001	4,448,694,475	266,335,213
Total	7,706	\$9,949,148,798	\$7,632,808,059	\$350,573,700

ESTATE TAX

TABLE 3

NUMBER OF ESTATES, AGGREGATE GROSS AND NET TAXABLE VALUES, AND TAX LIABILITY,
BY COUNTY OF PROBATE,
FISCAL YEAR 2006* (RESIDENT ESTATES ONLY)

County	Number of Estates	Gross Estate Value	Net Taxable Value	Tax Liability	County	Number of Estates	Gross Estate Value	Net Taxable Value	Tax Liability
ADAMS	9	\$34,078,677	\$21,886,881	\$1,305,842	LOGAN	22	\$13,434,918	\$12,438,374	\$361,605
ALLEN	73	103,243,105	64,879,918	2,723,065	LORAIN	168	203,681,094	118,049,918	4,234,412
ASHLAND	40	32,040,283	28,272,543	1,009,747	LUCAS	270	308,032,796	249,366,580	10,946,777
ASHTABULA	37	24,466,460	21,518,457	629,364	MADISON	26	19,929,741	17,901,006	654,140
ATHENS	23	24,402,687	18,165,315	720,518	MAHONING	164	239,812,919	158,534,716	7,232,814
AUGLAIZE	35	25,464,113	23,010,343	773,833	MARION	40	31,312,975	27,285,342	918,623
BELMONT	41	43,020,873	36,442,585	1,583,695	MEDINA	77	74,625,223	59,635,137	2,272,244
BROWN	24	20,939,234	19,654,635	776,418	MEIGS	8	6,030,893	4,928,638	166,704
BUTLER	140	351,816,507	150,358,313	7,129,354	MERCER	30	47,776,953	27,401,470	1,166,325
CARROLL	13	14,229,416	13,803,644	645,045	MIAMI	48	53,250,512	33,353,137	1,167,941
CHAMPAIGN	34	26,387,455	23,977,397	855,554	MONROE	8	4,333,382	4,105,075	88,597
CLARK	82	102,410,828	89,806,300	4,277,940	MONTGOMERY	343	477,294,949	315,518,175	13,734,011
CLERMONT	92	131,088,190	101,267,105	4,852,393	MORGAN	5	3,990,451	3,743,271	138,614
CLINTON	26	26,819,991	16,481,259	549,214	MORROW	12	8,854,397	7,684,848	266,238
COLUMBIANA	42	49,325,516	40,134,052	1,778,839	MUSKINGUM	30	30,871,610	22,344,080	872,762
COSHOCTON	24	22,056,077	19,379,401	795,974	NOBLE	5	5,088,497	3,774,555	140,307
CRAWFORD	34	37,799,065	28,416,173	1,175,200	OTTAWA	50	45,095,563	37,239,193	1,405,734
CUYAHOGA	1,105	1,648,920,714	1,263,504,364	61,843,139	PAULDING	14	34,956,255	25,363,154	1,443,938
DARKE	51	34,186,244	31,770,042	1,033,399	PERRY	6	3,659,101	3,510,628	112,528
DEFIANCE	36	28,378,251	24,541,088	835,394	PICKAWAY	28	25,949,523	22,216,664	904,561
DELAWARE	68	183,980,084	61,107,981	2,647,865	PIKE	15	15,491,290	14,549,812	641,227
ERIE	60	66,827,235	58,533,261	2,641,710	PORTAGE	81	76,821,498	66,280,484	2,698,296
FAIRFIELD	72	64,205,053	54,109,341	2,051,523	PREBLE	25	16,832,833	14,732,665	477,856
FAYETTE	12	26,580,814	25,487,526	1,485,389	PUTNAM	26	20,871,651	18,756,976	680,752
FRANKLIN	636	740,091,949	634,932,373	29,115,705	RICHLAND	58	190,725,953	41,069,350	1,435,403
FULTON	32	27,812,241	24,356,192	983,592	ROSS	40	32,669,081	27,555,467	929,876
GALLIA	16	21,168,760	19,635,383	1,018,090	SANDUSKY	51	49,441,980	36,043,440	1,266,126
GAUGA	72	96,216,569	83,333,168	4,062,081	SCIOTO	19	11,095,851	10,250,980	296,324
GREENE	104	114,562,799	94,970,487	4,112,262	SENECA	45	38,216,845	27,221,410	799,206
GUERNSEY	12	8,938,528	8,332,251	285,709	SHELBY	37	42,855,203	32,322,831	1,363,743
HAMILTON	867	1,708,298,510	1,424,355,575	78,604,863	STARK	219	203,250,104	182,844,452	7,596,781
HANCOCK	76	89,979,179	79,445,623	3,738,450	SUMMIT	401	424,752,088	366,546,489	15,932,823
HARDIN	25	16,237,917	15,232,626	496,974	TRUMBULL	108	114,948,536	95,422,136	4,113,251
HARRISON	8	6,479,717	6,138,990	242,220	TUSCARAWAS	54	50,162,450	39,270,787	1,427,584
HENRY	21	13,501,511	10,172,222	233,862	UNION	25	19,622,740	18,128,065	651,769
HIGHLAND	28	30,171,052	28,421,086	1,339,901	VAN WERT	34	22,269,188	17,121,933	427,290
HOCKING	16	16,872,834	15,137,678	661,550	VINTON	5	5,939,647	5,517,307	279,553
HOLMES	23	15,917,583	14,937,670	477,067	WARREN	61	64,557,592	52,939,269	2,187,381
HURON	38	46,805,035	39,182,850	1,804,916	WASHINGTON	26	46,030,768	37,943,875	2,004,276
JACKSON	8	10,029,042	4,543,652	119,340	WAYNE	60	77,777,659	68,693,450	3,359,404
JEFFERSON	42	41,210,195	36,234,007	1,576,253	WILLIAMS	24	22,480,925	18,871,811	729,304
KNOX	35	30,892,031	27,542,729	1,052,650	WOOD	85	92,525,195	71,961,232	2,981,287
LAKE	163	199,067,949	175,820,507	8,448,073	WYANDOT	27	26,513,715	20,616,956	803,996
LAWRENCE	10	9,489,943	7,065,560	255,708					
LICKING	75	112,194,261	90,400,575	4,514,091	TOTAL	7,360	\$9,782,439,021	\$7,515,754,266	\$348,576,154

* Statistics are derived from returns on which audits were completed and final certificates were issued in fiscal year 2006.

This data differs from Table 2 due to reporting complications.

HORSE RACING TAX

Ohio has permitted horse racing and pari-mutuel wagering on horse racing since 1933. The regulation of horse racing is the responsibility of the Ohio State Racing Commission, which consists of five members appointed by the Governor and confirmed by the Ohio Senate. The Racing Commission issues racing permits and sets the racing dates for each meet. Since 1953, the Department of Taxation has administered the tax on pari-mutuel wagering. Permit holders retain 18 percent of all money wagered and 4.0 percent of "exotic" wagering as their commission, subject to payments to the Tax Commissioner of the taxes on pari-mutuel and exotic wagering. (Exotic wagering includes bets made on placements other than win, place, or show, such as daily doubles, quinellas, perfectas, and trifectas.)

After state taxes, 50 percent of the commission must be used for purse money. In addition, part of the commission, along with a portion of the state's wagering tax, is used to develop and promote horse breeding and racing in Ohio. Permit holders also retain the breakage (the odd cents remaining after pari-mutuel winning tickets are paid off at the next lowest multiple of 10 cents). However, 40 percent of this amount must be used for purse money and 25 percent must be paid to the Horsemen's Health and Retirement Fund. Another source of revenue to permit holders is the authorization to conduct pari-mutuel wagering on televised simulcasts of racing at other tracks (off-track betting).

To encourage the construction and improvement of racing facilities, there are two capital improvement credits that reduce the tax liability of permit holders. The first is a reduction of 0.75 percent of the amount wagered for the construction of a new facility or the improvement of an existing track. The second is a reduction of 1.0 percent of the amount wagered for the major renovation of an existing facility if the cost is \$6.0 million or more. These projects must be approved by the Racing Commission and can run concurrently.

The tax on total wagering of nearly \$447.8 million in Fiscal Year 2006 provided over \$12.82 million in tax revenue and funds for horse racing development in Ohio.

TAXPAYER (OHIO REVISED CODE 3769.08):

The racing permit holder remits to the Tax Commissioner the tax on the amount wagered as described in **Rates**. The Tax Commissioner in turn distributes the tax as described in **Disposition of Revenue**.

TAX BASE (R.C. 3769.08, 3769.28, 3769.087):

1. Amount wagered each day on all pari-mutuel racing.
2. Amount wagered each day on exotic races.
3. Total amount wagered at each horse race meeting of a permit holder.

RATES:

Pari-Mutuel Wagering Tax (R.C. 3769.08) –

Amount Wagered Daily	Rate
First \$200,000	1.0%
Next 100,000	2.0
Next 100,000	3.0
Over 400,000	4.0

Exotic Wagering Tax (R.C. 3769.087) –

In addition to the pari-mutuel wagering tax, there is a special tax of 3.0 percent of the amount wagered daily on other than win, place, and show. This is termed exotic wagering and includes the daily double, perfecta, quinella, and trifecta.

Additional Pari-Mutuel Wagering Tax (R.C. 3769.28) –

This money is distributed to the municipal corporation or township in which racing takes place and is intended to reimburse these areas for expenses incurred due to racing meets. The municipal corporations and townships receiving the money may reimburse an adjoining political subdivision which also had expenses because of racing meets. The tax is levied as follows:

Total Amount Wagered Each Horse Racing Meet	Rate
Less than \$5,000,000	0.10%
\$5,000,000 or more	0.15

The maximum tax liability is \$15,000 from each horse racing meet.

EXEMPTIONS (R.C. 3769.28):

Agricultural societies are not subject to the additional pari-mutuel wagering tax.



Capital Improvements and Simulcast Credits (R.C. 3769.08, 3769.089, 3769.20, 3769.26):

1. Some racing permit holders can qualify for a Capital Improvement Credit. With the approval of the Racing Commission, permit holders making capital improvements, constructing new racing facilities, or reconstructing facilities damaged by fire or other cause that have a total cost of \$100,000 or more can reduce their tax liability by 0.75 percent of the amount wagered. For projects approved prior to March 29, 1988, the reduction continues for a period of 15 years on capital improvements and reconstruction and a period of 25 years on new race track construction, or until the total reduction in tax liability equals 70 percent of construction costs,

HORSE RACING TAX

whichever occurs first. For projects approved on or after March 29, 1988, the reduction is limited to ten years or 70 percent of costs.

2. Large projects may qualify a permit holder for a Major Capital Improvement Credit. Permit holders renovating, reconstructing, or remodeling an existing race track facility at a cost of \$6.0 million or more can reduce their tax liability by 1.0 percent of the amount wagered for a period of ten years or until the cost of the project plus debt service is reached, whichever occurs first. If the reduction exceeds the tax on wagering, the abatement may be carried forward and

applied against future tax liability. The tax reduction is in addition to the 0.75 percent Capital Improvement Credit.

3. Permit holders may conduct electronically televised simulcasts of horse races from facilities in or outside of Ohio and conduct pari-mutuel wagering thereon.
4. Off-Track Betting (OTB) has been allowed by law since September 27, 1994. The first two facilities to offer this began operating in October 1999 and March 2000. Currently there is one such facility in operation.

RECEIPTS FROM PARI-MUTUEL WAGERING:

Distributed to	Source of Receipts (Wagering On)	Distribution Percent
Ohio Passport Fund	Thoroughbred, harness, and quarter horse	25% of gross tax, 0.50% of amount wagered at an off-track betting parlor, 2.5% of the amount paid on winning tickets at an off-track betting parlor
Ohio Fairs Fund	Thoroughbred, harness, and quarter horse	0.50% of amount wagered
Ohio Thoroughbred Race Fund	Thoroughbred	1.125% of amount wagered
	Harness racing at events at other than agricultural expositions and fairs	0.50% of amount wagered
Ohio Standardbred Development Fund	Harness	1.125% of amount wagered
Quarter Horse Development Fund	Quarter horse	0.625% of amount wagered
Agricultural Societies	Thoroughbred, harness, and quarter horse racing at agricultural expositions and fairs	Net receipts after payments to the Ohio Fairs Fund, Standardbred Fund, Quarter Horse Fund, and Thoroughbred Race Fund
State Racing Commission Operating Fund	Thoroughbred, harness, and quarter horse	0.25% of amount wagered

HORSE RACING TAX

RECEIPTS FROM THE ADDITIONAL PARI-MUTUEL WAGERING TAX:

Distributed To	Source of Receipts (Wagering On)	Distribution Percent
General Revenue Funds of municipalities and townships	Thoroughbred, harness, and quarter horse	0.10 % of amount wagered if the total amount wagered is less than \$5.0 million; 0.15% of amount wagered if the total amount wagered is \$5.0 million or more (maximum of \$15,000)

RECEIPTS FROM EXOTIC WAGERING:

Distributed To	Source of Receipts (Wagering On)	Distribution Percent
Ohio Passport Fund	Thoroughbred, harness, and quarter horse	25% of gross tax
Ohio Fairs Fund	Thoroughbred, harness, and quarter horse	8.3% of amount wagered
Ohio Thoroughbred Race Fund	Thoroughbred	8.3% of amount wagered from thoroughbred racing
Ohio Standardbred Development Fund	Harness	8.3% of amount wagered from harness racing
Quarter Horse Development Fund	Quarter Horse	8.3% of amount wagered from quarter horse racing
Agricultural Societies	Thoroughbred, harness, and quarter horse at agricultural expositions and fairs	16.7% of amount wagered
State Racing Commission Operating Fund	Thoroughbred, harness, and quarter horse at commercial track	16.7% of amount wagered



(R.C. 3769.08, 3769.28):

Each Day of Racing —

Permit holder remits to the Tax Commissioner by the following day the pari-mutuel wagering and exotic wagering taxes collected.

Close of Horse Race Meeting —

Within ten days, the additional pari-mutuel wagering tax is remitted to the Tax Commissioner.

DISPOSITION OF REVENUE (R.C. 3769.08, 3769.087, 3769.26):

Each permit holder pays the Tax Commissioner a sum equal to the percentage of money wagered as described in **Rates**, reduced by any capital improvements deduction. The Tax Commissioner then distributes the receipts to the funds as shown in the above charts:

- Receipts from Pari-Mutuel Wagering
- Receipts from the Additional Pari-Mutuel Wagering Tax
- Receipts from Exotic Wagering

ADMINISTRATION:

The Department of Taxation administers the tax on pari-mutuel and exotic wagering. The horse racing industry is regulated by the Ohio State Racing Commission.

OHIO REVISED CODE CITATIONS:

Sections 3769.08, 3769.081, 3769.087.



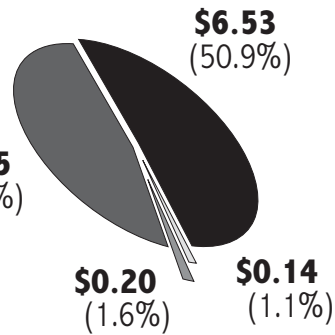
Amended Substitute House Bill 530, 126th General Assembly (effective June 30, 2006):

During the period commencing on July 1, 2006 and ending on June 30, 2007, an additional amount equal to 1/4 of 1.0 percent of the total of all money wagered on each racing day, on all pools other than win, place, and show, shall be retained from each permit holder. The Tax Commissioner shall pay the amount of the tax received under this provision to the State Racing Commission operating fund created under section 3769.03 of the Revised Code.

Horse Racing Tax Collections by Type of Meet

Fiscal Year 2006
(figures in millions)

- Thoroughbred
- Harness
- County Fairs
- Off-Track Betting



Total \$12.82 million

Source: Department of Taxation, as reported on tax returns.



HORSE RACING TAX

TABLE 1
AMOUNT WAGERED ON HORSE RACING AND SPECIAL FUND RECEIPTS
BY TYPE OF EVENT, FISCAL YEARS 2002 - 2006

Fiscal Year	Thoroughbred Racing	Commercial Harness Racing	Agricultural Societies Racing	Quarter Horse Racing	Off-Track Parlors	Total
Pari-Mutuel Wagering						
2002	\$303,245,672	\$273,401,726	\$5,585,845		\$14,714,060	\$596,947,303
2003	277,080,736	247,780,758	5,268,726	\$465,665*	14,581,585	545,177,470
2004	260,903,387	233,604,182	5,428,844	333,586	14,124,923	514,394,922
2005	246,936,349	212,590,207	5,504,620	281,349	8,714,420	474,026,945
2006	236,417,769	200,116,137	4,983,661	296,592	5,962,237	447,776,396
Net Tax Receipts						
2002	\$8,360,225	\$8,322,836	\$216,736		\$351,087	\$17,250,884
2003	7,660,350	7,559,068	206,438	\$10,398*	346,687	15,782,941
2004	7,705,092	7,607,647	228,872	7,808	336,991	15,886,410
2005	7,198,910	6,724,629	236,615	7,086	207,504	14,374,744
2006	6,526,637	5,946,585	203,704	6,888	140,084	12,823,898

*First year quarter horse reported separately.

TABLE 2
AMOUNT WAGERED ON HORSE RACING, TAX LEVIED
AND DISTRIBUTION OF RECEIPTS - FISCAL YEAR 2006

	Thoroughbred Race Meets	Commercial Harness Race Meets	County Agricultural Societies	Quarter Horse Race Meets	Off-Track Parlors	Total
Number of Meets	1,087	1,433	168	11		2,699
Total Pari-Mutuel Wagering	\$236,417,769	\$200,116,137	\$4,983,661	\$296,592	\$5,962,237	\$447,776,396
Exotic Wagering*	\$159,884,843	\$146,531,129	\$2,922,876	\$188,669	\$4,498,057	\$314,025,574
Total Tax Levied	\$7,675,848	\$7,002,152	\$203,704	\$9,906	\$140,084	\$15,031,694
Less Tax Abatements:						
Capital Improvement		\$242,465	\$0			\$242,465
Major Capital	\$1,149,211	\$813,102	\$0	\$3,018		\$1,965,331
Net Tax Collected	\$6,526,637	\$5,946,585	\$203,704	\$6,888	\$140,084	\$12,823,898
Deferred Abatement**	\$259,966	\$113,906				\$373,872
Distribution of Receipts:						
Agricultural			\$110,993			\$110,993
Standardbred Devel. Fund		\$1,645,165	\$38,236			\$1,683,401
Quarter Horse Special Acct.			\$65	\$829		\$894
Ohio Fairs Fund	\$1,095,779	\$858,450	\$32,226	\$1,356		\$1,987,811
Thoroughbred Special Acct.	\$2,119,234	\$667,282	\$262			\$2,786,778
Operating Fund	\$1,365,829	\$1,142,042	\$21,922	\$1,653		\$2,531,446
Passport Fund	\$1,945,795	\$1,633,646		\$3,050	\$140,084	\$3,722,575
Total Amount	\$6,526,637	\$5,946,585	\$203,704	\$6,888	\$140,084	\$12,823,898

* Included in total pari-mutuel wagering but subject to an additional 3.0% tax.
** Represents tax abatements accrued and postponed to a later date.

INDIVIDUAL INCOME TAX - SCHOOL DISTRICT

*I*n 1981 the Ohio General Assembly granted school districts the authority to levy an income tax. Certain provisions of that law were repealed in 1983 so that no additional school districts could levy the tax. Any school district enacting the tax before August 3, 1983 could continue to levy the tax. Prior to the repeal, voters approved the tax in six school districts, one of which repealed the tax through voter referendum in 1986. In 1989 the General Assembly reinstated provisions of the original law allowing additional school districts to levy the tax.

In most school districts which have enacted the school district income tax, the tax is imposed on the incomes of residents and estates of persons who at the time of their death were residents of the school district. In some school districts, the tax is only imposed on wages and self-employment income, and estates do not pay any school district income tax.

The Department of Taxation administers the tax. Collections are made through employer withholding, individual quarterly estimated payments, and annual returns. During Fiscal Year 2006, total net collections for all districts were approximately \$202.7 million, after deductions for administrative costs and refunds, as shown in the table in this chapter. In FY 2006, there were 153 school districts (out of 614 in the state) that levied the tax.

TAXPAYER (OHIO REVISED CODE 5748.01):

Every individual residing in and every estate of persons who at the time of their death were residing in a school district which imposes the school district income tax. In some school districts levying the tax, estates are exempt from the tax (see **Tax Base**).

TAX BASE (R.C. 5748.01):

For individuals, Ohio adjusted gross income for state income tax purposes less \$1,400 for each exemption in 2006. For estates, Ohio taxable income for state income tax purposes.

Amended Substitute House Bill 66, 126th General Assembly, the FY 2006-2007 biennium budget bill, allows voters in a school district to approve a school district income tax which will apply only to individuals — but not to estates — and which will apply only to “earned income” without any deductions. This “earned income” base includes self-employment income, wages, salaries, tips, and other employee compensation, but does not include retirement income, real estate rental profits, lottery winnings, interest, dividends, and capital gains (see **Recent Legislation**).

RATES (R.C. 5748.02):

Rates must be multiples of a quarter of one percent. The rate must be approved by a vote of the school district residents before implementation. The tax rates currently range from 0.5 percent to 2.0 percent.



Senior Citizen Credit: A taxpayer 65 years of age or older during the taxable year receives a \$50 credit against the amount of school district income tax due. Only one credit is allowed for each return.



Individuals and Estates:

1. Calendar year taxpayers file an annual return between January 1 and April 15.
2. Fiscal year taxpayers file by the 15th day of the fourth month after the end of the fiscal year.
3. The taxpayer must file a quarterly estimated return if the taxpayer expects to be under-withheld by more than \$500 for the combined school district and Ohio individual income taxes. For calendar year taxpayers, quarterly payments of the tax must be made on or before April 15, June 15, and September 15 of the current year and January 15 of the next year. For fiscal year taxpayers, quarterly payments of tax must be made on the 15th day of the fourth, sixth, and ninth months of the fiscal year and on the 15th day following the end of the fiscal year.

Employers:

1. If the employer remits on a quarterly basis for state income tax purposes, payment is due for both taxes by the last day of the month following March, June, September, and December.
2. If the employer remits on a monthly or electronic funds transfer (EFT) basis for state income tax purposes, remittances of school district income taxes withheld are made within 15 days after the end of each month.

DISPOSITION OF REVENUE (R.C. 5747.03):

Collections are deposited into the School District Income Tax Fund to be distributed to the school districts less 1.5 percent retained for state administrative purposes. Distributions are made to school districts on the last day of April, July, October, and January. Payments are for the net amount in each school district's account, after refunds and administrative fees, as of the end of the prior calendar quarter.

INDIVIDUAL INCOME TAX - SCHOOL DISTRICT

ADMINISTRATION:

The Department of Taxation collects and administers the tax for school districts and makes quarterly distributions of revenue.

OHIO REVISED CODE CITATIONS:

Chapters 5747 and 5748.

**Amended Substitute House Bill 530, 126th General Assembly (effective March 30, 2006). R.C. 5748.01 (E) (1) and 5748.011:**

Allows school boards to exempt military pay and allowances received by a taxpayer stationed outside Ohio. **Note:** for years 2006 and 2007 no school board has so exempted such compensation.

Amended Sub. H.B. 66, 126th General Assembly (FY 2006-2007 biennium budget bill, effective June 30, 2005). R.C. 5748.01 (E) (1) and 5748.02 (A):

Voters in a school district were authorized to approve a school district income

tax which applies only to "earned income" of individuals. This alternative tax base does not include estates, and also does not provide for any deductions.

Earned income is defined as wages, salaries, tips, other employee compensation, and self-employment income from sole proprietorships and from partnerships. Under this alternative tax base, taxpayers of the school district do not pay school district income tax on retirement income, lottery winnings, interest, dividends, capital gains, profit from rental activities, distributive shares of profit from S corporations, and any other income which is not earned income but is part of Ohio adjusted gross income reported on line 3 of the Ohio income tax return, form IT1040. Further, under this alternative tax base, taxpayers are not allowed to claim any deductions which they claimed on the front page of their federal income tax return, IRS form 1040. Such disallowed deductions include alimony paid, IRA contributions, capital losses, and losses from rental activities.

Substitute H.B. 2, 126th General Assembly (effective June 2, 2005). R.C. 5747.026 (A)-(D):

Expanded existing extensions to file and pay individual and school district income taxes to members of the Ohio National Guard and members of a reserve component of the U.S. Armed Forces who are called to active duty for any reason.

TABLE
SCHOOL DISTRICT INCOME TAX
COLLECTIONS FOR FISCAL YEARS
2003-2006

All Districts	2003(a)	2004(b)	2005(c)	2006(d)
Individual Returns	\$45,282,962	\$52,903,150	\$64,413,461	\$72,577,922
Employer Withholding	111,135,680	117,069,441	132,269,908	148,122,666
Total Collections	\$156,418,642	\$169,972,590	\$196,683,370	\$220,700,588
Refunds and Administration	\$14,535,252	\$14,043,694	\$15,881,773	\$19,297,203
Interest Earned	930,035	0 (e)	915,517	1,288,944
Net to School Districts	\$142,813,425	\$155,928,896	\$181,717,114	\$202,692,329

(a) Includes collections for 134 school districts.
 (b) Includes collections for 133 school districts.
 (c) Includes collections for 145 school districts.
 (d) Includes collections for 153 school districts.
 (e) No interest was recorded in this fiscal year because of a state law, later reversed, that allowed the Office of Budget and Management to transfer interest from certain non-general revenue funds to the State General Revenue Fund.

INDIVIDUAL INCOME TAX - STATE

The Ohio individual income tax is the largest revenue producer for the state with total collections in Fiscal Year 2006 exceeding \$9.62 billion, or almost 43.4 percent of general revenues. Income tax revenue is split between state government, local governments, and libraries in proportions mandated by state law (see **Disposition of Revenue**). The Ohio Constitution requires that 50 percent of collections be returned to the county of origin.

The income tax has nine brackets covering ranges of taxable income and corresponding tax rates which progress from a minimum of .681 percent to a maximum rate of 6.87 percent for calendar year 2006. Calendar year 2006 is the second year of a reduction in rates that will be phased in over five years for a total reduction of 21 percent from 2004 rates (see **Recent Legislation**).

The Ohio income tax on individuals and estates was enacted in December 1971 and took effect January 1, 1972. An income tax on trusts was enacted in 2002 to help balance the state budget.

To facilitate compliance by the taxpayer and tax administration by the state, Ohio's income tax is linked closely to the federal income tax. The "starting point" for computing the Ohio income tax is federal adjusted gross income as defined in the Internal Revenue Code (I.R.C.). The "starting point" for estates and trusts is taxable income as defined in the I.R.C. Taxpayers make specified adjustments to income before applying Ohio tax rates to the remaining amount (Ohio taxable income) and determining tax liability. From this figure, certain credits may be subtracted to arrive at the final income tax due.

Under temporary law, subsequently made permanent, when the state declares a revenue surplus, statutory tax rates are reduced. There were such rate reductions from 1996-2000, but none from 2001-2006. In 2006 the personal exemption amount is \$1,400, up from \$1,350 in 2005. Each year the personal exemption amount is indexed for inflation.

This chapter includes twelve tables presenting information compiled from 2004 Ohio individual income tax returns (due by April 15, 2005). The data shows that 5,302,900 taxpayers filed tax returns, reporting total federal adjusted gross income of approximately \$293 billion, an average of roughly \$55,338 per return. Ohio taxpayers had a total tax liability of \$8,807 million for an average liability of \$1,661 per return.

- Table 1** has detailed data categorized in 43 income levels.
- Table 2** compares total returns filed for 2003 and 2004, grouped by major income levels.
- Table 3** compares only individual income tax returns for 2003 and 2004 with a tax liability.
- Table 4** summarizes Table 1, combining major data into nine income levels.
- Tables 5, 6, and 7** show nine income levels by filing status — married filing joint, single, and married filing separate.
- Table 8** classifies returns and tax liability by Ohio taxable income rather than federal adjusted gross income.
- Table 9** contains information on the joint filer credit for couples earning at least \$500 of qualifying Ohio adjusted gross income.

Table 10 provides information pertaining to the senior citizen credit.

Table 11 presents data by county. Cuyahoga County had the most returns, highest income, and highest tax liability. The ten most populous counties accounted for nearly 53 percent of all returns.

Table 12 presents average income per return by county. Delaware County had the highest average income at \$80,391, with Adams County the lowest at \$31,021.

TAXPAYER (OHIO REVISED CODE 5747.01(N)):

A taxpayer is every person subject to the tax under Ohio Revised Code section 5747.02 which includes every individual and every estate residing in Ohio or earning or receiving income in Ohio. Ohio lottery proceeds are subject to state tax. Every resident trust and certain nonresident trusts earning income from Ohio sources are subject to the Ohio income tax.

TAX BASE (R.C. 5747.01):

The tax base is the amount of federal adjusted gross income (individuals) or taxable income (estates and trusts) as defined in the I.R.C., plus or minus the adjustments according to Ohio income tax law (see **General Computation of Tax Liability** on the following page).

RATES (R.C. 5747.02):

The individual Ohio income tax rates for 2006 are shown below:

Taxable Income Over But Not Over	Tax
\$0 - \$ 5,000	\$0.00, plus 0.681%
\$ 5,001 - \$ 10,000	\$34.05, plus 1.361% of excess over \$5,000
\$ 10,001 - \$ 15,000	\$102.10, plus 2.722% of excess over \$10,000
\$ 15,001 - \$ 20,000	\$238.20, plus 3.403% of excess over \$15,000
\$ 20,001 - \$ 40,000	\$408.35, plus 4.083% of excess over \$20,000
\$ 40,001 - \$ 80,000	\$1,224.95, plus 4.764% of excess over \$40,000
\$ 80,001 - \$100,000	\$3,130.55, plus 5.444% of excess over \$80,000
\$100,001 - \$200,000	\$4,219.35, plus 6.32% of excess over \$100,000
over \$200,000	\$10,539.35, plus 6.87% of excess over \$200,000



INDIVIDUAL INCOME TAX - STATE

GENERAL COMPUTATION OF TAX LIABILITY FOR THE 2006 INDIVIDUAL INCOME TAX RETURN

**Starting Point – Federal Adjusted Gross Income,
Plus or Minus:****Additions to the extent not included in FAGI:**

- | | |
|--|---|
| <ol style="list-style-type: none"> 1. Non-Ohio state or local government interest and dividends. 2. Pass-through entity add back. 3. Income from an electing small business trust. 4. Reimbursement of college tuition expenses and fees deducted in a previous year (expires after taxable year 2005). 5. Losses from the sale of Ohio public obligations. 6. Non-medical withdrawals from an Ohio Medical Savings Account. 7. Reimbursement of expenses previously deducted. 8. Non-education expenditure from a college savings account. 9. Add back of 5/6 of the depreciation adjustment for I.R.C. sections 168(k) and 179. | <ol style="list-style-type: none"> 4. Disability and survivorship benefits. 5. Social security and some railroad retirement benefits. 6. Contributions to a college savings account administered by the Ohio Tuition Trust Authority. 7. Certain payments to members of the Ohio National Guard. 8. Unsubsidized health insurance, long-term care insurance, and excess medical expense deduction. 9. Funds deposited into, and earnings on, an Ohio Medical Savings Account. 10. Grantor Trust Electing Small Business Trust losses. 11. Wage and salary expense not deducted due to the federal targeted jobs or work opportunity tax credits. 12. Interest income from Ohio public and Ohio purchase obligations and gains from the sale or other disposition of Ohio public obligations. 13. Refund or reimbursement of a prior year federal itemized deduction. 14. Repayment of income reported in a prior year. 15. Amount contributed to an individual development account. 16. One-fifth of the depreciation added back in each of the previous five years. |
|--|---|

**Deductions to the extent not excluded or
deducted from FAGI:**

1. Certain federal interest and dividends.
2. Reciprocity income (income tax paid to other states; see item 2., **Special Provisions**).
3. State or municipal income tax overpayments deducted on a prior year's federal income tax return.

= Ohio Adjusted Gross Income

**Subtract: Exemption of \$1,400 per taxpayer and per dependent
= Ohio Taxable Income**

**Apply: Graduated rates (see table, previous page)
= Tax Before Credits and Before Grants**

Subtract the following credits:

- | | |
|--|---|
| <ol style="list-style-type: none"> 1. Personal and dependency credit of \$20. 2. Retirement income credit. 3. Senior citizen credit. 4. Lump sum distribution credit. 5. Child and dependent care credit. 6. Lump sum retirement income credit. 7. Credit if Ohio taxable income is less than or equal to \$10,000. | <ol style="list-style-type: none"> 8. Job training credit. 9. Political contributions credit. 10. Adoption credit. 11. Joint filing credit. 12. Resident credit. 13. Nonresident credit. 14. Business credits. |
|--|---|

= Ohio Net Individual Income Tax Liability Before Grants**Subtract: Grants, if any****= Ohio Net Individual Income Tax Liability.**

EXEMPTIONS AND ADJUSTMENTS:

1. **Personal and Dependent Exemptions (R.C. 5747.025):** For 2006, a personal exemption is available for each taxpayer and each dependent in the amount of \$1,400. This exemption is adjusted annually based upon the gross domestic product deflator.
2. **Adjustments to Federal Adjusted Gross Income for Individuals:** For a complete listing and explanation of the adjustments to federal adjusted gross income, see form IT 1040, Ohio Income Tax Return Instructions.
3. **Adjustments to Federal Taxable Income for Estates and Trusts:** For a complete listing and explanation of the adjustments, see Form IT 1041, Ohio Fiduciary Income Tax Return and Instructions.

PERSONAL CREDITS:

1. **Personal and Dependent Exemption Credit (R.C. 5747.022):** Individual taxpayers are allowed to take a credit of \$20 against the Ohio income tax for each personal and dependent exemption.
2. **Retirement Income Credit (R.C. 5747.055):** Individual and estate taxpayers receiving retirement benefits, annuities, or distributions from a retirement or profit sharing plan which are included in Ohio adjusted gross income are allowed a credit based on the amount of retirement income received during the taxable year. The maximum credit is \$200.
3. **Senior Citizen Credit (R.C. 5747.05 (C)):** Individual and estate taxpayers may claim a \$50 credit if the taxpayer was 65 years of age on or before December 31st of the taxable year.
4. **Lump Sum Retirement Credit (R.C. 5747.05 (D)):** Individual taxpayers over 65 years of age may claim this credit if they received a lump sum distribution from a pension, retirement, or profit sharing plan. The calculation is based upon the expected remaining life years times the senior citizens credit amount.
5. **Child and Dependent Care Credit (R.C. 5747.054):** Individual and estate taxpayers with an income of less than \$40,000 may claim this credit if they made payments that qualified for the federal child and dependent care credit on the federal income tax return.
6. **Lump Sum Retirement Income Credit (R.C. 5747.055 (C), (D), (E)):** Individual taxpayers may claim this credit if, on retirement, they received a lump sum distribution from a qualified pension, retirement, or profit sharing plan during one tax year.
7. **Low-Income Taxpayer Credit (R.C. 5747.056):** Individual taxpayers whose Ohio taxable income is less than or equal to \$10,000 receive a full credit against the tax otherwise due.
8. **Job Training Credit (R.C. 5747.27):** An individual taxpayer may claim a credit for training expenses incurred within 12 months of losing or leaving a job due to abolishment of position or shift. The maximum credit is 50 percent of the training expenses or \$500, whichever is lower.
9. **Political Contributions Credit (R.C. 5747.29):** Individual and estate taxpayers may claim a credit for contributions made to campaign committees of candidates for Ohio state office.

The maximum credit is \$50 for single, head of household, and married filing separate filers and \$100 for married filing joint filers.

10. **Adoption Credit (R.C. 5747.37):** Individual taxpayers may claim a credit for adoption expenses up to a maximum of \$500 per child. Adoption of stepchildren does not qualify for this credit.
11. **Joint Filer Credit (R.C. 5747.05 (G) (1)):** A husband and wife who file a joint individual return are allowed a tax credit if each spouse has qualifying Ohio adjusted gross income of \$500 or more. Qualifying income does not include income from interest, dividends and distributions, royalties, rents, capital gains, and state or municipal income tax refunds. The maximum credit is \$650. The credit is a percentage of the tax after all credits (other than the resident, nonresident, part-year resident, and business credits).
12. **Resident Credit (R.C. 5747.05 (B)):** Resident individuals, resident estates, and trusts may calculate a tax credit if part or all of their income is taxed in another state. The calculation for trusts differs from that used for individuals and estates.
13. **Nonresident Credit (R.C. 5747.05 (A)):** Nonresident individuals and nonresident estates may calculate a credit if part of their income was not earned or received in Ohio. Ohio lottery winnings do not qualify for this credit.

BUSINESS CREDITS AND GRANTS:

Note: The following business credits apply to individuals, estates, and trusts. You can find additional explanation in the **Corporation Franchise Tax** chapter of this report. Note that only the Ohio Job Creation Credit and Pass-Through Entity Credit are refundable.

1. Credit or grant for purchases of new manufacturing machinery and equipment (7.5 percent-13.5 percent credit) (R.C. 5747.31, 122.172, and 122.173).
2. Credit for new employees in an enterprise zone (R.C. 5709.66 (B)).
3. Credit for eligible costs associated with a voluntary clean-up action (carry forward only through 2006) (R.C. 5747.32 and 122.16).
4. Credit for employers that establish on-site day care centers (carry forward expires in 2007) (R.C. 5747.35).
5. Credit for investment in a certified ethanol plant (R.C. 5747.75).
6. Credit for purchases of grape production property (R.C. 5747.28).
7. Export sales (credit carry forward only through 2004) (R.C. 5747.057).
8. Edison Center credit for research and development investors (R.C. 5747.33, 122.15, 122.151-154).
9. Enterprise zone day care and training credit (R.C. 5709.65 (A) (4) and (A) (5)).
10. Refundable job creation credit (R.C. 5747.058).
11. Refundable pass-through entity credit (R.C. 5747.059).

INDIVIDUAL INCOME TAX - STATE



1. Military pay is taxable for residents. Ohio residents pay Ohio income tax on military pay regardless of duty station (except for all pay earned while in a combat zone). If the taxpayer is not an Ohio resident, Ohio does not tax the military pay. Ohio will tax nonmilitary pay earned in Ohio that is included in federal adjusted gross income.
2. Reciprocity state income (R.C. 5747.05 (A) (3)) may affect filing of an Ohio return.
Because of "reciprocity agreements" Ohio has with the border states (Indiana, Kentucky, West Virginia, Michigan, and Pennsylvania), an individual does not have to file a 2006 Ohio income tax return if:
 - The taxpayer was a full-year resident of one of the five listed states for 2006, and
 - The taxpayer's only source of income within Ohio was from wages, salaries, tips, or commissions.

Exception: The "reciprocity agreements" do not apply to nonresidents who directly or indirectly own at least 20 percent of the stock or other equity of pass-through entities (S corporations, partnerships, etc., see R.C. 5733.40 (A) (7)). These nonresidents cannot use the "reciprocity agreements" in order to deduct, as non-Ohio income, any compensation received from such pass-through entities. Rather, these nonresidents must include this compensation in Ohio taxable income but can treat this compensation as business income which must be apportioned for purposes of computing the nonresident credit. Ohio tax form IT 2023 is used for this purpose.
3. Residency status affects the calculation of the Ohio income tax. Individual taxpayers who have no more than 120 contact periods in Ohio and who have a permanent abode outside of Ohio for the entire year may declare themselves to be a nonresident of Ohio. Without jeopardizing their nonresidency status, the taxpayer can spend up to an additional 30 contact periods in Ohio for specific reasons (attending a funeral, charity functions, doctor visits).

Filing & Payment Dates

(R.C. 5747.07-5747.09):

For Individuals, Estates and Trusts:

1. An annual return is due between January 1 and April 15 for calendar

year taxpayers without an extension. Fiscal year returns are due by the 15th day of the fourth month after the fiscal year end. The return reconciles the tax liability with the amount remitted through withholding by the employer or quarterly estimated payments by the taxpayer.

2. Taxpayers must file quarterly declarations if they expect their tax to be underwithheld by more than \$500. Such taxpayers must make estimated payments on or before April 15, June 15, and September 15 of the current year and January 15 of the next year.

For Employers:

An employer accumulating undeposited taxes of \$100,000 or more is required to make payment within one banking day by electronic funds transfer (EFT). Otherwise, the following rules apply:

1. If an employer withheld no more than \$2,000 during the 12 months ending on June 30 of the preceding year, payments are due within 30 days after the quarter ending in March, June, September, and December.
2. If an employer withheld more than \$2,000 and less than \$84,000 during the 12 months ending on June 30 of the preceding year, payments are due within 15 days after the end of the month.
3. If an employer withheld at least \$84,000 during the 12 months ending on June 30 of the preceding year, payments are due within three banking days after the end of the partial weekly period and must be made by EFT.

DISPOSITION OF REVENUE:

1. In FY 2006, 4.7 percent or \$458.0 million was distributed to the Library and Local Government Support Fund, 3.4 percent or \$324.9 million to the Local Government Fund, 0.5 percent or \$46.4 million to the Local Government Revenue Assistance Fund, and 91.4 percent or \$8,786.4 million was distributed to the General Revenue Fund.

This distribution was structured by House Bill 66, 126th General Assembly, the FY 2006-2007 biennium budget bill, which continued a freeze on local government funds that began in 2002 and froze these distributions at FY 2001 levels. For each month of FY 2006, the Local Government Fund and Local Government Revenue Assistance Fund received the same amount they received for the corresponding month of the July 2004 - June 2005 period.

2. The Ohio Constitution requires that at least 50 percent of the income tax collections be returned to the county of origin. This provision is met primarily through General Revenue Fund allocations to education, Local Government Fund distributions, and local property tax relief (12.5 percent property tax rollback and homestead exemption).

ADMINISTRATION:

The Department of Taxation administers the Ohio income tax on individuals, estates, and trusts.

OHIO REVISED CODE CITATIONS:
Chapter 5747.



Amended Substitute House Bill 530, 126th General Assembly (effective March 30, 2006). R.C. 5747.01 (A) (22) and R.C. 5747.01 (A) (23):

Provides for a deduction for certain payments made to members of the Ohio National Guard. Effective for taxable years ending after March 30, 2006.

Amended Substitute H.B. 66, 126th General Assembly (FY 2006-2007 biennium budget bill, effective June 30, 2005).

R.C. 5747.01, 5747.02 (A) and (B):

Reduced the rate for all tax brackets for taxable year 2005 by 4.2 percent. Reduces rates by an additional 4.2 percent (from taxable year 2004 rates) in each of the taxable years from 2006-2009 for a total 21 percent reduction in rates. Also made permanent the income tax on trust income.

R.C. 5747.056:

Created a low-income taxpayer credit for taxable years beginning in 2005 and thereafter. Taxpayers having Ohio taxable income of \$10,000 or less receive

a nonrefundable credit equal to the amount of tax otherwise due. While such taxpayers still have to file the Ohio income tax return, they will owe no Ohio income tax.

R.C. 122.172, 122.173, and 5733.33:

Converted the manufacturers' new machinery and equipment business credit to a nonrefundable grant, effective for taxable years ending after June 30, 2005. Qualifying taxpayers must file the "notice of intent" letter with the Ohio Department of Development and must attach the "grant request form" to the income tax return. Also changed the last day of the purchase period from December 31, 2015 to June 30, 2005. Changed the last day of the installation period from December 31, 2016 to June 30, 2006.

R.C. 5747.113:

Created a military injury relief fund and allowed taxpayers to contribute a portion of their income tax refund to this fund. The fund is administered by the Ohio Department of Job and Family Services.

Sub. H.B. 2, 126th General Assembly (effective June 2, 2005).

R.C. 5747.026 (A)-(D):

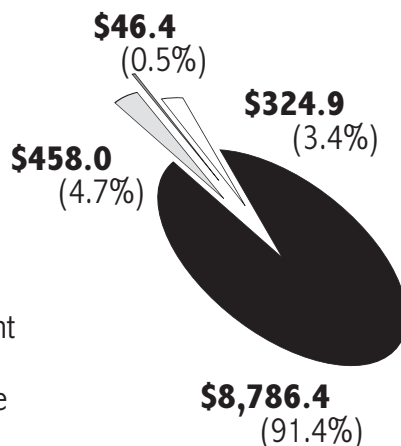
Expanded existing extensions to file and pay individual and school district income taxes to members of the Ohio National Guard and members of a reserve component of the U.S. Armed Forces who are called to active duty for any reason.

Distribution of Revenue from Individual Income Tax

Fiscal Year 2006

(figures in millions)

- General Revenue Fund
- Library & Local Government Support Fund
- Local Government Revenue Assistance Fund
- Local Government Fund

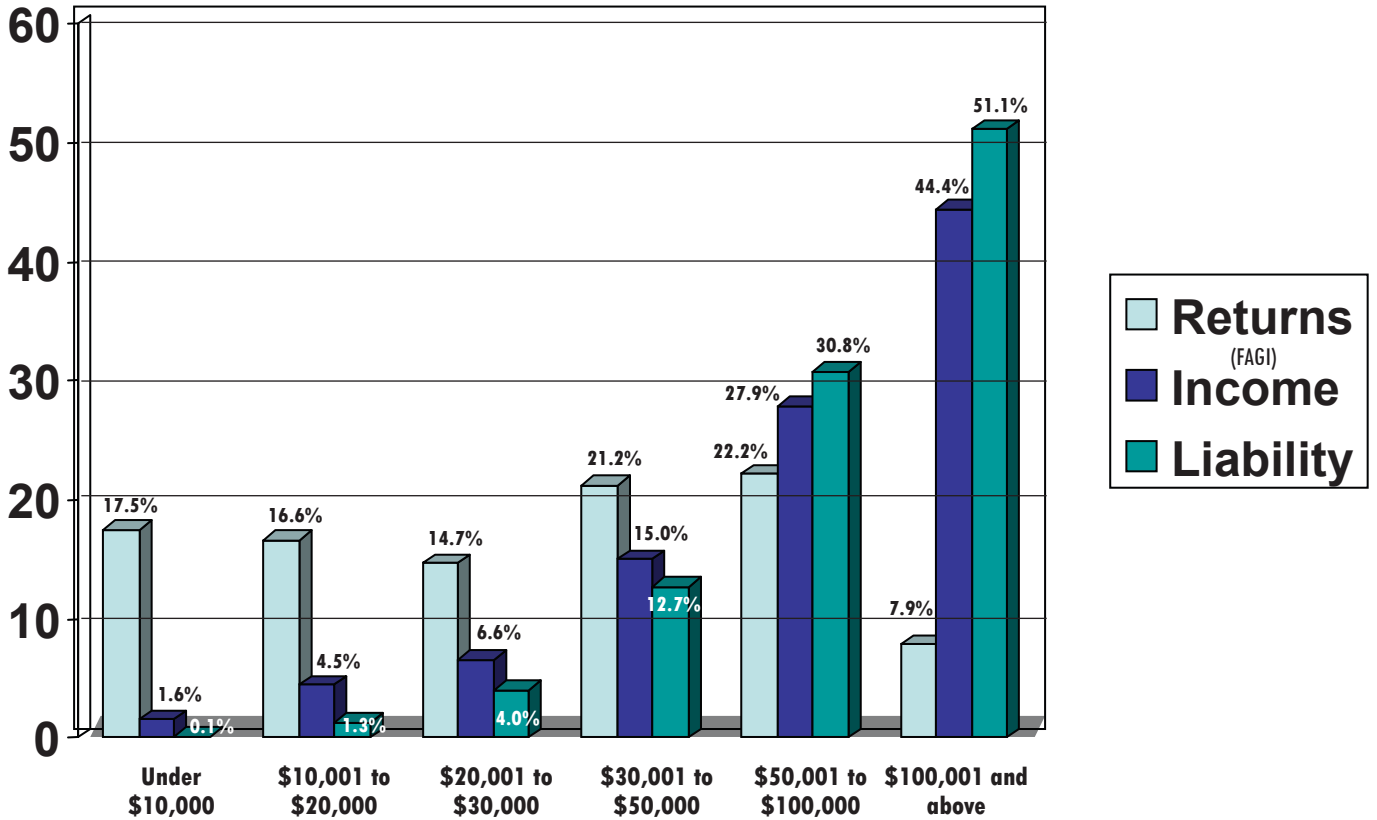


Total \$9,623.2 million*

* Includes Attorney General collections and political party contributions which amount to \$7.5 million.

INDIVIDUAL INCOME TAX - STATE

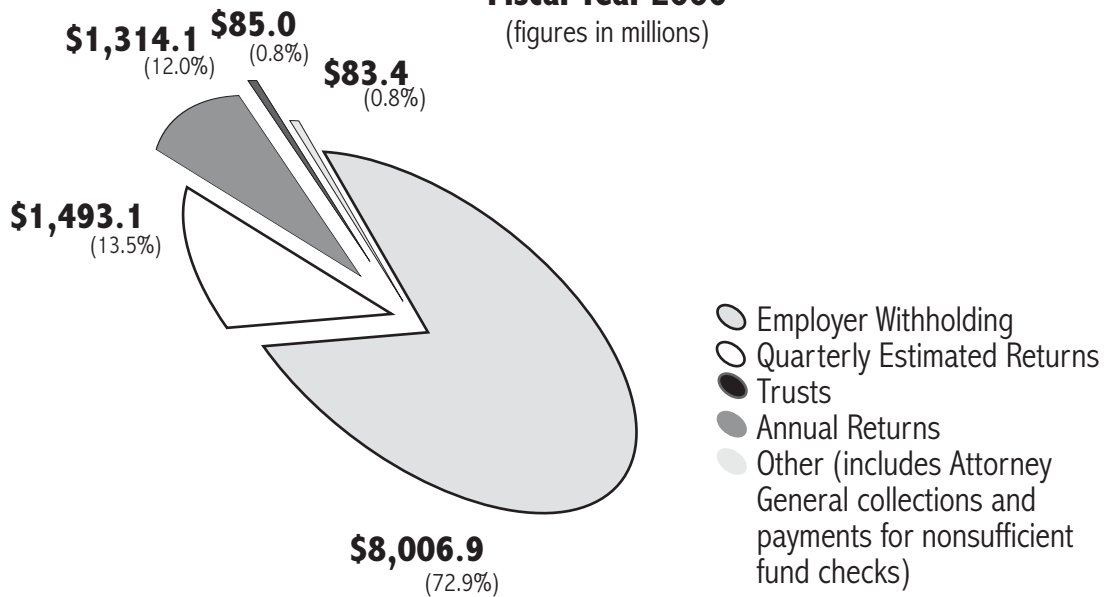
EXHIBIT - 2004 INDIVIDUAL INCOME TAX RETURNS,
INCOME AND TAX, BY INCOME LEVEL



Type of Payment to Individual Income Tax

Fiscal Year 2006

(figures in millions)



Total \$10,982.5 million*

* Includes \$1,275.5 million eventually sent back to taxpayers.

Source: Department of Taxation

TABLE 1
2004 OHIO INDIVIDUAL INCOME TAX RETURNS, BY INCOME LEVEL*

Income Level	Number of Returns	FAGI	OAGI	Reported Value of Personal Exemptions	Ohio Taxable Income	Tax Before Credits	Joint Filer Credit	Tax Liability after all Credits
0	1,000	56,045	\$32,975,306	\$470,741	\$1,017,868	\$11,766	\$34	\$8,242
1,001 - 2,000	91,915	139,310,385	22,095,798	2,098,102	22,095,798	169,810	176	11,923
2,001 - 3,000	100,388	251,702,399	106,110,383	4,369,432	106,110,383	788,069	3	10,316
3,001 - 4,000	103,845	363,552,042	200,397,546	6,877,966	200,397,546	1,496,681	461	14,263
4,001 - 5,000	106,688	480,383,202	299,891,576	9,934,784	299,891,576	2,246,359	434	31,689
5,001 - 6,000	97,911	538,262,441	362,068,579	12,557,759	362,068,579	2,711,415	274	777,396
6,001 - 7,000	94,028	610,896,971	431,267,640	15,284,763	431,267,640	3,346,033	960	1,251,838
7,001 - 8,000	95,234	714,572,873	521,201,540	20,210,111	521,201,540	4,486,356	1,456	2,006,265
8,001 - 9,000	90,939	772,903,981	579,740,872	22,369,183	579,740,872	5,416,260	2,307	2,669,111
9,001 - 10,000	90,816	862,815,957	661,790,332	26,799,860	661,790,332	6,610,550	5,422	3,390,668
10,001 - 11,000	90,674	952,374,271	738,767,410	29,619,158	738,767,410	7,720,114	6,593	4,027,041
11,001 - 12,000	89,044	1,024,075,727	808,440,074	32,705,001	808,440,074	8,984,911	10,160	4,974,860
12,001 - 13,000	88,172	1,102,366,701	885,138,059	36,640,701	885,138,059	10,880,400	16,696	6,457,307
13,001 - 14,000	88,673	1,197,307,778	973,386,842	38,888,174	973,386,842	13,098,909	26,610	8,099,011
14,001 - 15,000	88,496	1,283,447,868	1,054,974,024	41,919,454	1,054,974,024	15,400,111	44,009	9,822,643
15,001 - 16,000	88,394	1,370,224,673	1,137,784,183	44,216,689	1,137,784,183	17,774,914	66,463	11,700,054
16,001 - 17,000	87,433	1,442,666,599	1,208,599,568	46,332,843	1,208,599,568	20,071,984	86,835	13,561,502
17,001 - 18,000	86,990	1,522,507,994	1,286,210,105	48,823,585	1,286,210,105	22,751,327	115,336	15,928,792
18,001 - 19,000	86,381	1,598,094,667	1,357,724,923	51,349,934	1,357,724,923	25,390,091	150,979	18,330,598
19,001 - 20,000	85,446	1,666,320,955	1,424,741,919	52,417,718	1,424,741,919	28,017,964	202,127	20,847,742
20,001 - 22,500	206,563	4,388,150,710	3,786,505,063	138,389,313	3,786,505,063	80,379,707	758,584	63,119,003
22,501 - 25,000	198,139	4,705,413,321	4,109,126,263	147,510,629	4,109,126,263	96,489,786	1,175,574	79,393,961
25,001 - 27,500	189,973	4,986,325,000	4,388,608,887	164,630,939	4,388,608,887	112,029,381	1,663,105	94,922,813
27,501 - 30,000	184,926	5,316,245,951	4,710,156,812	181,498,844	4,710,156,812	128,300,172	2,056,712	110,672,325
30,001 - 32,500	174,155	5,440,908,935	4,841,850,002	193,156,560	4,841,850,002	138,825,248	2,334,100	121,635,089
32,501 - 35,000	166,747	5,625,598,384	5,028,936,554	202,217,610	5,028,936,554	150,356,020	2,787,136	132,880,934
35,001 - 37,500	156,122	5,657,782,730	5,071,837,810	209,846,330	5,071,837,810	156,915,661	3,396,779	139,414,428
37,501 - 40,000	145,518	5,636,963,384	5,060,098,916	215,314,837	5,060,098,916	161,083,326	4,129,681	143,181,193
40,001 - 42,500	134,453	5,544,265,019	4,983,360,225	216,717,455	4,983,360,225	162,669,044	4,848,988	145,024,621
42,501 - 45,000	124,417	5,441,345,493	4,892,174,159	218,078,031	4,892,174,159	163,925,771	5,626,305	146,079,450
45,001 - 47,500	114,587	5,298,432,698	4,769,282,566	214,005,136	4,769,282,566	164,182,584	6,408,104	146,029,598
47,501 - 50,000	107,889	5,259,331,876	4,735,247,419	218,689,787	4,735,247,419	167,058,192	7,488,312	148,038,553
50,001 - 55,000	194,142	10,184,836,856	9,176,518,055	439,781,262	9,176,518,055	334,360,723	15,823,348	296,465,217
55,001 - 60,000	171,784	9,869,583,995	8,915,373,151	432,029,279	8,915,373,151	336,904,071	14,665,106	300,824,877
60,001 - 65,000	152,188	9,504,965,404	8,609,283,168	412,799,988	8,609,283,168	335,299,389	16,131,058	298,856,085
65,001 - 70,000	136,369	9,199,691,059	8,365,392,812	387,669,591	8,365,392,812	334,242,459	17,816,211	296,999,902
70,001 - 75,000	121,290	8,788,049,986	8,016,414,844	362,344,710	8,016,414,844	327,214,232	18,986,961	289,789,272
75,001 - 80,000	105,959	8,206,586,289	7,515,212,259	324,633,491	7,515,212,259	312,493,735	17,663,246	277,604,441
80,001 - 90,000	171,085	14,500,864,182	13,362,982,862	531,238,238	13,362,982,862	570,298,023	20,869,815	518,462,409
90,001 - 100,000	122,599	11,608,486,845	10,772,669,896	395,973,449	10,772,669,896	477,883,598	16,466,730	434,847,999
100,001 - 150,000	244,068	28,983,047,443	27,236,625,447	908,021,061	27,236,625,447	1,325,448,179	44,397,981	1,191,866,476
150,001 - 200,000	69,461	11,893,470,520	11,343,681,530	351,191,627	11,343,681,530	623,939,337	19,239,337	547,580,814
200,001 AND ABOVE	102,916	89,482,572,489	89,058,464,533	1,536,022,140	89,058,464,533	6,320,691,887	32,655,652	2,759,539,737
STATE TOTALS	5,302,900	\$293,449,631,359	\$272,811,152,274	\$8,945,666,406	\$272,811,197,670	\$3,178,373,936	\$278,126,061	\$8,807,435,543

* As reported on returns due April 15, 2005.

TABLE 2
COMPARISON OF 2003 AND 2004 INDIVIDUAL INCOME TAX RETURNS

Income Level (Federal Adjusted Gross Income)	Number of Returns		Federal Adjusted Gross Income		Ohio Taxable Income		Joint Filer Credit		Ohio Income Tax	
	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004
0 - \$5,000	473,934	458,881	\$1,295,483,366	\$1,267,923,334	\$660,583,119	\$629,513,171	\$2,123	\$1,108	\$414,206	\$361,433
\$5,001 - 10,000	473,644	468,928	3,533,586,104	3,499,452,223	2,614,465,746	2,556,068,963	11,669	10,419	10,335,834	10,095,278
10,001 - 15,000	453,135	445,059	5,660,073,310	5,559,572,345	4,579,969,093	4,460,706,409	115,979	104,068	34,599,149	33,380,862
15,001 - 20,000	447,227	434,644	7,822,219,504	7,599,814,888	6,652,961,065	6,415,060,698	683,318	621,690	83,878,352	80,368,688
20,001 - 40,000	1,460,565	1,422,143	42,758,887,905	41,757,388,415	38,122,184,638	36,997,120,307	19,885,271	18,301,621	915,391,364	885,219,746
40,001 - 80,000	1,345,945	1,363,078	76,047,350,286	77,297,088,675	69,256,076,466	69,978,258,658	129,524,892	125,457,639	2,320,320,978	2,345,712,016
80,001 - 100,000	270,765	293,684	24,052,345,547	26,109,351,027	22,348,195,671	24,135,652,558	34,275,893	37,836,545	883,279,331	953,310,408
100,001 - 200,000	283,017	313,529	36,916,444,945	40,876,517,963	34,969,315,353	38,580,306,977	56,963,157	63,637,318	1,576,816,428	1,739,447,290
200,001 & above	90,918	102,916	68,263,240,745	89,482,522,489	67,944,597,920	89,058,464,533	28,383,794	32,655,653	2,231,590,702	2,759,539,822
Total	5,299,150	5,302,862	\$266,349,631,712	\$293,449,631,359	\$247,148,349,071	\$272,811,152,274	\$269,846,096	\$278,126,061	\$8,056,626,344	\$8,807,435,543

Table 3
Comparison of 2003 and 2004 Individual Income Tax Returns with Tax Liability

Income Level (Federal Adjusted Gross Income)	Number of Returns with Tax Liability		Ohio Income Tax	
	2003	2004	2003	2004
0 - \$5,000	79,960	75,204	\$414,206	\$361,433
\$5,001 - 10,000	319,321	317,278	10,335,834	10,095,278
10,001 - 15,000	343,004	335,200	34,599,149	33,380,862
15,001 - 20,000	386,633	373,730	83,878,352	80,368,688
20,001 - 40,000	1,428,286	1,388,362	915,391,364	885,219,746
40,001 - 80,000	1,331,366	1,348,234	2,320,320,978	2,345,712,016
80,001 - 100,000	267,948	290,669	883,279,331	953,310,408
100,001 - 200,000	279,175	309,388	1,576,816,428	1,739,447,290
200,001 & above	87,532	99,111	2,231,590,702	2,759,539,822
Total	4,523,225	4,537,176	\$7,834,492,699	\$8,807,435,543

INDIVIDUAL INCOME TAX - STATE

TABLE 4
2004 OHIO INDIVIDUAL INCOME TAX RETURNS FOR ALL FILING STATUS CATEGORIES

Income Level (Federal Adjusted Gross Income)	Number of Returns	FAGI	Ohio Taxable Income	Joint Filer Credit	Ohio Income Tax	Effective Tax Rate*
0 - \$5,000	458,881	\$1,267,923,334	\$629,513,171	\$1,108	\$361,433	0.03%
\$5,001 - 10,000	468,928	3,499,452,223	2,556,068,963	10,419	10,095,278	0.29%
10,001 - 15,000	445,059	5,559,572,345	4,460,706,409	104,068	33,380,862	0.60%
15,001 - 20,000	434,644	7,599,814,888	6,415,060,698	621,690	80,368,688	1.06%
20,001 - 40,000	1,422,143	41,757,388,415	36,997,120,307	18,301,621	885,219,746	2.12%
40,001 - 80,000	1,363,078	77,297,088,675	69,978,258,658	125,457,639	2,345,712,016	3.03%
80,001 - 100,000	293,684	26,109,351,027	24,135,652,558	37,336,545	953,310,408	3.65%
100,001 - 200,000	313,529	40,876,517,963	38,580,306,977	63,637,318	1,739,447,290	4.26%
200,001 & above	102,916	89,482,522,489	89,058,464,533	32,655,653	2,759,539,822	3.08%
Total	5,302,862	\$293,449,631,359	\$272,811,152,274	\$278,126,061	\$8,807,435,543	3.00%

* Ohio income tax divided by federal adjusted gross income. Resident and nonresident tax credits have been subtracted in calculating income tax, but FAGI includes all resident and nonresident income.

TABLE 5
2004 OHIO INDIVIDUAL INCOME TAX RETURNS CLAIMING
MARRIED FILING JOINT STATUS

Income Level (Federal Adjusted Gross Income)	Number of Returns	FAGI	Ohio Taxable Income	Ohio Income Tax	Effective Tax Rate*
0 - \$5,000	16,013	\$47,588,936	\$9,294,971	\$15,357	0.03%
\$5,001 - 10,000	38,304	298,692,161	153,642,366	155,548	0.05%
10,001 - 15,000	67,986	861,559,826	575,952,284	1,344,378	0.16%
15,001 - 20,000	89,957	1,578,577,308	1,180,221,003	6,850,315	0.43%
20,001 - 40,000	370,301	11,173,458,636	9,112,575,483	175,720,537	1.57%
40,001 - 80,000	765,212	45,446,452,316	40,206,537,176	1,295,462,511	2.85%
80,001 - 100,000	239,046	21,274,774,909	19,553,204,352	764,846,432	3.60%
100,001 - 200,000	266,436	34,772,344,513	32,763,752,894	1,470,593,758	4.23%
200,001 & above	86,926	72,882,089,447	72,515,813,954	2,299,786,842	3.16%
Total	1,940,181	\$188,335,538,052	\$176,070,994,483	\$6,014,775,678	3.19%

* Ohio income tax divided by federal adjusted gross income. Resident and nonresident tax credits have been subtracted in calculating income tax, but FAGI includes all resident and nonresident income.

INDIVIDUAL INCOME TAX - STATE

TABLE 6
2004 OHIO INDIVIDUAL INCOME TAX RETURNS
CLAIMING SINGLE FILING STATUS

Income Level (Federal Adjusted Gross Income)	Number of Returns	FAGI	Ohio Taxable Income	Ohio Income Tax	Effective Tax Rate*
0 - \$5,000	437,432	\$1,205,361,400	\$612,316,773	\$336,864	0.03%
\$5,001 - 10,000	422,379	3,137,381,131	2,353,904,047	9,688,731	0.31%
10,001 - 15,000	361,017	4,490,968,651	3,707,745,763	30,158,305	0.67%
15,001 - 20,000	314,130	5,481,184,729	4,754,175,629	65,737,696	1.20%
20,001 - 40,000	850,917	24,442,270,865	22,235,349,298	557,366,306	2.28%
40,001 - 80,000	431,423	22,903,204,714	21,309,010,581	744,287,186	3.25%
80,001 - 100,000	36,981	3,272,446,279	3,073,378,512	124,224,140	3.80%
100,001 - 200,000	33,769	4,391,358,399	4,152,337,120	187,881,620	4.28%
200,001 & above	12,617	12,689,873,475	12,639,994,255	347,537,533	2.74%
Total	2,900,665	\$82,014,049,643	\$74,838,211,978	\$2,067,218,381	2.52%

* Ohio income tax divided by federal adjusted gross income. Resident and nonresident tax credits have been subtracted in calculating income tax, but FAGI includes all resident and nonresident income.

TABLE 7
2004 OHIO INDIVIDUAL INCOME TAX RETURNS CLAIMING
MARRIED SEPARATE FILING STATUS

Income Level (Federal Adjusted Gross Income)	Number of Returns	FAGI	Ohio Taxable Income	Ohio Income Tax	Effective Tax Rate*
0 - \$5,000	5,437	\$14,972,998	\$7,901,427	\$9,212	0.06%
\$5,001 - 10,000	8,245	63,378,931	48,522,548	250,998	0.40%
10,001 - 15,000	16,054	207,043,867	177,008,359	1,878,180	0.91%
15,001 - 20,000	30,557	540,052,851	480,664,065	7,780,676	1.44%
20,001 - 40,000	200,926	6,141,658,914	5,649,195,526	152,132,903	2.48%
40,001 - 80,000	166,444	8,947,431,645	8,462,710,898	305,962,318	3.42%
80,001 - 100,000	17,658	1,562,129,840	1,509,069,693	64,239,837	4.11%
100,001 - 200,000	13,324	1,712,815,051	1,664,216,963	80,971,913	4.73%
200,001 & above	3,373	3,910,559,567	3,902,656,323	112,215,362	2.87%
Total	462,018	\$23,100,043,664	\$21,901,945,802	\$725,441,399	3.14%

* Ohio income tax divided by federal adjusted gross income. Resident and nonresident tax credits have been subtracted in calculating income tax, but FAGI includes all resident and nonresident income.

INDIVIDUAL INCOME TAX - STATE

TABLE 8
2004 OHIO INDIVIDUAL INCOME TAX RETURNS BY
OHIO TAXABLE INCOME LEVEL

Income Level (Ohio Taxable Income)	Number of Returns*	\$20 Exemption Credit	Joint Filer Credit	Ohio Income Tax
0 - \$5,000	685,598	\$13,442,962	\$244.00	\$1,392,977.00
\$5,001 - 10,000	490,601	13,054,271	45,452	16,402,395
10,001 - 15,000	457,172	12,953,238	471,776	52,267,703
15,001 - 20,000	438,849	15,131,276	1,781,238	113,531,652
20,001 - 40,000	1,398,092	51,739,787	29,127,756	1,042,920,964
40,001 - 80,000	1,229,514	59,061,767	126,553,193	2,410,433,810
80,001 - 100,000	241,646	13,778,998	31,422,315	869,698,561
100,001 - 200,000	264,390	15,640,471	57,734,791	1,591,189,566
200,001 & above	97,040	5,780,814	30,989,296	2,709,597,915
Total	5,302,902	\$200,583,584	\$278,126,061	\$8,807,435,543

* Differs from other tables due to methodology of computation.

TABLE 9
2004 OHIO INDIVIDUAL INCOME TAX RETURNS
CLAIMING THE JOINT FILER CREDIT, BY INCOME LEVEL

Income Level (Federal Adjusted Gross Income)	Number of Returns*	FAGI	Ohio Taxable Income	Ohio Income Tax
0 - \$5,000	66	\$276,069.00	\$519,498	\$4,659
\$5,001 - 10,000	1,354	11,766,617	9,796,808	57,955
10,001 - 15,000	8,519	111,550,798	84,392,924	419,546
15,001 - 20,000	23,357	417,851,618	331,307,552	2,451,661
20,001 - 40,000	191,771	5,931,395,131	4,976,807,437	92,275,011
40,001 - 80,000	568,703	34,251,328,507	30,778,051,722	980,937,096
80,001 - 100,000	197,096	17,540,864,874	16,291,301,935	637,847,631
100,001 - 200,000	208,432	26,962,419,492	25,596,526,079	1,152,245,514
200,001 & above	51,424	31,796,591,178	31,602,742,358	1,260,998,978
Total	1,250,722	\$117,024,044,284	\$109,671,446,313	\$4,127,238,051

* Differs from other tables due to methodology of computation.

INDIVIDUAL INCOME TAX - STATE

TABLE 10

2004 OHIO INDIVIDUAL INCOME TAX RETURNS CLAIMING THE SENIOR CITIZEN CREDIT, BY INCOME LEVEL

Income Level (Federal Adjusted Gross Income)	Number of Returns Claiming Credit	FAGI	Ohio Taxable Income	Senior Citizen Credit	Retirement Income Credit*	Ohio Income Tax
0 - \$5,000	15,856	\$55,842,577	\$28,339,343	\$792,507	\$716,252	\$6,680
\$5,001 - 10,000	55,221	433,878,662	311,706,471	2,760,476	5,156,241	50,971
10,001 - 15,000	81,970	1,026,885,427	798,947,314	4,098,236	11,146,793	836,308
15,001 - 20,000	79,370	1,382,839,359	1,106,448,199	3,967,838	11,820,506	3,669,754
20,001 - 40,000	175,201	5,029,293,064	3,886,325,931	8,758,830	27,222,171	54,414,270
40,001 - 80,000	140,477	7,947,639,421	5,858,785,277	7,022,521	21,557,207	159,397,516
80,001 - 100,000	26,857	2,384,744,392	1,841,483,785	1,342,648	3,942,510	64,735,004
100,001 - 200,000	33,857	4,513,773,455	3,760,271,526	1,692,773	4,667,324	161,142,035
200,001 & above	15,890	18,396,301,023	18,107,647,349	794,469	1,800,169	465,360,684
Total	624,699	\$41,171,197,380	\$35,699,955,195	\$31,230,298	\$88,029,173	\$909,613,222

* This represents only the amount of the retirement income credit taken by senior citizen credit claimants (those 65 years and older). The total amount of the retirement income credit reported on the tax returns is \$131.1 million.

TABLE 11

2004 OHIO INDIVIDUAL INCOME TAX RETURNS, BY COUNTY

County	Number of Returns	Federal Adjusted Gross Income	Ohio Income Tax	County	Number of Returns	Federal Adjusted Gross Income	Ohio Income Tax
ADAMS	12,436	\$385,780,981	\$9,987,803	MAHONING	109,562	\$4,568,520,668	\$154,359,410
ALLEN	48,569	2,022,578,837	67,516,112	MARION	28,058	1,067,726,176	32,796,333
ASHLAND	23,503	906,658,342	27,838,954	MEDINA	79,179	4,231,859,125	156,149,098
ASHTABULA	44,942	1,576,519,451	45,148,819	MEIGS	8,857	282,015,624	7,346,254
ATHENS	22,176	787,540,547	23,780,244	MERCER	20,261	777,800,338	24,333,493
AUGLAIZE	21,938	915,126,328	29,981,016	MIAMI	48,684	2,168,049,346	74,549,978
BELMONT	29,826	1,033,505,667	29,443,682	MONROE	6,288	198,308,234	5,026,975
BROWN	18,265	649,508,407	18,575,625	MONTGOMERY	247,481	11,216,655,840	387,130,567
BUTLER	156,585	7,716,781,925	275,810,287	MORGAN	5,949	191,694,780	4,692,578
CARROLL	12,722	499,959,582	13,324,742	MORROW	13,706	512,341,014	15,093,382
CHAMPAIGN	17,237	683,271,016	20,963,291	MUSKINGUM	38,757	1,420,766,811	44,203,152
CLARK	63,043	2,472,587,090	76,965,426	NOBLE	5,049	161,191,243	4,313,369
CLERMONT	86,604	4,276,744,413	152,013,680	OTTAWA	21,037	893,581,147	28,834,652
CLINTON	19,740	822,904,820	25,985,185	PAULDING	9,212	341,565,911	10,133,049
COLUMBIANA	46,956	1,670,911,319	49,133,872	PERRY	14,509	485,618,031	13,518,218
COSHOCTON	16,042	557,016,919	15,851,656	PICKAWAY	22,116	905,199,754	28,240,444
CRAWFORD	21,784	747,610,450	21,088,860	PIKE	11,366	382,304,013	10,675,555
CUYAHOGA	601,937	30,176,590,303	1,143,029,938	PORTAGE	69,848	3,161,202,285	108,612,928
DARKE	25,346	940,708,813	28,748,570	PREBLE	18,059	713,969,980	21,494,101
DEFIANCE	19,004	779,052,263	24,920,714	PUTNAM	17,162	688,284,289	21,713,561
DELAWARE	68,329	5,493,052,632	248,125,260	RICHLAND	57,448	2,250,269,669	71,686,905
ERIE	37,664	1,631,763,235	55,380,215	ROSS	31,944	1,211,910,435	37,249,997
FAIRFIELD	61,277	2,886,546,106	99,258,524	SANDUSKY	30,193	1,115,749,019	33,066,637
FAYETTE	13,215	453,803,217	13,050,999	SCIOTO	27,618	989,197,843	29,582,541
FRANKLIN	514,339	25,446,883,064	943,985,711	SENECA	26,894	948,904,814	27,528,258
FULTON	20,712	842,375,893	26,126,315	SHELBY	23,747	967,658,770	31,933,797
GALLIA	12,219	450,546,414	13,986,248	STARK	175,167	7,427,220,334	250,984,376
GEAUGA	43,169	2,955,435,676	127,784,964	SUMMIT	251,534	12,566,181,504	477,311,823
GREENE	68,543	3,551,013,308	126,524,018	TRUMBULL	101,318	4,083,585,831	131,626,852
GUERNSEY	17,650	578,284,092	16,433,011	TUSCARAWAS	44,085	1,621,699,201	49,910,487
HAMILTON	379,931	21,891,685,879	874,942,892	UNION	20,509	1,034,064,576	36,326,760
HANCOCK	34,074	1,565,941,044	54,965,560	VAN WERT	14,270	524,894,003	15,215,189
HARDIN	13,367	479,923,402	13,828,131	VINTON	4,677	157,006,137	4,493,677
HARRISON	6,693	223,646,292	6,353,174	WARREN	85,804	5,385,608,230	215,046,234
HENRY	14,160	557,827,011	16,735,878	WASHINGTON	27,372	1,049,052,379	32,047,893
HIGHLAND	17,553	589,675,669	16,649,234	WAYNE	52,080	2,196,249,792	73,438,448
HOCKING	12,124	407,257,313	11,181,967	WILLIAMS	18,523	703,758,298	21,740,304
HOLMES	13,917	521,767,486	16,559,246	WOOD	56,056	2,683,990,542	95,568,752
HURON	29,271	1,137,493,657	35,954,391	WYANDOT	11,296	411,616,583	12,384,528
JACKSON	13,647	475,820,898	14,062,029				
JEFFERSON	30,795	1,146,526,862	34,529,139				
KNOX	24,837	995,391,863	30,907,818	88-COUNTY			
LAKE	113,734	5,285,155,131	185,082,963	TOTAL	5,194,700	\$241,656,454,005	\$8,593,564,584
LAWRENCE	24,541	829,396,183	22,674,869				
LICKING	73,361	3,288,197,617	111,087,508	OTHER (a)	108,199	\$51,793,177,354	\$213,870,959
LOGAN	21,762	891,059,026	28,932,953				
LORAIN	135,584	6,069,704,435	207,309,190	STATE TOTAL (b)	5,302,899	\$293,449,631,359	\$8,807,435,543
LUCAS	196,091	8,892,663,605	313,377,672				
MADISON	17,811	798,986,953	27,305,674				

(a) Includes returns from out-of-state filers and returns not indicating county of residence.

(b) Differs from other tables due to methodology of computation.

TABLE 12

RANK OF COUNTIES BY AVERAGE INCOME AS REPORTED ON 2004 OHIO INDIVIDUAL
INCOME TAX RETURNS*

County	Average Federal Adjusted Gross Income	Percentage of State Average	Rank	County	Average Federal Adjusted Gross Income	Percentage of State Average	Rank
ADAMS	\$31,021	66.69%	88	LORAIN	\$44,767	96.24%	22
ALLEN	41,643	89.52%	31	LUCAS	45,350	97.49%	17
ASHLAND	38,576	82.93%	47	MADISON	44,859	96.44%	20
ASHTABULA	35,079	75.41%	70	MAHONING	41,698	89.64%	29
ATHENS	35,513	76.34%	68	MARION	38,054	81.81%	50
AUGLAIZE	41,714	89.67%	28	MEDINA	53,447	114.90%	5
BELMONT	34,651	74.49%	73	MEIGS	31,841	68.45%	86
BROWN	35,560	76.45%	67	MERCER	38,389	82.53%	48
BUTLER	49,282	105.94%	12	MIAMI	44,533	95.73%	23
CARROLL	39,299	84.48%	43	MONROE	31,538	67.80%	87
CHAMPAIGN	39,640	85.22%	40	MONTGOMERY	45,323	97.43%	18
CLARK	39,221	84.31%	44	MORGAN	32,223	69.27%	84
CLERMONT	49,383	106.16%	11	MORROW	37,381	80.36%	54
CLINTON	41,687	89.62%	30	MUSKINGUM	36,658	78.81%	62
COLUMBIANA	35,585	76.50%	66	NOBLE	31,925	68.63%	85
COSHOCTON	34,722	74.64%	72	OTTAWA	42,477	91.31%	25
CRAWFORD	34,319	73.78%	75	PAULDING	37,078	79.71%	57
CUYAHOGA	50,132	107.77%	8	PERRY	33,470	71.95%	81
DARKE	37,115	79.79%	56	PICKAWAY	40,930	87.99%	34
DEFIANCE	40,994	88.13%	32	PIKE	33,636	72.31%	77
DELAWARE	80,391	172.82%	1	PORTAGE	45,258	97.29%	19
ERIE	43,324	93.14%	24	PREBLE	39,535	84.99%	41
FAIRFIELD	47,107	101.27%	14	PUTNAM	40,105	86.22%	38
FAYETTE	34,340	73.82%	74	RICHLAND	39,171	84.21%	45
FRANKLIN	49,475	106.36%	10	ROSS	37,939	81.56%	52
FULTON	40,671	87.43%	36	SANDUSKY	36,954	79.44%	58
GALLIA	36,873	79.27%	59	SCIOTO	35,817	77.00%	65
GEAUGA	68,462	147.18%	2	SENECA	35,283	75.85%	69
GREENE	51,807	111.37%	6	SHELBY	40,749	87.60%	35
GUERNSEY	32,764	70.43%	83	STARK	42,401	91.15%	26
HAMILTON	57,620	123.87%	4	SUMMIT	49,958	107.40%	9
HANCOCK	45,957	98.80%	16	TRUMBULL	40,305	86.64%	37
HARDIN	35,904	77.18%	64	TUSCARAWAS	36,786	79.08%	60
HARRISON	33,415	71.83%	82	UNION	50,420	108.39%	7
HENRY	39,395	84.69%	42	VAN WERT	36,783	79.07%	61
HIGHLAND	33,594	72.22%	78	VINTON	33,570	72.17%	80
HOCKING	33,591	72.21%	79	WARREN	62,766	134.93%	3
HOLMES	37,491	80.60%	53	WASHINGTON	38,326	82.39%	49
HURON	38,861	83.54%	46	WAYNE	42,171	90.66%	27
JACKSON	34,866	74.95%	71	WILLIAMS	37,994	81.68%	51
JEFFERSON	37,231	80.04%	55	WOOD	47,881	102.93%	13
KNOX	40,077	86.15%	39	WYANDOT	\$36,439	78.33%	63
LAKE	46,469	99.90%	15				
LAWRENCE	33,796	72.65%	76				
LICKING	44,822	96.36%	21				
LOGAN	40,946	88.02%	33				
				88-COUNTY			
				TOTAL	\$46,517	100.00%	

* Includes only returns indicating a county of residence.

KILOWATT - HOUR TAX

The kilowatt-hour tax and its companion self-assessor option tax were created by Substitute Senate Bill 3, 123rd General Assembly, as part of electric utility deregulation. This tax, effective May 1, 2001, replaced the public utility excise tax on electric and rural electric companies. It also replaced the tax losses from the reduction in electric and rural electric tangible personal property tax assessment rates.

The kilowatt-hour tax is levied on electric distribution companies with end users in this state. It levies one of three rates depending on the kilowatt-hour consumption of the individual end user of electricity. For certain large consumers of electricity, there exists a self-assessor option tax. This tax is partially based on price and partially based on consumption. Companies that provide both electric and other services must separate the charges for electricity from the other services they provide.

The tax is paid monthly. The first payment was in June 2001 and was based upon May 2001 liability. In Fiscal Year 2006, the tax generated approximately \$557.2 million in total revenue.

Amended Sub. S.B. 287, 123rd General Assembly, made several changes to the tax prior to its taking effect. First, it lowered the threshold to qualify as a self-assessor and capped the consumption portion of the self-assessor tax. It provided that the exempt qualified end-users will remit tax on the nonqualified portion of the electricity consumption. An exemption was enacted for qualified regeneration facilities. It also allowed for businesses to declare that they will have enough electricity consumption in the upcoming year so they may self-assess, with a "recapture tax," if that business fails to meet the self-assessor threshold. The bill also contained a provision that if a self-assessor is served by a municipal electric utility and is located within that municipality, the tax will be remitted to the municipality (see the **Municipal Income Tax for Electric Light Companies and Telephone Companies** chapter).

House Bill 94, 124th General Assembly, also made several changes to the tax. First, it made a clarification to the cap on the consumption portion of the self-assessor option tax that was enacted under Sub. S.B. 287. It also clarified the annual application process for the self-assessor option. Several administrative and technical corrections were also made to the methodology of operations of the School District Property Tax Replacement Fund and the Local Government Property Tax Replacement Fund. H.B. 94 also froze the Local Government Fund and the Local Government Revenue Assistance Fund. In general, these funds were frozen at their FY 2001 level for the FY 2002 and FY 2003 monthly distributions. However, since the kilowatt-hour tax was not in effect for the whole of FY 2001, there were no distributions from the revenue to either of the local government funds.

The freeze on the local government funds was continued in FY 2004 and FY 2005 under the provisions of H.B. 95, the FY 2004-2005 biennium budget bill.

This freeze was continued again in FY 2006 and FY 2007 under the provisions of H.B. 66, 126th General Assembly, the FY 2006-2007 biennium budget bill. During FY 2006 and FY 2007, the amounts of the kilowatt-hour tax going to the local government funds are designated in the budget bill.

TAXPAYER:

Electric distribution companies with end users in Ohio are subject to the kilowatt-hour tax. The tax is also paid by certain large commercial and industrial end users ("qualified end users") that consume more than 45 million kilowatt-hours of electricity during a calendar year. Qualified end users can register to self-assess the tax.

TAX BASE (OHIO REVISED CODE 5727.81):

1. For end users that do not self-assess, the base is on the amount of the kilowatt-hours distributed to them per month.
2. For end users above 45 million kilowatt-hours of annual consumption who opt to self-assess, it is partially based on the number of kilowatt-hours distributed to them per month and partially on the total price per month. The consumption portion of this option is capped at the first 504 million kilowatt-hours distributed to the end user during each registration year.

RATES (R.C. 5727.81):

1. Electric distribution companies pay rates based on the monthly consumption by each end user, using the following schedule:

Monthly Kilowatt-Hours Distributed to the End User	Rate per Kilowatt-Hour
0 – 2,000 kilowatt-hours	\$0.00465
2001 – 15,000 kilowatt-hours	0.00419
Over 15,000 kilowatt-hours	0.00363

2. For end users above 45 million kilowatt-hours in annual consumption, there is an option to self-assess the tax. This self-assessor tax is calculated as the sum of 4.0 percent of the total price plus \$.00075 per kilowatt-hour on the first 504 million kilowatt-hours of annual consumption.

EXEMPTIONS AND DEDUCTIONS (R.C. 5727.80, 5727.81):

Exempt end users of electricity are:

- the federal government;
- end users located at a federal facility that uses electricity to process uranium;
- qualified use of electricity by a qualified end user; and
- qualified regeneration facilities.

CREDITS:

None.

FILING AND PAYMENT DATES (R.C. 5727.82):

For kilowatt-hour and self-assessing taxpayers, the filing date is the 20th day of each month. The payment will reflect the amount of electricity distributed to the end users during the preceding month. An annual application for registration as a self-assessing purchaser shall be made on a form prescribed by the Tax Com-

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KILOWATT - TAX

missioner. The registration year begins on May 1 and ends on the following April 30. Persons may apply after May 1 for the remainder of the registration year.

ADMINISTRATION:

The Tax Commissioner administers the kilowatt-hour tax and makes revenue payments to the various funds.

DISPOSITION OF REVENUE (R.C. 5727.84):

Fund	Percentage
(a) General Revenue Fund	59.976%
(b) Local Government Fund*	2.646
(c) Local Government Revenue Assistance Fund*	0.378
(d) School District Property Tax Replacement Fund	25.400
(e) Local Government Property Tax Replacement Fund	11.600
Total Distribution	100.0%

*H.B. 94, 124th General Assembly, temporarily froze the Local Government and Local Government Revenue Assistance Funds (see the **Local Government Funds, State and County** chapter). In general, the funds were frozen at their FY 2001 level for FY 2002 and FY 2003. Since the kilowatt-hour tax was in effect for only one month of FY 2001, no distributions from the tax were made to those two funds during the FY 2002 and FY 2003 periods.

This freeze was continued in FY 2004 and FY 2005 under H.B. 95, 125th General Assembly. The freeze was continued again in FY 2006 and FY 2007 by H.B. 66. Revenue going to the local government funds during these years is based on amounts specified in the budget bill.

OHIO REVISED CODE CITATIONS:

Chapter 5727.



Amended Sub. H.B. 66, 126th General Assembly (FY 2006-2007 biennium budget bill; this provision effective September 29, 2005). R.C. 5727.84 (C) (3):

Provided that revenues from the kilowatt-hour tax are paid into a fund that is then divided between the General Revenue Fund and several other funds. Prior law provided that if the revenues raised by the tax fell below certain amounts, the amount of tax payable into the General Revenue Fund would be decreased in order to make up the lost revenue in the other funds. This law was repealed and there will be no reduction in the amount of tax credited to the General Revenue Fund.

TABLE
KILOWATT-HOUR TAX COLLECTIONS AND DISTRIBUTIONS
FISCAL YEARS 2002-2006

Fiscal Year	Total Collections	State General Revenue Fund	Local Government Fund	Local Government Revenue Assistance Fund	School District Property Tax Replacement Fund	Local Government Property Tax Replacement Fund
2002	\$513,251,495	\$323,348,442	0	0	\$132,741,040	\$57,162,014
2003	539,448,630	339,852,637	0	0	137,019,952	62,576,041
2004	538,044,462	338,961,216	0	0	136,668,104	62,415,142
2005	539,354,909	339,793,592	0	0	136,996,147	62,565,170
2006	557,166,445	325,307,962	\$22,493,535	\$3,213,362	141,520,356	64,631,229

LIBRARY & LOCAL GOVERNMENT SUPPORT FUND

In 1985, the 115th General Assembly enacted House Bill 291 that created the Library and Local Government Support Fund (LLGSF) to replace the locally-collected intangible property tax, which was repealed in calendar year 1986. The LLGSF provides aid from state income tax collections to counties, on a monthly basis, which in turn distribute it to libraries and local governments that were receiving revenue from the intangible property tax. H.B. 291 also created a 12-member Public Library Financing and Support Committee to assist the General Assembly and the Governor in developing an equitable method of distributing the funds among the counties. A distribution formula was incorporated in H.B.146 and became law on July 12, 1985.

In calendar year 2005, approximately \$458.0 million was distributed from the fund, a 0.5 percent increase over the prior year.

H.B. 94, 124th General Assembly, the Fiscal Year 2002-2003 biennium budget bill, temporarily set aside the H.B. 146 distribution formula. Between July 2001 and July 2003, counties received the same amounts they received during the corresponding months of the July 2000 through June 2001 period. However, each county's monthly distribution was reduced by the county's proportion of the amount required to be transferred to the Ohio Public Library Information Network (OPLIN) Technology Fund. Additionally, distributions in July 2002 and July 2003 were reduced as a result of H.B. 405 adjustments.

This freeze was continued in FY 2004 with H.B. 95, 125th General Assembly, the FY 2004-2005 biennium budget bill. During each month of the July 2003 - June 2004 period and the July 2004 - June 2005 period, the Library and Local Government Support Fund received the same amount it received during the corresponding month of the July 2002 - June 2003 period. However, the May 2004 and May 2005 deposits were reduced by the June 2003 H.B. 405 adjustment of \$31.4 million, but this amount was added back to the June 2004 and June 2005 deposits.

HB 66 of the 126th General Assembly basically extended the temporary freeze set in H.B. 95. Each month during the July 2005 - June 2006 period, the LLGSF received the same amount it received in such month during the July 2004 - June 2005 period. In addition, during the period of July 2006 - June 2007, the LLGSF will receive the same amounts it received in such month during the July 2005 - June 2006 period.

REVENUE SOURCE (OHIO REVISED CODE 131.44, 5747.03):

According to permanent law, the LLGSF receives 5.7 percent of the individual income tax collections. However, H.B. 66, 126th General Assembly, temporarily freezes the fund. Specific dollar amounts are transferred from the income tax to the fund each month during the FY 2006 and FY 2007 period.

DISTRIBUTIONS TO COUNTIES (R.C. 5747.46):

The distribution formula contained in R.C. 5747.46 consists of two parts: the guaranteed share and the share of the excess.

The guaranteed share is equal to the previous year's fund total plus an inflation factor. This portion of the fund is distributed to counties based on each county's share of the previous year's fund total. When there is an amount in excess of the guaranteed share, it is distributed among counties based on their equalization ratios.

The equalization ratio is determined by the county's most recent percentage of the state's population and the county's percentage share of the previous year's total distribution. Each county's equalization ratio is multiplied by the total amount of the share of the excess to determine each county's portion of that amount. The ratio allows those counties that have had the lowest per capita LLGSF distributions in prior years to see the greatest per capita growth in funding, while assuring that all counties have relative growth.

MONTHLY DISTRIBUTION PROCEDURE (R.C. 5747.47, 5747.48):

The Department of Taxation determines the total amount available and the allocation to be made to each county. The allocation of the county LLGSF is made by the county treasurer to the county boards, public library trustees, municipal corporations, and the boards of townships and park commissioners on or before the 15th of each month.

USE OF FUNDS DISTRIBUTED (R.C. 3375.05, 3375.121, 3375.40, 3375.403, 3375.82, 3375.85, 5705.32):

County budget commissions (composed of a county commissioner, the county auditor, and the county treasurer) determine the amounts to be given to all libraries. The amount given to each library is based on its needs for building construction and improvement, operations, maintenance, and other expenses required by the library and its branches. The amount paid to all libraries shall never be a smaller percentage than the average percentage of the county's classified property taxes that were distributed to libraries in 1982, 1983, and 1984. After fixing the amount to be distributed to libraries in the county, the county budget commission shall fix an amount to distribute to municipal corporations in the county. Each municipal corporation shall receive a percentage of the remainder equal to the percent received of classified property taxes originating from such municipality in 1984.

REVENUE ENTITLEMENTS TO COUNTIES (R.C. 5747.47):

The Department of Taxation certifies three estimated entitlement figures to counties for each year: one by July 20th of the previous year, one in December of the previous year, and another in June of the distribution year. Each December, the department also certifies the actual amount each county was entitled to receive under the distribution formula during the current calendar year, the amount each county actually received, and the difference between the two. During the first six months of the next year, each county's distribution will be adjusted for any overpayment or underpayment in the preceding year. However, during the periods in which the freeze is in effect, the statutory entitlement and

LIBRARY & LOCAL GOVERNMENT SUPPORT FUND

adjustment formulas, as well as the certifications reflecting those formulas, have been temporarily suspended. **Table 1** shows the amounts actually distributed to the counties in 2005, which was approximately \$458.0 million.

period of July 2004 through June 2005. In addition, amounts deposited into the fund during the period of July 2006 through June 2007 are to equal the deposits made during the July 2005 through June 2006 period.

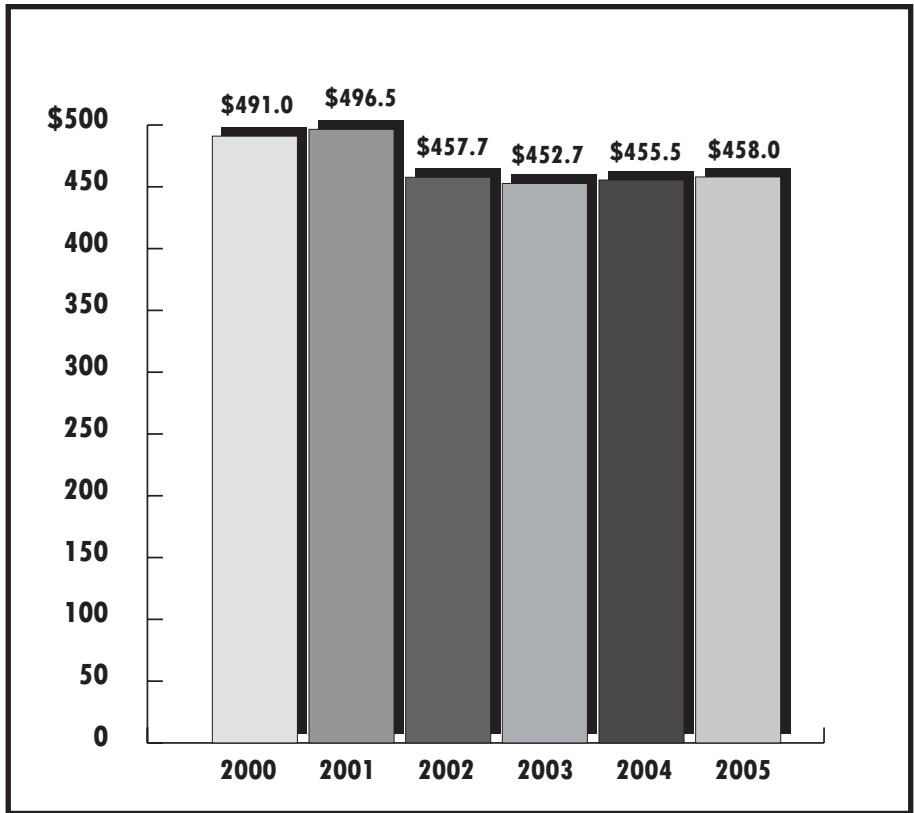


The bill also provides for a “reconciliation” mechanism. In June of 2006 and June of 2007, the Tax Commissioner examines the amounts distributed to the fund under the H.B. 66 freeze in the respective fiscal years and compares them to the amounts that would have been distributed under permanent law. If the amounts distributed under the H.B. 66 freeze exceed the amounts that would have been distributed under permanent law, then an amount shall be subtracted from the income tax revenue credited to the LLGSF to make up that difference.

H.B. 66, 126th General Assembly (FY 2006-2007 biennium budget bill, effective June 30, 2005). Section 557.12:

The bill continued the freeze on deposits and distributions from the LLGSF through FY 2006 and FY 2007. Amounts deposited into the fund from July 2005 through June 2006 are to equal the deposits into the fund made during the

LIBRARY & LOCAL GOVERNMENT SUPPORT FUND
 CALENDAR YEARS 2000 - 2005
 (FIGURES IN MILLIONS)



LIBRARY & LOCAL GOVERNMENT SUPPORT FUND

TABLE 1

LIBRARY AND LOCAL GOVERNMENT SUPPORT FUND - TOTAL AMOUNTS DISTRIBUTED TO COUNTIES, CALENDAR YEARS 1986 - 2005

Calendar Year	Guaranteed Share	Equalization Share	Total Distribution	Percent Change in Total Distribution
1986	\$167,535,449	\$10,693,752	\$178,229,201	—
1987	181,080,868	26,292,922	207,373,790	16.4%
1988	215,253,994	3,009,660	218,263,654	5.3
1989	226,775,936	24,554,945	251,330,881	15.2
1990	262,655,557	—	262,655,557	4.5
1991	268,793,142	—	268,793,142	2.3
1992(a)	268,793,142	—	268,793,142	0.0
1993(b)	276,856,936	7,843,064	284,700,000	5.9
1994	293,810,400	3,172,181	296,982,901	4.3
1995	303,813,180	15,019,721	318,832,901	7.4
1996	329,035,554	13,564,940	342,600,494	7.5
1997	352,535,908	23,461,438	375,997,346	9.7
1998	384,269,286	40,394,095	424,663,381	12.9
1999	431,882,659	23,881,967	455,764,626	7.3
2000	465,355,682	25,664,582	491,000,264	7.7
2001(c)	—	—	496,458,342	1.1
2002(d)	—	—	457,671,290	-7.8
2003(e)	—	—	452,648,009	-1.1
2004(f)	—	—	455,470,323	0.6
2005(g)	—	—	457,970,324	0.5

(a) Distributions during calendar year 1992 were capped at the 1991 dollar level.

(b) Total calendar year 1993 distributions were guaranteed to equal at least \$284.7 million.

(c) Beginning in July 2001, distributions were “frozen” at the amount received during July 2000 - December 2000. Figure shown is after transfers to OPLIN Technology Fund.

(d) Distributions during calendar year 2002 were “frozen” based upon the amounts distributed during July 2000 - June 2001. Figure shown is after monthly transfers to OPLIN Technology Fund after March 2002 and July 2002 reconciliation adjustments pursuant to H.B. 405.

(e) Distributions during calendar year 2003 were “frozen” based upon the amounts distributed during July 2000 - June 2001. Figure shown is after monthly transfers to OPLIN Technology Fund, the July 2003 reconciliation adjustment pursuant to H.B. 405, and the \$9.7 million reduction in July 2003 as required by H.B. 40.

(f) Distributions during calendar year 2004 were “frozen” based on the amounts distributed during calendar year 2003. Figure shown is after transfers to OPLIN Technology Fund.

(g) Distributions during calendar year 2005 were frozen based on amounts distributed during calendar year 2004. Transfers to OPLIN no longer are applied.

LIBRARY & LOCAL GOVERNMENT SUPPORT FUND

TABLE 2
LIBRARY AND LOCAL GOVERNMENT SUPPORT FUND - AMOUNTS DISTRIBUTED
BY COUNTY, CALENDAR YEAR 2005

County Name	Amount	County Name	Amount
ADAMS	\$997,464.50	LOGAN	\$1,635,173.09
ALLEN	\$4,203,624.62	LORAIN	\$10,325,117.39
ASHLAND	\$1,931,472.24	LUCAS	\$18,659,142.68
ASHTABULA	\$3,779,254.85	MADISON	\$1,448,332.47
ATHENS	\$2,208,955.85	MAHONING	\$10,159,363.29
AUGLAIZE	\$1,774,316.25	MARION	\$2,446,308.36
BELMONT	\$2,703,449.89	MEDINA	\$4,974,139.60
BROWN	\$1,399,027.17	MEIGS	\$874,016.91
BUTLER	\$11,563,689.13	MERCER	\$1,526,695.97
CARROLL	\$1,036,661.49	MIAMI	\$3,747,921.41
CHAMPAIGN	\$1,355,045.03	MONROE	\$568,233.15
CLARK	\$5,503,280.52	MONTGOMERY	\$23,953,605.10
CLERMONT	\$5,990,898.28	MORGAN	\$529,470.04
CLINTON	\$1,454,027.21	MORROW	\$1,087,373.25
COLUMBIANA	\$4,126,295.39	MUSKINGUM	\$3,147,987.44
COSHOCTON	\$1,382,578.13	NOBLE	\$459,882.36
CRAWFORD	\$1,828,017.08	OTTAWA	\$1,566,472.67
CUYAHOGA	\$65,236,963.17	PAULDING	\$752,524.73
DARKE	\$2,029,596.10	PERRY	\$1,216,753.38
DEFIANCE	\$1,489,460.44	PICKAWAY	\$1,854,661.95
DELAWARE	\$2,994,180.74	PIKE	\$968,643.53
ERIE	\$3,173,589.30	PORTAGE	\$5,486,831.67
FAIRFIELD	\$4,274,505.46	PREBLE	\$1,530,775.50
FAYETTE	\$1,049,950.81	PUTNAM	\$1,277,518.76
FRANKLIN	\$41,469,479.64	RICHLAND	\$5,027,520.97
FULTON	\$1,543,764.51	ROSS	\$2,678,639.67
GALLIA	\$1,186,218.14	SANDUSKY	\$2,349,049.19
GEAUGA	\$3,875,676.42	SCIOTO	\$3,000,202.28
GREENE	\$5,374,458.77	SENECA	\$2,310,223.51
GUERNSEY	\$1,485,653.96	SHELBY	\$1,781,247.51
HAMILTON	\$48,307,418.84	STARK	\$14,929,793.27
HANCOCK	\$2,992,729.05	SUMMIT	\$21,465,491.22
HARDIN	\$1,160,342.51	TRUMBULL	\$8,674,553.34
HARRISON	\$686,999.80	TUSCARAWAS	\$3,258,551.62
HENRY	\$1,086,561.22	UNION	\$1,344,179.34
HIGHLAND	\$1,412,969.31	VAN WERT	\$1,142,567.82
HOCKING	\$1,003,083.79	VINTON	\$433,976.00
HOLMES	\$1,292,876.13	WARREN	\$4,785,687.52
HURON	\$2,202,633.91	WASHINGTON	\$2,369,598.82
JACKSON	\$1,195,659.98	WAYNE	\$4,212,600.87
JEFFERSON	\$2,957,495.19	WILLIAMS	\$1,466,754.10
KNOX	\$1,893,770.49	WOOD	\$4,959,641.11
LAKE	\$8,756,858.97	WYANDOT	\$853,430.66
LAWRENCE	\$2,337,814.53		
LICKING	\$5,020,901.37	TOTAL	\$457,970,323.70

LOCAL GOVERNMENT FUNDS - STATE & COUNTY

This chapter deals with two major programs that share state revenues with local governments: the Local Government Fund (LGF) and the Local Government Revenue Assistance Fund (LGRAF). These funds are both supported by six state-imposed taxes; however, the relative shares of these taxes are different (see **Revenue Sources**).

The LGF has existed since the inception of the state sales tax in 1935. The fund has undergone many changes in the last 70 years, but the basic elements of the program remain the same: a designated portion of state revenues are deposited into the LGF; a statutory formula is used to allocate the monies monthly to the county undivided LGF of the 88 counties; and the county budget commissions authorize and determine the distribution of the undivided fund monies to the subdivisions.

Since July 1989, the state LGRAF has also provided local subdivisions with shared state tax revenues. The LGRAF is approximately one-seventh the size of the LGF. The LGRAF is allocated to each of the 88 counties' undivided LGRAF according to each county's share of the total state population (see **Distribution Base**).

The accompanying tables show state and county undivided LGF and state and county undivided LGRAF statistics for calendar year 2005. The total state LGF was \$673.5 million (inclusive of \$11.7 million from the dealers in intangibles tax) and the total state LGRAF was \$94.6 million in calendar year 2005.

REVENUE SOURCES (OHIO REVISED CODE 131.44, 5727.45, 5727.84, 5733.12, 5739.21, 5741.03, 5747.03):

The state LGF is composed of 4.2 percent of five state taxes: sales and use, individual income, corporation franchise, and public utility excise. In addition, 2.646 percent of the kilowatt-hour tax is deposited into the LGF. The state LGRAF, which came into being July 1, 1989, is composed of 0.6 percent of the five taxes and 0.378 percent of the kilowatt-hour tax.

House Bill 94, 124th General Assembly, the Fiscal Year 2002-2003 biennium budget bill, temporarily replaced the permanent LGF and LGRAF funding mechanism described in the above paragraph. According to uncodified Section 140 of the bill, during each month of the July 2001 - May 2002 period and the July 2002 - May 2003 period, the funds received the same amount they received during the corresponding months of the July 2000 through May 2001 period. In addition, during June 2002 and June 2003, the funds received the same amount they received in June 2000.

The bill also temporarily set aside the distribution formulas described in **Distribution Base**. Between July 2001 and July 2003, counties and municipalities receiving a direct distribution from the LGF received the same amounts they received during the corresponding month of the July 2000 through June 2001 period, less any H.B. 405 and H.B. 40 adjustments. (The method for distributing monies from the county undivided LGF and LGRAF to the subdivisions is not affected by this law change.)

This freeze was continued with H.B. 95, 125th General Assembly, the FY 2004-2005 biennium budget bill. During each month of the July 2003 - June 2004 period and the July 2004 - June 2005 period, the Local Government Fund and Local Government Revenue Assistance Fund received the same amount they received during the corresponding month of the July 2002 - June 2003 period. However, the May 2004 and May 2005 deposits were reduced by the June 2003 H.B. 405 adjustments (\$25.3 million for LGF and \$3.7 million for LGRAF); but these amounts were added back to the June 2004 and June 2005 deposits.

H.B. 66 of the 126th General Assembly, the FY 2006-2007 biennium budget bill, basically extended the temporary freeze that was included in H.B. 95. Each month during the July 2005 - June 2006 period, the LGF and LGRAF received the same amount they received in such month during the July 2004 - June 2005 period. In addition, during the period of July 2006 - June 2007, the Library and Local Government Support Fund (LLGSF) will receive the same amounts it received in such month during the July 2005 - June 2006 period.

DETERMINATION OF COUNTY AND MUNICIPAL PORTIONS (R.C. 5747.50):

Before state LGF revenues are distributed to local governments, the total amount in the fund is divided into county and municipal portions. This division of the state LGF is determined by statutory formula.

The total amount distributed to the county undivided LGF equals: (a) nine-tenths of the difference between the amount transferred to the state LGF and 145.45 percent of the 1983 deposits tax revenue; plus (b) 145.45 percent of the 1983 deposits tax revenue; less (c) \$6.0 million. The remainder (one-tenth of the difference between the amount transferred and 145.45 percent of the 1983 deposits tax revenue plus \$6.0 million) is distributed directly to municipalities. Unlike the state LGF, there is no direct distribution to municipalities from the state LGRAF. All monies in this fund are distributed to the county undivided LGRAF.

DISTRIBUTION BASE (R.C. 5747.501, 5747.61):

Each year, each county's share of the LGF is determined as follows:

Formula 1: Each county receives 145.45 percent of the deposits tax it actually received from financial institutions in 1983. Nine-tenths of the remaining revenue in the fund (less \$6.0 million) is distributed on the basis of the county's population at the last decennial census and the value of property within municipalities in the county for the second preceding year (25 percent is distributed based on population and 75 percent is distributed based on municipal property values). The minimum distribution from the population/valuation segment is \$225,000. These two amounts are added together to determine the county's "Formula 1" amount.

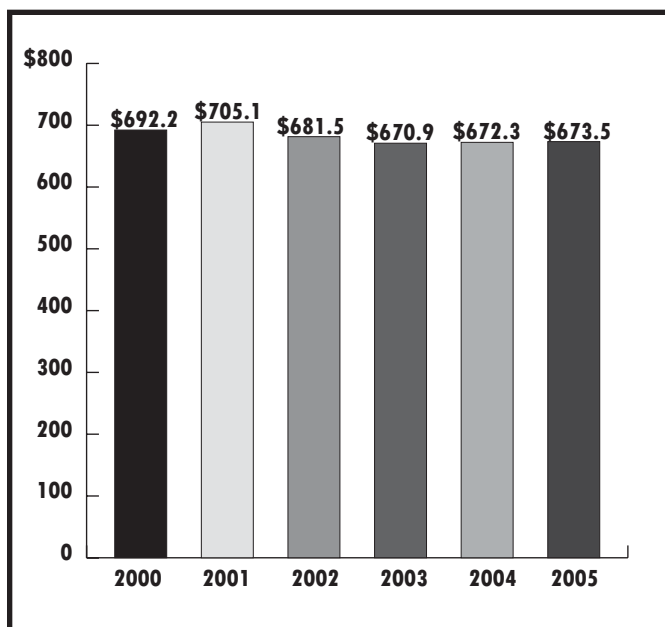
Formula 2: Nine-tenths of the total state LGF (less \$6.0 million) is distributed to the counties based on county population and county municipal property values (25 percent based on population and 75 percent based on property values). The minimum distribution is \$225,000. This is the county's "Formula 2" amount.

The higher of these two formula allocations (called the "assigned amount") is

LOCAL GOVERNMENT FUNDS - STATE & COUNTY

taken for each county, and these amounts for the 88 counties are added together to get a statewide total. Each county's assigned amount is then computed as a percentage of the total of the 88 assigned amounts. Each county's percentage is its share of the county portion of the state LGF. These percentages are applied against the total amount in the fund to determine each county's distribution. However, regardless of the resulting amounts, each county is guaranteed at least the amount it actually received in 1983. In addition, each county undivided LGF receives five mills of the tax on dealers in intangibles attributed to that county.

DISTRIBUTIONS FROM STATE LOCAL GOVERNMENT FUND CALENDAR YEARS 2000 - 2005



Each county's share of the state LGRAF is determined each year based upon the county's population as a share of the total population for the state. The population figure used is the more recent of either the latest federal estimated census figures or the latest decennial census figures that include population totals as of June 1 of the preceding year.

DIRECT DISTRIBUTION TO MUNICIPALITIES (R.C. 5747.50):

Each municipality levying an income tax in the preceding year is eligible to receive a share of the municipal portion of the state LGF. The share each receives equals its percentage of total municipal income taxes collected as compared to the amount collected statewide in the second preceding year.

MONTHLY DISTRIBUTION PROCEDURE (R.C. 5747.50, 5747.61):

Allocations from the state LGF to both municipal corporations and counties and from the state LGRAF to counties are made on or before the tenth of each month. Only the portion of the state LGF distributed to the counties is subject to possible further adjustments, to meet a minimum allocation per month of \$25,000 and a minimum allocation per year equal to the amount actually received in calendar year 1983. The statutes authorize adjustments to be made in December to ensure each county the minimum allocation to which it is entitled for the entire calendar year. They also authorize monies to be withheld during December of the ensuing calendar year so that the total amount received by a county does not exceed the proportionate share to which it is entitled or its statutory minimum, whichever is greater.

USE OF FUNDS DISTRIBUTED TO MUNICIPALITIES AND COUNTIES (R.C. 5747.50-5747.53, 5747.61-5747.63):

All amounts received by a municipal corporation from the municipal portion of the state LGF are paid into the municipality's general fund to be used for any lawful purpose. However, the amount which a county receives from the state LGF is expressly designated for deposit into the county's undivided LGF, where it is combined with revenue from state-collected intangibles taxes (paid by dealers in intangibles) which are returned to the counties of origin.

The amount which a county receives from the state LGRAF is expressly designated for deposit into the county's undivided LGRAF. The county undivided LGF and county undivided LGRAF monies are disbursed to local governments to be used for current operating expenses of the county government, municipalities, townships, and certain special districts. The statutes provide for these fund distributions to be made according to percentage determinations previously arrived at by each county budget commission on the basis of revenue estimates supplied by the Department of Taxation. This is done according to specific statutory guidelines which are intended to yield a distribution that reflects the needs of the various recipient governmental units or according to alternative apportionment methods or formulas devised by the county budget commission. Alternative apportionment methods are authorized if approved by subdivisions within the county as required by statute.

H.B. 66 of the 126th General Assembly temporarily replaced the above distribution requirements. The bill also guaranteed that no subdivision will receive a proportionate share from the county undivided fund during the FY 2006 - FY 2007 period that is less than the amount that it received during the FY 2004 - FY 2005 period, unless that subdivision otherwise consents.

REVENUES DISTRIBUTED TO LOCAL GOVERNMENTS IN 2005:

In 2005, approximately \$673.5 million from the state LGF and \$94.6 million from the state LGRAF was distributed to local governments. Inclusive in the LGF figure is \$11.7 million that was distributed to the county undivided LGF from the tax on dealers in intangibles. **Table 1** shows the amounts distributed from the state LGF to counties and municipalities in 2005. **Table 2** shows the amounts distributed from the state LGRAF to counties in 2005.

LOCAL GOVERNMENT FUNDS - STATE & COUNTY



July 2005 through June 2006 equaled the deposits into the funds made during the period of July 2004 through June 2005. In addition, amounts deposited into the funds during the period of July 2006 through June 2007 are equal to the deposits made during the July 2005 through June 2006 period. The bill also guaranteed that no subdivision will receive a proportionate share from the county undivided fund during the FY 2006 - FY 2007 period that is less than the amount that it received during the FY 2004 - FY 2005 period, unless that subdivision otherwise consents.

In addition, the bill provided for a "reconciliation" mechanism. In June 2006 and June 2007, the Tax Commissioner examines the amounts distributed to the fund under the H.B. 66 freeze in the respective fiscal years and compares them to the amounts that would have been distributed under permanent law. If the amounts distributed under the H.B. 66 freeze exceed the amounts that would have been distributed under permanent law, then an amount shall be subtracted from the income tax revenue credited to the LGF and LGRAF to make up that difference.

H.B. 530, 126th General Assembly (budget corrections bill, effective June 30, 2006). Sections 606.17, 606.18, 815.03:

H.B. 66 froze the amount of revenue to the local government funds and therefore, to the county undivided funds. In addition, H.B. 66 prohibited local governments within each county from re-allocating their respective shares of the undivided fund. H.B. 530 made a clarification in a potential conflict within the law. This freeze in the "re-allocation" of the undivided fund does not apply when there is a population change which would affect the distribution formula. The undivided local government fund allocated to the county cannot exceed 50 percent of the fund if the municipal population constitutes 41 percent or more of the county's population and cannot exceed 30 percent of the fund if the municipal population constitutes at least 81 percent of the county's total population.

H.B. 66, 126th General Assembly (FY 2006-2007 biennium budget bill, effective June 30, 2005). Section 557.12:

The bill continued the freeze on deposits and distributions from the LGF and LGRAF through FY 2006 and FY 2007. Amounts deposited into the funds from

TABLE 1
LOCAL GOVERNMENT FUND AND DEALERS IN
INTANGIBLES DISTRIBUTIONS,
CALENDAR YEARS 1997 - 2005

Calendar Year	Local Government Fund		Dealers in Intangibles Tax		LGF and Intangibles Tax	
	Amount	Percent Change	Amount	Percent Change	Amount	Percent Change
1997	\$579,850,588	6.62	\$11,021,316	14.88	\$590,871,904	6.76
1998	632,501,558	9.08	9,983,867	-9.41	642,485,425	8.74
1999	664,772,737	5.1	10,697,411	7.15	675,470,148	5.13
2000	692,233,886	4.13	13,901,032	29.95	706,134,918	4.54
2001	705,421,757	1.9	15,905,620	14.42	721,327,377	2.15
2002	670,658,730	-4.93	11,229,780	-29.4	681,888,510	-5.47
2003	661,828,265	-1.32	9,097,256	-18.99	670,925,521	-1.61
2004	661,828,265	0.00	10,448,586	14.85	672,276,851	0.20
2005	661,828,265	0.00	11,660,148	11.60	673,488,413	0.18

LOCAL GOVERNMENT FUNDS - STATE & COUNTY

TABLE 2

LOCAL GOVERNMENT REVENUE ASSISTANCE FUND
DISTRIBUTIONS, CALENDAR YEARS 1997- 2005

Calendar Year	Amount	Change
1997	\$82,876,465	7.05
1998	90,398,292	9.08
1999	95,014,290	5.11
2000	98,953,115	4.15
2001	100,780,133	1.80
2002	95,808,389	-4.93
2003	94,597,556	-1.26
2004	94,597,556	0.00
2005	94,597,556	0.00



LOCAL GOVERNMENT FUNDS - STATE & COUNTY

TABLE 3
 LOCAL GOVERNMENT FUND - AMOUNTS DISTRIBUTED TO COUNTIES AND
 MUNICIPALITIES, BY COUNTY, CALENDAR YEAR 2005

County	To County Undivided Local Government Fund	To Municipalities	Total	County	To County Undivided Local Government Fund	To Municipalities	Total
ADAMS	\$658,596	\$844	\$659,441	LUCAS	\$25,256,565	\$3,525,339	\$28,781,905
ALLEN	4,430,124	316,336	4,746,460	MADISON	1,336,631	77,569	1,414,200
ASHLAND	2,042,502	164,958	2,207,459	MAHONING	9,797,375	743,169	10,540,544
ASHTABULA	3,835,182	233,709	4,068,891	MARION	2,552,231	199,064	2,751,295
ATHENS	1,875,385	141,539	2,016,925	MEDINA	6,909,262	319,335	7,228,598
AUGLAIZE	2,297,686	175,651	2,473,337	MEIGS	556,844	10,025	566,869
BELMONT	2,726,234	23,507	2,749,741	MERCER	1,832,048	70,369	1,902,417
BROWN	966,028	16,495	982,523	MIAMI	5,171,357	423,763	5,595,120
BUTLER	14,128,451	1,118,426	15,246,877	MONROE	357,106	5,795	362,901
CARROLL	688,119	15,354	703,473	MONTGOMERY	32,171,751	3,979,228	36,150,978
CHAMPAIGN	1,362,160	86,546	1,448,707	MORGAN	366,792	9,372	376,165
CLARK	5,439,800	519,405	5,959,205	MORROW	628,958	20,905	649,862
CLERMONT	3,630,722	53,297	3,684,019	MUSKINGUM	2,881,422	217,015	3,098,437
CLINTON	1,548,172	61,950	1,610,121	NOBLE	327,951	0	327,951
COLUMBIANA*	3,524,052	193,414	3,717,466	OTTAWA	1,603,126	63,253	1,666,379
COSHOCTON	1,375,458	58,120	1,433,579	PAULDING	620,111	1,947	622,058
CRAWFORD	2,060,818	136,931	2,197,749	PERRY	802,175	18,984	821,159
CUVAHOGA	116,875,190	13,046,966	129,922,156	PICKAWAY	1,703,338	84,704	1,788,042
DARKE	2,326,206	103,002	2,429,208	PIKE	703,049	17,312	720,361
DEFIANCE	1,767,826	112,762	1,880,589	PORTAGE	6,034,915	467,754	6,502,668
DELAWARE	4,854,232	213,788	5,068,019	PREBLE	1,403,569	71,513	1,475,082
ERIE	3,714,906	175,552	3,890,458	PUTNAM	1,402,914	59,734	1,462,647
FAIRFIELD	4,783,074	259,641	5,042,715	RICHLAND	6,073,592	554,084	6,627,675
FAYETTE	1,107,859	64,018	1,171,877	ROSS	2,707,663	165,126	2,872,789
FRANKLIN	80,964,193	10,306,093	91,270,286	SANDUSKY	2,824,606	177,216	3,001,821
FULTON	1,955,584	158,097	2,113,681	SCIOTO	2,297,994	115,721	2,413,715
GALLIA	857,569	28,799	886,368	SENECA	2,686,945	217,014	2,903,959
GEAUGA	2,444,023	109,252	2,553,275	SHELBY	2,404,116	227,148	2,631,264
GREENE	8,262,090	273,449	8,535,540	STARK	15,257,073	1,308,921	16,565,993
GUERNSEY	1,399,661	61,091	1,460,751	SUMMIT	35,875,625	3,487,518	39,363,143
HAMILTON	54,497,914	6,766,395	61,264,308	TRUMBULL	8,744,333	533,553	9,277,887
HANCOCK	4,001,420	244,804	4,246,225	TUSCARAWAS	4,297,385	207,054	4,504,439
HARDIN	1,150,491	62,370	1,212,861	UNION	1,457,637	79,799	1,537,437
HARRISON	521,546	14,575	536,122	VAN WERT	1,279,101	89,103	1,368,204
HENRY	1,200,499	58,979	1,259,478	VINTON	290,737	428,595	719,332
HIGHLAND	1,272,634	70,026	1,342,660	WARREN	6,939,999	0	6,939,999
HOCKING	775,741	39,934	815,675	WASHINGTON	2,214,371	136,234	2,350,605
HOLMES	797,945	14,272	812,217	WAYNE	4,844,004	269,834	5,113,838
HURON	2,653,394	253,574	2,906,968	WILLIAMS	1,938,209	150,470	2,088,678
JACKSON	1,123,268	0	1,123,268	WOOD	5,568,200	484,595	6,052,795
JEFFERSON	3,913,235	210,804	4,124,040	WYANDOT	1,028,956	58,601	1,087,557
KNOX	1,877,924	125,122	2,003,047				
LAKE	17,935,847	1,317,670	19,253,517	Total	\$615,367,528	\$58,120,885	\$673,488,413
LAWRENCE	1,662,582	39,585	1,702,167				
LICKING	6,614,703	359,234	6,973,937				
LOGAN	1,727,503	118,108	1,845,611				
LORAIN	16,588,943	1,119,707	17,708,650				

* Includes \$1,447,555 redirected to county's fiscal agent. Does not include \$356,623 withheld for repayment of a state loan.

LOCAL GOVERNMENT FUNDS - STATE & COUNTY

TABLE 4

LOCAL GOVERNMENT REVENUE ASSISTANCE FUND - AMOUNTS DISTRIBUTED TO COUNTIES, BY COUNTY, CALENDAR YEAR 2005

County	To County Undivided Local Government Revenue Assistance Fund	County	To County Undivided Local Government Revenue Assistance Fund
ADAMS	\$241,201	LOGAN	\$391,990
ALLEN	900,720	LORAIN	2,374,939
ASHLAND	438,431	LUCAS	3,765,688
ASHTABULA	869,817	MADISON	348,863
ATHENS	518,175	MAHONING	2,135,284
AUGLAIZE	396,839	MARION	555,679
BELMONT	592,668	MEDINA	1,228,543
BROWN	347,295	MEIGS	202,117
BUTLER	2,796,776	MERCER	345,914
CARROLL	245,875	MIAMI	829,067
CHAMPAIGN	323,358	MONROE	129,759
CLARK	1,221,627	MONTGOMERY	4,737,850
CLERMONT	1,495,101	MORGAN	122,312
CLINTON	340,133	MORROW	268,264
COLUMBIANA*	937,708	MUSKINGUM	712,781
COSHOCTON	304,464	NOBLE	116,146
CRAWFORD	396,454	OTTAWA	346,481
CUYAHOGA	11,578,401	PAULDING	168,995
DARKE	455,517	PERRY	288,516
DEFIANCE	334,387	PICKAWAY	450,829
DELAWARE	833,142	PIKE	234,872
ERIE	657,052	PORTAGE	1,274,786
FAIRFIELD	1,057,358	PREBLE	365,105
FAYETTE	239,393	PUTNAM	296,540
FRANKLIN	8,629,478	RICHLAND	1,083,226
FULTON	354,203	ROSS	636,626
GALLIA	280,489	SANDUSKY	521,731
GEAUGA	751,453	SCIOTO	676,433
GREENE	1,246,777	SENECA	504,282
GUERNSEY	344,901	SHELBY	401,943
HAMILTON	7,099,061	STARK	3,141,233
HANCOCK	582,575	SUMMIT	4,527,335
HARDIN	266,705	TRUMBULL	1,896,001
HARRISON	135,374	TUSCARAWAS	746,737
HENRY	251,634	UNION	338,829
HIGHLAND	343,399	VAN WERT	253,693
HOCKING	244,985	VINTON	103,360
HOLMES	320,805	WARREN	1,265,349
HURON	508,649	WASHINGTON	531,917
JACKSON	274,603	WAYNE	931,617
JEFFERSON	623,197	WILLIAMS	318,679
KNOX	451,712	WOOD	1,009,896
LAKE	1,900,513	WYANDOT	192,625
LAWRENCE	541,946		
LICKING	1,150,376	TOTAL	\$94,597,556

* Includes \$437,441 redirected to the county's fiscal agent.




MOTOR VEHICLE FUEL TAX

An excise tax is imposed on all dealers in motor vehicle fuel upon the use, distribution, or sale in Ohio of fuel used in generating power for the operation of motor vehicles. The motor fuel excise tax rate in Fiscal Year 2006 was 28 cents per gallon. The represents a two-cent increase in the total rate as of July 1, 2005.

The 28 cents per gallon rate is actually composed of five separate levies: two levies of two cents each; one levy of eight cents (increased in FY 2006 from six cents); one levy of one cent; and a cents per gallon rate of 15 cents.

After amounts are set aside for refunds and highway bond retirement, 0.875 percent of revenue from the tax is allocated to the Waterways Safety Fund, 0.125 percent to the Wildlife Boater Angler Fund, and an amount equal to collections from one cent of the cents per gallon rate is set aside for the Local Transportation Improvement Program Fund. Also, an amount totaling \$100,000 is transferred each month to the Grade Crossing Fund and 0.275 percent of revenue is allocated to the Motor Fuel Tax Administrative Fund.

The remaining fuel tax receipts are distributed in approximately the following proportions: 70.2 percent to the state, 12.7 percent to municipalities, 11.1 percent to counties, and 6.0 percent to townships. All of this money is earmarked for highway-related purposes in accordance with Article XII, Section 5a of the Ohio Constitution. There are also two other provisions in Ohio law concerning the taxation of motor fuel and distribution of tax receipts. A portion of the motor fuel tax collected on fuel sold at stations on the Ohio Turnpike is returned to the Ohio Turnpike Commission for turnpike projects.

In addition, a motor fuel use tax is imposed on operators of motor vehicles with three or more axles or weighing more than 26,000 pounds gross vehicle weight, for fuel purchased outside the state and consumed in Ohio. The use tax rate in FY 2006 was 28 cents per gallon.

Motor vehicle fuel wholesale dealers, rather than retailers, remit the tax. In FY 2006, the reported net motor fuel tax collections totaled \$1,836.5 million, after refunds.

TAXPAYER (OHIO REVISED CODE 5735.01):

Dealers who import from another state or foreign country or acquire motor fuel by any means into a terminal in this state; import motor fuel from another state or foreign country in bulk lot vehicles for subsequent sale and distribution in this state from bulk lot vehicles; refine motor fuel in this state; acquire motor fuel from a motor fuel dealer for subsequent sale and distribution in this state from bulk lot vehicles; or who possess an unrevoked permissive motor fuel dealer's license.

TAX BASE (R.C. 5735.06):

Gallons of motor vehicle fuel sold, used, or distributed in Ohio.

RATES:

R.C. Section	Tax Rate Per Gallon	
	Effective July 1, 2004	Effective July 1, 2005
5735.30	1.0 cent	1.0 cents
5735.05	2.0 cents	2.0 cents
5735.25	2.0 cents	2.0 cents
5735.29	6.0 cents	8.0 cents
5735.05*	<u>15.0 cents</u>	<u>15.0 cents</u>
Total Rate Per Gallon	26.0 cents	28.0 cents

* Cents per gallon rate.

DEDUCTIONS, REFUNDS, AND CREDITS:

1. Dealers may claim the following deductions from their reported gallonage (see R.C. 5735.05 and 5735.06):

- For motor fuel other than gasoline and clear diesel fuel sold for use other than operating motor vehicles on public highways or on waters in Ohio;
- Sales of motor fuel by licensed wholesale dealers to other licensed wholesale dealers;
- Export of motor fuel to other states or foreign countries;
- Sales of motor fuel for exclusive use of the U.S. government or its agencies;
- Sales of motor fuel that is in the process of transportation in either interstate or foreign commerce;
- Sales of motor fuel to be used exclusively for the propulsion of aircraft;
- Two and one-half percent of net taxable gallons of motor fuel to cover the costs of compiling reports, evaporation, shrinkage, and other losses. This deduction is only 1.67 percent on motor fuel sold to a retailer. The retailer is entitled to .83 percent. Effective July 1, 2006, the percentage was reduced to 1.95 percent. This deduction is only 1.30 percent on motor fuel sold to a retailer. The retailer is entitled to 0.65 percent; and
- Sales of motor fuel for use in vessels if such use would otherwise qualify for a refund under R.C. 5735.14.

2. Persons who have purchased motor vehicle fuel on which the fuel tax has been paid may receive a refund under the following conditions (see R.C. 5735.13, 5735.14, 5735.141, 5735.142, 5735.18, 5734.29):

- Motor fuel used in the following ways: to operate or propel stationary gas engines; tractors used for off-highway purposes; unlicensed motor vehicles used exclusively in intra-plant operations;
- Motor fuel used by watercraft in the following ways: vessels used entirely for commercial purposes such as trade or fishing; vessels used in Boy Scout training; vessels used or owned by railroad car ferry companies; vessels used or owned by federal, state, and local governments;

MOTOR VEHICLE FUEL TAX

- (c) Motor fuel used for cleaning or dyeing;
- (d) Motor fuel used by local transit systems, except for the one-cent bond retirement levy;
- (e) Motor fuel used in aircraft;
- (f) 0.83 percent of the motor fuel tax paid on fuel purchased by retailers to cover losses from shrinkage and evaporation (as of July 1, 2006, this decreased to 0.65 percent);
- (g) Motor fuel lost or destroyed through theft, fire, explosion, lightning, and other natural disasters;
- (h) Any person, other than a dealer, who sells the fuel or uses the fuel outside Ohio, or who sells the fuel to the U.S. government or any of its agencies; and
- (i) A city, exempted village, joint vocational, or local school district, educational service center, or county MRDD board, effective July 1, 2005, may be reimbursed six cents per gallon of the total Ohio motor fuel tax paid on the fuel.

**(R.C. 5735.06):**

By the last day of each month for the preceding month's tax liability; filed with the Department of Taxation.

DISPOSITION OF REVENUE:

The motor vehicle fuel tax is composed of five separate levies. Each of these levies is distributed in a different manner. After refunds, the following transfers of receipts are made:

1. Waterways Safety Fund receives 0.875 percent (R.C. 5735.051).
2. Wildlife Boater Angler Fund receives 0.125 percent (R.C. 5735.051).
3. The amount needed to ensure that there are sufficient funds to meet all payments for highway bond retirement.
4. An amount equal to five cents times the number of gallons sold at stations operated by the Ohio Turnpike Commission to the Commission for turnpike projects (paid from the cents per gallon tax) (R.C. 5735.23).
5. The Motor Fuel Tax Administrative Fund receives 0.275 percent.

The remainder was distributed in FY 2006 as follows:

1. 2.0 cents per gallon (R.C. 5735.05, 5735.23):
 - 2/17 of \$100,000 transferred monthly to the Grade Crossing Fund with the remainder distributed as follows:
 - 30 percent to municipal corporations in proportion to their motor vehicle registrations;*
 - 25 percent to all counties in equal amounts;*
 - 45 percent to the state.
2. 2.0 cents per gallon (R.C. 5735.25, 5735.26, 5735.27):
 - 67.5 percent to the state;
 - 7.5 percent to all counties in equal amounts;*
 - 17.5 percent to all townships in equal amounts;*
 - 7.5 percent to municipalities in proportion to their motor vehicle registrations.*
3. 8.0 cents per gallon (R.C. 5735.29, 5735.291):
 - 81.25 percent to the State Highway Operating Fund. After the above distribution is made, the remaining 18.75 percent is distributed to the Gasoline Excise Tax Fund. Of this fund:
 - 42.86 percent distributed to municipalities in proportion to their share of motor vehicle registrations;
 - 37.14 percent distributed to all counties in equal amounts; and
 - 20 percent distributed to all townships by the greater of either the equal share of the total amount allocated to all townships or a proportionate share based on township lane miles and the township's proportion of motor vehicle registrations.
4. 1.0 cent per gallon (R.C. 5735.30):
 - 100 percent to the state for highway bond retirement funds, as

**Fuel Use Tax (R.C. 5735.31):**

1. The Ohio motor vehicle fuel use tax is imposed on heavy trucks on the amount of motor fuel consumed in Ohio that was purchased outside of Ohio. The use tax rate was 28 cents in FY 2006. A refund or credit is allowed for the tax on fuel purchased in Ohio for use in another state, provided that state imposes a tax on such fuel and allows a similar credit or refund.
2. An additional three cents per gallon fuel use surtax became effective January 1, 1991. This additional tax was enacted to partially replace the revenue lost due to repeal of the highway use tax effective January 1, 1991, as part of Ohio's entry into the International Registration Plan for commercial vehicles. The surtax was decreased to two cents on July 1, 2004 and totally eliminated as of July 1, 2005.
3. In FY 2006, \$54.9 million was collected from the fuel use tax and was distributed to the Highway Operating Fund.

MOTOR VEHICLE FUEL TAX

long as required; thereafter, 100 percent to the State Highway Operating Fund.

5. Cents per gallon tax, 15 cents per gallon (R.C. 5735.05, 5735.23):
- Collections from 1.0 cent of the cents per gallon tax are transferred to the Local Transportation Improvement Program Fund and 15/17 of \$100,000 is transferred monthly to the Grade Crossing Fund, with the balance distributed as follows:
 - 75.0 percent to the state;
 - 10.7 percent to municipalities in proportion to their motor vehicle registrations;[^]
 - 9.3 percent to all counties in equal amounts;[^]
 - 5.0 percent to all townships in equal amounts.[^]

* Proceeds are deposited by the state in the Gasoline Excise Tax Fund and distributed monthly to the counties, townships, and municipalities.

[^] Proceeds are deposited by the state in the Local Government Highway Distribution Fund and distributed monthly to counties, townships, and municipalities.

ADMINISTRATION:

The motor vehicle fuel excise tax and the motor fuel use tax are administered by the Tax Commissioner.

OHIO REVISED CODE CITATIONS:

Chapters 5728 and 5735.

**Substitute House Bill 11, 126th General Assembly (effective March 29, 2006). R.C. 5735.142:**

A county board of mental retardation and developmental disabilities that, on or after July 1, 2005, purchases any motor fuel for county board operations, on which any tax imposed by section 5735.29 of the Revised Code has been paid, may, if an application is filed under this section, be reimbursed in the amount of all but two cents per gallon of the total tax imposed by such section and paid on motor fuel purchased on or after July 1, 2005.

Am. Sub. H.B. 66, 126th General Assembly (FY 2006-2007 biennium budget bill, effective July 1, 2005). R.C. 5735.06:

Effective July 1, 2005, the motor fuel licensed dealer shrinkage allowance was reduced to 2.5 percent, and the retail dealer shrinkage allowance was reduced to 0.83 percent. Effective July 1, 2006, the motor fuel licensed dealer shrinkage allowance was reduced to 1.95 percent, and the retail dealer shrinkage allowance was reduced to 0.65 percent.

Amended Sub. H.B. 87, 125th General Assembly (biennium transportation budget bill, effective July 1, 2003).

R.C. 5728.06, 5735.142, 5735.23, 5735.27, 5735.29, 5735.291, and 5735.292:

- Increased the motor fuel tax from 22 cents to 24 cents per gallon effective July 1, 2003; and to 26 cents per gallon effective July 1, 2004. The tax rate increased to 28 cents per gallon on July 1, 2005.
- Decreased the motor fuel use tax surcharge from three cents to two cents per gallon effective July 1, 2004. Eliminated the surcharge July 1, 2005.
- Provided for a refund to city, exempted village, and local school districts of all but two cents of the tax levied by R.C. 5735.29 on all fuel purchased and used in their vehicles to transport pupils.
- Set a schedule of funds to be transferred from the Ohio Department of Transportation for distribution to municipalities, townships, and counties that previously was earmarked for the Ohio Highway Patrol.
- Established a new distribution formula for the tax and the funds transferred from the Ohio Department of Transportation effective August 15, 2003, 2004, and 2005.

RECENT INFORMATION RELEASES:

XT 2005-09 – “Temporary Provisions Regarding the Sale and Use of Dyed Diesel Fuel,” September 6, 2005.





MOTOR VEHICLE FUEL TAX

TABLE 1
DISTRIBUTIONS OF MOTOR FUEL TAX,
FISCAL YEAR 2006

Distribution	Dollar Amount	Percentage of Total
Highway Operating Fund	\$1,162,892,167	64.87%
Local Transportation Improvement Program Fund	63,878,899	3.56%
Highway Bond Retirement	114,143,612	6.37%
To Municipalities	181,944,818	10.15%
To Counties	157,911,923	8.81%
To Townships	84,964,185	4.74%
Other*	26,807,973	1.50%
Total	\$1,792,543,577	100.00%

* Includes Grade Crossing Fund, Waterway Safety Fund, Wildlife Boater Augler Fund, Ohio Turnpike Commission, and administrative fee.

Source: This table is based on amounts in the June 2006 Office of Budget and Management monthly revenue report (RRVSM01S), modified to reflect various fund transfers and the allocation of the Gasoline Excise Tax Fund and the State and Local Government Highway Distribution Fund among categories of local governments.

TABLE 2
MOTOR VEHICLE FUEL TAX GROSS COLLECTIONS REPORTED ON TAX RETURNS, REFUNDS
AND NET TAX AFTER REFUNDS, FISCAL YEARS 2002-2006

Fiscal Year	Gross Collections	Refunds	Net Tax After Refunds
2002	\$1,431,155,848	\$20,966,674	\$1,410,189,174
2003	1,449,431,940	17,672,693	1,431,759,247
2004	1,603,919,014	18,417,032	1,585,501,982
2005	1,737,763,542	25,701,979	1,712,061,563
2006	1,861,064,599	24,521,321	1,836,543,278

Source: Department of Taxation, as reported on tax returns.

TABLE 3
TAXABLE GALLONS OF
MOTOR VEHICLE FUEL, FISCAL YEARS 2002-2006

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Gasoline	5,095,295,036	5,130,381,553	5,197,093,204	5,149,443,769	5,103,346,287
Special Fuels*	1,416,257,268	1,466,855,681	1,482,899,139	1,535,755,695	1,543,938,210
Total	6,511,552,304	6,597,237,234	6,689,992,343	6,685,199,464	6,647,284,497

* Includes diesel fuel (clear and dyed), kerosene, biodiesel, and propane fuel used to operate motor vehicles on public highways and waterways.

Source: Department of Taxation, as reported on tax returns.

MOTOR VEHICLE FUEL TAX
TABLE 4

AMOUNTS OF MOTOR VEHICLE FUEL TAX REVENUE DISTRIBUTED TO LOCAL GOVERNMENTS,
BY COUNTY, CALENDAR YEAR 2005

County	Total	Amount Distributed To:			County	Total	Amount Distributed To:		
		County	Townships	Municipalities			County	Townships	Municipalities
ADAMS	\$3,548,936	\$2,098,616	\$1,158,494	\$291,826	LOGAN	\$4,152,013	\$2,098,616	\$1,317,349	\$736,048
ALLEN	4,846,254	2,098,616	1,006,306	1,741,333	LORAIN	10,054,562	2,098,616	1,406,008	6,549,937
ASHLAND	4,103,709	2,098,616	1,158,494	846,599	LUCAS	13,062,372	2,098,616	1,023,938	9,939,818
ASHTABULA	5,812,135	2,098,616	2,091,634	1,621,884	MADISON	3,832,630	2,098,616	1,081,261	652,753
ATHENS	3,768,928	2,098,616	1,093,506	576,806	MAHONING	6,656,507	2,098,616	1,382,198	3,175,692
AUGLAIZE	4,111,921	2,098,616	1,081,261	932,044	MARION	4,494,078	2,098,616	1,158,520	1,236,942
BELMONT	4,400,974	2,098,616	1,257,826	1,044,532	MEDINA	6,074,505	2,098,616	1,347,069	2,628,820
BROWN	3,834,524	2,098,616	1,239,559	496,349	MEIGS	3,234,688	2,098,616	926,795	209,277
BUTLER	8,616,787	2,098,616	1,362,706	5,155,465	MERCER	3,905,898	2,098,616	1,081,261	726,021
CARROLL	3,392,410	2,098,616	1,089,184	204,611	MIAMI	5,306,217	2,098,616	937,777	2,269,824
CHAMPAIGN	3,610,266	2,098,616	926,795	584,855	MONROE	3,632,314	2,098,616	1,390,192	143,505
CLARK	4,858,941	2,098,616	878,190	1,882,135	MONTGOMERY	15,331,273	2,098,616	940,698	12,291,959
CLERMONT	4,241,267	2,098,616	1,413,259	729,392	MORGAN	3,291,209	2,098,616	1,081,261	111,332
CLINTON	3,907,205	2,098,616	1,004,028	804,560	MORROW	3,577,798	2,098,616	1,235,727	243,456
COLUMBIANA	5,070,328	2,098,616	1,444,253	1,527,458	MUSKINGUM	5,105,466	2,098,616	1,959,050	1,047,800
COSHOCTON	4,321,093	2,098,616	1,699,124	523,352	NOBLE	3,355,164	2,098,616	1,158,494	98,054
CRAWFORD	4,284,445	2,098,616	1,235,727	950,103	OTTAWA	3,631,817	2,098,616	926,795	606,405
CUYAHOGA	35,743,879	2,098,616	162,711	33,482,552	PAULDING	3,311,347	2,098,616	926,795	285,936
DARKE	4,543,499	2,098,616	1,552,012	892,871	PERRY	3,588,846	2,098,616	1,081,261	408,969
DEFIANCE	3,712,916	2,098,616	926,795	687,504	PICKAWAY	3,959,547	2,098,616	1,158,494	702,438
DELAWARE	5,048,330	2,098,616	1,500,697	1,449,017	PIKE	3,396,183	2,098,616	1,081,261	216,306
ERIE	4,409,088	2,098,616	718,050	1,592,422	PORTAGE	5,636,616	2,098,616	1,423,895	2,114,104
FAIRFIELD	5,024,039	2,098,616	1,118,286	1,807,137	PREBLE	3,728,937	2,098,616	926,795	703,526
FAYETTE	3,357,224	2,098,616	772,329	486,278	PUTNAM	3,827,291	2,098,616	1,158,494	570,181
FRANKLIN	33,885,827	2,098,616	1,386,471	30,400,740	RICHLAND	6,074,366	2,098,616	1,435,074	2,540,675
FULTON	3,749,473	2,098,616	936,847	714,010	ROSS	4,260,776	2,098,616	1,257,495	904,665
GALLIA	3,455,907	2,098,616	1,160,457	196,833	SANDUSKY	4,014,021	2,098,616	934,955	980,450
GEAUGA	3,929,965	2,098,616	1,337,344	494,005	SCIOTO	4,097,492	2,098,616	1,259,664	739,211
GREENE	6,434,405	2,098,616	937,649	3,398,139	SENECA	4,380,282	2,098,616	1,158,494	1,123,172
GUERNSEY	4,079,521	2,098,616	1,467,937	512,968	SHELBY	4,167,790	2,098,616	1,081,261	987,914
HAMILTON	17,510,169	2,098,616	1,603,279	13,808,274	STARK	8,867,342	2,098,616	1,961,169	4,807,557
HANCOCK	5,033,448	2,098,616	1,317,333	1,617,498	SUMMIT	15,776,442	2,098,616	929,593	12,748,233
HARDIN	3,771,912	2,098,616	1,158,494	514,802	TRUMBULL	7,307,297	2,098,616	2,003,185	3,205,496
HARRISON	3,496,003	2,098,616	1,158,494	238,894	TUSCARAWAS	5,666,248	2,098,616	1,704,689	1,862,943
HENRY	3,621,605	2,098,616	1,004,028	518,961	UNION	3,845,281	2,098,616	1,081,261	665,404
HIGHLAND	3,884,345	2,098,616	1,317,574	468,155	VAN WERT	3,510,321	2,098,616	926,795	484,910
HOCKING	3,214,083	2,098,616	855,845	259,622	VINTON	3,145,491	2,098,616	926,795	120,080
HOLMES	3,356,342	2,098,616	1,081,261	176,465	WARREN	5,898,124	2,098,616	995,629	2,803,879
HURON	4,790,719	2,098,616	1,467,425	1,224,678	WASHINGTON	4,637,796	2,098,616	1,708,844	830,335
JACKSON	3,468,563	2,098,616	926,795	443,152	WAYNE	5,173,812	2,098,616	1,251,815	1,823,381
JEFFERSON	4,419,144	2,098,616	1,096,763	1,223,764	WILLIAMS	3,732,742	2,098,616	926,795	707,331
KNOX	4,461,971	2,098,616	1,707,087	656,268	WOOD	5,880,193	2,098,616	1,526,766	2,254,811
LAKE	7,962,942	2,098,616	483,360	5,380,966	WYANDOT	3,565,564	2,098,616	1,004,028	462,920
LAWRENCE	3,861,995	2,098,616	1,102,894	660,485	Total	\$504,046,412	\$184,678,225	\$105,542,284	\$213,825,903
LICKING	6,940,321	2,098,616	1,958,033	2,883,672	Source: Records of the Ohio Department of Taxation.				

MUNICIPAL INCOME TAX FOR ELECTRIC LIGHT COMPANIES & TELEPHONE COMPANIES

The Ohio Revised Code Chapter 5745 municipal income tax was enacted in 2000 by Substitute House Bill 483, 123rd General Assembly and took effect on January 1, 2002. The tax applies only to “electric light companies” and (local exchange) telephone companies and is administered by the Department of Taxation (rather than by each Ohio municipality that has enacted a municipal income tax and in which the taxpayer has taxable nexus). The term “electric light company” includes “electric companies” and certain electing marketers and brokers of electricity. The statute refers to a marketer or broker of electricity as “an electric light company that is not an electric company.”

Electric companies were first subject to the Chapter 5745 municipal income tax for the taxable year that included January 1, 2002. For taxable years prior to the taxable year that included January 1, 2002, electric companies were exempt from municipal income tax. Local exchange telephone companies were first subject to the Chapter 5745 municipal income tax taxable years that begin on or after January 1, 2004.

The tax generated \$40.9 million in revenue in calendar year 2005. Tax returns for calendar year 2006 will be reported in April 2007.

An “electric light company that is not an electric company” can under certain circumstances elect to be a Chapter 5745 taxpayer (see Section 7 of Senate Bill 287, 123rd General Assembly). Unlike an “electric company,” an “electric light company that is not an electric company” was not exempt from municipal income tax for taxable years prior to the taxable year that included December 31, 2002.

A municipality that has enacted an income tax may not require a Chapter 5745 municipal income taxpayer to file a municipal income tax return for that municipality. However, to the extent necessary for a municipality to compute a taxpayer’s property, payroll, and sales factors for that municipality, the municipality may require the taxpayer to report to the municipality the value of the taxpayer’s real and tangible personal property situated in the municipality, the taxpayer’s compensation paid to its employees in the municipality, and the taxpayer’s sales made in the municipality (see R.C. 5745.03 (E)).

TAXPAYER (OHIO REVISED CODE 5745):

The term “taxpayer” means an entity that is subject to the Chapter 5745 municipal income tax. Taxpayers include:

- **Electric companies.** A person is an electric company when engaged in the business of generating, transmitting, or distributing electricity within Ohio for use by others; a rural electric company is excluded (see R.C. 5727.01 (D) (3));
- **Combined companies.** A person is a combined company when engaged in the activity of an electric company or rural electric company, and in the activity of a heating company or a natural gas company, or any combination thereof (see R.C. 5727.01 (L));
- **Certain marketers or brokers of electricity** that meet the requirements and make the election set out in R.C. 5745.031; and
- **(Local exchange) telephone companies.** A person is a “telephone company” when primarily engaged in the business of providing local

exchange telephone service, excluding cellular radio service, in this state (R.C. 5727.01 (D) (2)).

TAX BASE (R.C. 5745):

The “starting point” for Chapter 5745 municipal income taxpayers is federal taxable income after certain adjustments (see below). In determining the Chapter 5745 municipal income tax, the municipal income taxpayer’s adjusted federal taxable income is first multiplied by the taxpayer’s Ohio apportionment ratio to determine Ohio income. Then, Ohio income is multiplied by the taxpayer’s municipal apportionment ratio and tax rate for each Ohio municipality which has enacted a municipal income tax, and in which the taxpayer has taxable nexus.

Taxable Year:

For Chapter 5745 municipal income tax purposes a municipal income taxpayer’s taxable year is the same as the taxpayer’s taxable year for federal income tax purposes, regardless of when during the taxable year the taxpayer first entered Ohio and regardless of when during the taxable year the municipal income taxpayer first became subject to the Chapter 5745 tax in a particular municipality.

1. Adjustments to Federal Taxable Income:

Prior to the enactment of Amended Substitute House Bill 530 (see **Recent Legislation**), R.C. 5745.01 (H) defined “Internal Revenue Code” for purposes of the Chapter 5745 municipal income tax as the Internal Revenue Code (I.R.C.) as it existed on December 31, 2001. Therefore, prior law required municipal income taxpayers to adjust their federal taxable income before a net operating loss (NOL) deduction and special deductions for purposes of the municipal income tax by reversing the effects of amendments to the Internal Revenue Code enacted by Congress after December 31, 2001. The new law as enacted by H.B. 530 requires Chapter 5745 taxpayers to compute their federal taxable income starting point by applying the I.R.C. as it existed on March 30, 2006.

If amendments to the I.R.C. enacted after March 30, 2006 affect the taxpayer’s federal taxable income, then the taxpayer must recompute federal taxable income before a net operating loss deduction and special deductions by applying the I.R.C. as it existed on March 30, 2006. Such taxpayers must enter on line 2 the difference between the following amounts: (1) the taxpayer’s federal taxable income before NOL deduction and special deductions as it would have been computed under the I.R.C. as it existed on March 30, 2006; and (2) the taxpayer’s federal taxable income as shown on the taxpayer’s federal income tax return.

H.B. 530 also enacted special transition rules applicable to taxable years ending in 2005 and taxable years ending in 2006 before March 30 (see **Recent Legislation** for new legislation described above).

2. Net intangible income (R.C. 5745.01 (G) (1) and (G) (2)).

Deduct the taxpayer’s intangible income as defined in R.C. 718.01, less expenses incurred in the production of such intangible income to the extent that the income and expenses are used in determining federal taxable income.

MUNICIPAL INCOME TAX FOR ELECTRIC LIGHT COMPANIES & TELEPHONE COMPANIES

3. Book-tax difference for electric companies (R.C. 5745.01 (G) (3)).

Add or subtract the net book-tax difference on "qualifying assets." For electric companies the term "qualifying assets" is defined in R.C. 5733.0510 (B) (3) as any asset on the taxpayer's books as of December 31, 2000 sold or disposed of in taxable transactions during the taxable year. If the net book-tax difference is a positive amount (that is, the assets' net book value on December 31, 2000 is greater than the assets' adjusted basis on that date), enter it in parentheses and deduct it from federal taxable income. If the net book-tax difference is a negative amount (that is, the assets' net book value on December 31, 2000 is less than the assets' adjusted basis on that date), enter it as a positive amount and add it to federal taxable income.

4. Book-tax difference adjustment for telephone companies (R.C. 5745.01 (G) (5)).

For each of the ten taxable years ending in 2009 through 2018, local exchange telephone companies are eligible for a book-tax difference adjustment. For each of those years the adjustment equals one-tenth of the difference between the book value of a qualifying telephone company's assets on December 31, 2003, in accordance with generally accepted accounting principles (GAAP), and the federal adjusted basis of such assets on December 31, 2003. The book-tax difference may be a negative number. R.C. 5733.0511 (A) defines "qualifying telephone company" and "qualifying telephone company asset."

Ohio Apportionment Ratio (R.C. 5745.02):

The Chapter 5745 municipal income tax Ohio apportionment ratio is computed in a manner similar to the Chapter 5733 Ohio corporation franchise tax apportionment ratio.

Municipal Apportionment Ratio (R.C. 5745.02 (C)):

For purposes of determining the taxpayer's apportionment ratio for each municipality, the Chapter 5745 municipal income taxpayer's payroll, sales, and property are generally situated consistent with the franchise tax siting provisions. However, for purposes of the municipal payroll factor, compensation is situated based upon the amount of compensation that during the taxable year is earned in the municipality by the taxpayer's employees for services performed for the taxpayer, and that is subject to income tax withholding by the municipality.

RATES (R.C. 5745.03 (F)):

In determining the tax payable to each municipality for the taxpayer's taxable year, the taxpayer must use the certified tax rate in effect for that municipality on the first day of January of the taxpayer's taxable year. If a taxpayer's taxable year is for a period of less than twelve months and that taxable year does not include the first day of January, the tax rate used is the tax rate in effect in a municipality on the first day of January of the preceding taxable year.

CREDITS (R.C. 5745.06):

If the taxpayer has an interest in a pass-through entity that is also subject to, and paid, the Chapter 5745 municipal income tax for Chapter 5745

taxpayers, then the taxpayer may claim as a credit against the taxpayer's own Chapter 5745 municipal income tax, for a particular municipality, the taxpayer's proportionate share of the tax paid by the pass-through entity to that same municipality. The credit equals the qualifying taxpayer's proportionate share of the lesser of the Chapter 5745 tax due from, or the Chapter 5745 tax paid, by the qualifying pass-through entity to that municipality for the pass-through entity's taxable year ending in the taxpayer's taxable year. The taxpayer must claim the credit for the taxpayer's taxable year in which the pass-through entity's taxable year ends.



Taxpayer Elections and Alternative Apportionment Methods

(R.C. 5745.031, 5745.01 (C), 5745.02 (F)):

1. An "electric light company that is not an electric company" can elect to be a taxpayer under Chapter 5745 if during the company's most recently concluded taxable year, at least 50 percent of the company's total sales in Ohio, as determined under R.C. 5733.059, consist of sales of electricity and other energy commodities. The company must make the election in writing to the Tax Commissioner before the first day of the first taxable year to which the election is to apply. The election is effective for five consecutive taxable years and, once made, is irrevocable for those five years. An "electric light company that is not an electric company" that does not meet the requirements to make the election, or meets the requirements but does not make a timely election, is subject to the filing and payment requirements of each municipality which has enacted an income tax and in which the company has taxable nexus.
2. If a taxpayer is a qualified subchapter S subsidiary as defined in I.R.C. section 1361 or a disregarded entity, the company's parent S corporation or owner is the taxpayer for the purposes of the municipal income tax.
3. If the taxpayer is a "combined company," it must adjust the numerator of its municipal property, payroll, and sales factors (but not the numerator of its Chapter 5745 Ohio property, payroll, and sales factors) to include only the company's activity as an electric company, because "for a combined company, only the income attributed from the activity of an electric company shall be subject to taxation by a municipal corporation" (see R.C. 1701.18 (F) (6)).
4. Alternative apportionment methods may also be available to taxpayers (see R.C. 5745.02 (E)). If the provisions for apportioning adjusted federal taxable income to Ohio or for apportioning Ohio net income to an Ohio municipality do not fairly represent business activity in Ohio or in a municipality, the Tax Commissioner may adopt rules for apportioning such income by an alternative method that does fairly represent business activity in Ohio or Ohio's municipalities. In addition, if the above provisions for apportioning adjusted federal taxable income to Ohio or for apportioning Ohio net income to an Ohio municipality do not fairly represent the extent of a taxpayer's business activity in Ohio or Ohio's municipalities, the taxpayer may request, or the Tax Commissioner may require, that the

MUNICIPAL INCOME TAX FOR ELECTRIC LIGHT
COMPANIES & TELEPHONE COMPANIES

taxpayer's adjusted federal taxable income or Ohio net income be determined by an alternative method, including any of the alternative methods enumerated in R.C. 5733.05 (B) (2) (d). A taxpayer requesting an alternative method must make the request in writing to the Tax Commissioner either with the annual report, a timely filed amended report, or a timely filed petition for reassessment.

following the end of their taxable year, the taxpayer must nevertheless pay any remaining tax due by that date.

Tax payment by electronic funds transfer (R.C. 5745.03 (E), 5745.04 (E) and 5745.041):

If any remittance of estimated Chapter 5745 municipal income tax is for \$1,000 or more or the amount payable with the report exceeds \$1,000, the taxpayer must make the remittance by electronic funds transfer (EFT).

DISPOSITION OF REVENUE (R.C. 5745.05):

Prior to the first day of March, June, September, and December, the Tax Commissioner must certify to the Director of Budget and Management the amount to be paid to each municipal corporation, as indicated on the declaration of estimated tax reports and annual reports received, less any amounts previously distributed and the net of any audit adjustments made by the Tax Commissioner. Not later than the first day of March, June, September, and December, the Director of Budget and Management must provide for payment of the amount certified to each municipal corporation from the Municipal Income Tax Fund, plus a pro rata share of any investment earnings accruing to the fund since the previous payment.

The Department of Taxation receives 1.5 percent of collections into the Municipal Income Tax Administration Fund to defray the costs of administering the tax.

ADMINISTRATION (R.C. 5745):

The municipal income tax for electric light companies and local exchange telephone companies is administered and enforced by the Department of Taxation, rather than by the various Ohio municipalities that have enacted a municipal income tax.

OHIO REVISED CODE CITATIONS:

Chapters 5745, 113, 718, 4928, 5703, 5727, and 5733.



(R.C. 5745.02-.04, 5745.041):

Remittances are payable to the Treasurer of State.

Estimated payment requirements for taxable years beginning in 2003 and each taxable year thereafter:

As used below, the term "combined tax liability" means the total of the taxpayer's income tax liabilities to all Ohio municipalities for a taxable year. For each taxable year, each taxpayer must file a declaration of estimated tax report and make payment as follows:

1. Not later than the 15th day of the fourth month after the end of the preceding taxable year, the taxpayer must pay at least 25 percent of the combined tax liability for the preceding taxable year, or 20 percent of the combined tax liability for the current taxable year.
2. Not later than the 15th day of the sixth month after the end of the preceding taxable year, the taxpayer must pay at least 50 percent of the combined tax liability for the preceding taxable year, or 40 percent of the combined tax liability for the current taxable year.
3. Not later than the 15th day of the ninth month after the end of the preceding taxable year, the taxpayer must pay at least 75 percent of the combined tax liability for the preceding taxable year, or 60 percent of the combined tax liability for the current taxable year.
4. Not later than the 15th day of the 12th month after the end of the preceding taxable year, the taxpayer must pay at least 100 percent of the combined tax liability for the preceding taxable year, or 80 percent of the combined tax liability for the current taxable year.

Extension to file return:

Without an extension, the annual Chapter 5745 municipal income tax return for a taxpayer is due by the 15th day of the fourth month following the end of the taxpayer's taxable year. The due date of the annual municipal income tax return is extended to the 15th day of the month following the due date of the taxpayer's federal income tax return if, by the 15th day of the fourth month following the end of its taxable year, the taxpayer filed with the Tax Commissioner a copy of the taxpayer's federal extension. The granting of an extension does not extend the last day for paying taxes without penalty unless the Tax Commissioner extends the payment date. So, if the taxpayer does not file their municipal income tax return by the 15th day of the fourth month

MUNICIPAL INCOME TAX FOR ELECTRIC LIGHT COMPANIES & TELEPHONE COMPANIES



included in Title 57.) The new law defines the term “Internal Revenue Code ‘as amended’ ” as being the Internal Revenue Code as it existed on March 30, 2006, the effective date of R.C. 5701.11 as enacted by H.B. 530. Thus, for municipal income tax purposes the taxpayer’s federal taxable income must be redetermined by applying the I.R.C. as it existed on March 30, 2006.

H.B. 530 also enacted special transitional rules. In computing federal taxable income for purposes of the municipal income tax the new law specifically provides that for taxable years ending in 2005 and for taxable years ending in 2006 before March 30, each Chapter 5745 taxpayer can make an irrevocable election to apply the Internal Revenue Code in effect for those taxable years (without adjustment to reverse the effects of changes to the Internal Revenue Code enacted after December 31, 2001).

Amended Substitute House Bill 530, 126th Ohio General Assembly, (effective March 30, 2006). R.C. 5745.01 (H):

H.B. 530 amended the definition of “Internal Revenue Code” (I.R.C.) by eliminating reference to a date specific and by adding “as amended.” H.B. 530 also enacted new R.C. section 5701.11 which defines the term “Internal Revenue Code ‘as amended’,” for all of Title 57 of the Ohio Revised Code. (Chapter 5745 is

TABLE
REVENUE FROM MUNICIPAL INCOME TAX FOR ELECTRIC LIGHT COMPANIES AND TELEPHONE COMPANIES, CALENDAR YEARS 2002 - 2005 (IN MILLIONS)

Calendar Year	Total
2002	\$12.3 (1)
2003	15.4 (2)
2004	30.9 (3)
2005	40.9 (4)

(1) Includes \$0.6 million distributed to the Municipal Income Tax Administration Fund.
 (2) Includes \$0.5 million distributed to the Municipal Income Tax Administration Fund.
 (3) Includes revenue from telephone companies. Also includes \$0.2 million distributed to the Municipal Income Tax Administration Fund.
 (4) Includes revenue from telephone companies. Also includes \$0.6 million distributed to the Municipal Income Tax Administration Fund.

NATURAL GAS CONSUMPTION TAX

The natural gas consumption tax was created by Amended Substitute Senate Bill 287, 123rd General Assembly. This tax, effective July 1, 2001, replaced the revenue local governments lost when the assessment rate for natural gas distribution companies' personal property was reduced from 88 percent to 25 percent. The tax is levied on natural gas distribution companies for the purpose of raising revenue for public education and state and local government operations. In Fiscal Year 2006, the tax generated approximately \$69.1 million in total revenue.



(R.C. 5727.82):

Quarterly Returns		Due Date
January - March		May 20
April - June		August 20
July - September		November 20
October - December		February 20

TAXPAYER:

Companies that distribute natural gas in Ohio.

TAX BASE (OHIO REVISED CODE 5727.811):

The amount of natural gas distributed through the meter of an end user in this state.

RATES (R.C. 5727.811):

Mcf (1,000 cubic feet) of Natural Gas Distributed to an End User per Month	Rate per Mcf
0 - 100 Mcf's	\$.1593
101 - 2000 Mcf's	\$.0877
2,001 and above Mcf's	\$.0411

2. The rate to a flex customer is \$.02 per Mcf. A flex customer is an industrial or a commercial facility that has consumed more than one billion cubic feet of natural gas a year at a single location during any of the previous five years, or has purchased natural gas distribution services at discounted rates or charges established in any of the following:

- (a) A special arrangement subject to review and regulation by the Ohio Public Utilities Commission under R.C. 4905.31;
- (b) A special arrangement with a natural gas distribution company pursuant to a municipal ordinance; and
- (c) A variable rate schedule that permits rates to vary between defined amounts, provided that the schedule is on file with the Public Utilities Commission.

3. A natural gas distribution company with 50,000 customers or less may elect to apply the rates to the total of the natural gas distributed to all its customers in this state.

EXEMPTIONS AND DEDUCTIONS (R.C. 5727.811):

- 1. Federal government.
- 2. Natural gas produced by an end user in this state and consumed by the natural gas producer or its affiliates, and not distributed through the facilities of a natural gas company.

CREDITS:

None.

DISPOSITION OF REVENUE (R.C. 5727.84):

Fund	Percentage
School District Property	
Tax Replacement Fund	68.7%
Local Government Property	
Tax Replacement Fund	31.3 %

ADMINISTRATION:

The Tax Commissioner administers the tax and the distribution of revenue to the various funds.

OHIO REVISED CODE CITATIONS:

Chapter 5727.



Amended Sub. H.B. 66, 126th General Assembly (effective September 29, 2005). R.C. 5727.84 (C) (3):

Revenues from the kilowatt-hour tax and the natural gas consumption tax are paid into a fund that is then divided between the General Revenue Fund and several other funds. Prior law provided that if the revenues raised by the tax fell below certain amounts, the amount of tax payable into the General Revenue Fund would be decreased in order to make up the lost revenue in the other funds. This law has been repealed and there will be no reduction in the amount of tax credited to the General Revenue Fund.

NATURAL GAS CONSUMPTION TAX

TABLE
 NATURAL GAS CONSUMPTION TAX COLLECTIONS AND DISTRIBUTIONS
 FISCAL YEARS 2002(1) - 2006

Fiscal Year	Total Collections	School District Property Tax Replacement Fund	Local Government Property Tax Replacement Fund
2002 (1)	\$55,937,596	\$39,155,962	\$16,781,634
2003	83,690,824	57,495,596 (2)	26,195,228(2)
2004	76,318,465	52,430,785 (2)	23,887,680(2)
2005	73,653,401	50,599,986 (2)	23,053,415(2)
2006	69,075,391	47,454,794(2)	21,620,597(2)

(1) Only nine months' collections occurred in FY 2002.
 (2) Distribution rates changed June 3, 2002, under the provisions of Sub. H.B. 129 of the 124th General Assembly.

Source: Returns filed with the Department of Taxation.



PASS-THROUGH ENTITY & TRUST WITHHOLDING TAX

Senate Bill 215, 122nd General Assembly, enacted a method for the collection of tax on the distributive shares of income earned by qualifying investors from their investment in any qualifying pass-through entity doing business in Ohio. The pass-through entity and trust withholding tax is not so much a separate tax but rather a mechanism designed to collect individual income tax or corporation franchise tax, which is otherwise due and payable by pass-through entity investors pursuant to Ohio tax law. A pass-through entity is an S corporation, a partnership, or a limited liability company (LLC) treated as a partnership for federal income tax purposes.

For taxable years beginning after December 31, 1997, each qualifying pass-through entity doing business in Ohio or otherwise having nexus with Ohio under the Constitution of the United States is subject to the pass-through entity tax. (Qualifying trusts are also subject to the tax — see **Special Provisions**.)

The tax is a 5.0 percent withholding tax on income of qualifying individual investors and an 8.5 percent entity tax on income of qualifying investors that are not individuals. Beginning in 2005 the entity tax is being phased out for certain investors (see **Entity Tax Phase-Out for Qualifying Investors** below). The tax is based upon each investor's share of the qualifying pass-through entity's profits apportioned to Ohio. This tax is calculated on form IT 1140. Each qualifying investor can claim an income tax or corporation franchise tax credit based upon the investor's proportionate share of the pass-through entity tax.

Entity Tax Phase-Out for Qualifying Investors (see also **Recent Legislation**): Amended Substitute House Bill 66, 126th General Assembly, the Fiscal Year 2006-2007 biennium budget bill, phases out the pass-through entity tax for certain investors. Consistent with the franchise tax phase-out, the tax that a pass-through entity will pay on the distributive shares of its Ohio income passing through to its qualifying investors subject to the franchise tax phase-out also phases out as shown in the following table:

Pass-Through Entity's Taxable Year Ending in:	Pass-Through Entity's Tax Rate on Ohio Income that Passes Through to Its Qualifying Investors Subject to the Franchise Tax Phase-Out
2005	6.8% (80% x 8.5%)
2006	5.1% (60% x 8.5%)
2007	3.4% (40% x 8.5%)
2008	1.7% (20% x 8.5%)
2009 and thereafter	0% (0% x 8.5%)

Those qualifying investors that are listed below and are not subject to the phase-out rates must continue to compute the estimated tax at the rate of 8.5 percent:

- Financial holding companies as defined in the federal Bank Holding Company Act.
- Bank holding companies as defined in the federal Bank Holding Company Act.
- Savings-and-loan holding companies as defined in the federal Home Owners Loan Act that are engaging only in activities permissible under 12 United States Code (U.S.C.) 1843 (k).
- Persons, other than persons held pursuant to merchant banking authority under 12 U.S.C. 1843 (k) (4) (h) or 12 U.S.C. 1843 (k) (4) (i), directly or indirectly "owned" by one or more financial institutions, financial holding companies, bank holding companies, or savings-and-loan holding companies, but only if those persons are engaged in activities permissible for a financial holding company under 12 U.S.C. 1843 (k).
- Persons directly or indirectly "owned" by one or more insurance companies, but only if those persons are authorized to do the business of insurance in this state.
- Persons that solely facilitate or service one or more "securitizations" or similar transactions for financial institutions, financial holding companies, bank holding companies, savings-and-loan holding companies, insurance companies, or persons directly or indirectly "owned" by such businesses.

Definition of "owned" for this purpose: generally, a person "owns" another entity if the person . . .

- owns at least 50 percent of the entity's voting stock (corporations),
- owns at least 50 percent of the entity's membership interests (LLCs), or
- has a beneficial interest in the entity's profits, surpluses, losses or distributions (partnerships, trusts, or other business interests).

Definition of "securitization" for this purpose: transferring one or more assets to one or more persons and then issuing securities backed by the right to receive payment from the asset or assets so transferred.

Many pass-through entities are not "qualifying" pass-through entities and therefore are not subject to this tax. Pass-through entities not subject to the tax include entities whose investors are limited to full-year Ohio resident individuals, Ohio resident estates, and/or corporations that pay the Ohio corporation franchise tax. (A more complete listing of exempt pass-through entities is available in **Exemptions and Exclusions**.)

The most recent data for pass-through entity tax collections is from tax and fiscal year 2005. In tax year 2005 there were 9,254 pass-through entity tax returns filed on form IT 1140. The liability from the 5.0 percent withholding tax component of the pass-through entity tax was \$91.2 million. The 8.5 percent entity tax liability amounted to \$37.9 million. Thus, the total tax year 2005 pass-through entity tax liability was \$129.1 million.

PASS-THROUGH ENTITY

Ohio form IT 4708 is another mechanism for collection of Ohio income tax due on an investor's share of pass-through entity income. Form IT 4708 is a composite return filed by the pass-through entity on behalf of one or more of the entity's investors, other than investors that are C corporations (income passing through either directly or indirectly to C corporations cannot be included in form IT 4708).

The tax is calculated at the highest tax rate for the taxable year for which the return is filed. The pass-through entity using form IT 4708 cannot claim individual income tax credits but can claim the business credits. The primary benefit of filing form IT 4708 is that the composite return constitutes each investor's Ohio return with respect to the pass-through entity's income. Thus, by being included in form IT 4708, each nonresident investor has met their filing and payment obligation with respect to that income and need not file a separate return unless they have other Ohio-source income.

There were 3,870 IT 4708 returns filed in FY 2005 for the composite income tax paid on behalf of nonresident investors in pass-through entities. Revenue collected for the fiscal year amounted to \$101.7 million.

TAXPAYER (OHIO REVISED CODE 5733.40, 5747.08):

A qualifying pass-through entity is generally an S corporation, a partnership, or an LLC treated as a partnership for federal income tax purposes. See **Exemptions and Exclusions** for a list of pass-through entities excluded from the definition of a qualifying pass-through entity.

TAX BASE (R.C. 5733.40, 5747.02, 5747.08, 5747.40, 5747.401):

Form IT 1140 —

The tax base is the sum of the "adjusted qualifying amounts" of the entity's qualifying investors. The "adjusted qualifying amount" is the net sum of each qualifying investor's distributive share of the income, gain, expense, or loss of a pass-through entity, multiplied by the apportionment ratio.

Form IT 4708 —

The tax base is the sum of the allocated and apportioned distributive share income amounts for those qualifying investors for which the pass-through entity has not filed form IT 1140.

RATES (R.C. 5733.41, 5747.02, 5747.08, 5747.41):

Form IT 1140 —

A 5.0 percent tax rate is applied to the sum of adjusted qualifying amounts for those qualifying investors that are individuals. An 8.5 percent tax rate is applied to the sum of adjusted qualifying amounts for those qualifying investors that are not individuals for years prior to 2005. However, see the phase-out rate table earlier in this chapter applicable to certain corporate investors for post-2004 years.

No tax is due if the total adjusted qualifying amount is \$1,000 or less.

Form IT 4708 —

The applicable rate is the highest marginal tax rate, currently 6.87 percent.

EXEMPTIONS AND EXCLUSIONS (R.C. 5733.40, 5733.401, 5733.402, 5747.08 (D), 5747.401):

Form IT 1140 —

Qualifying pass-through entities do not include the following:

1. Entities having no qualifying investors (see below for a list of investors that do not qualify);
2. Pension plans and charities;
3. Publicly-traded partnerships;
4. Real estate investment trusts, regulated investment companies, and real estate mortgage investment conduits;
5. Any entity treated as a "disregarded entity" for federal income tax purposes (see "Check the Box" U.S. Treasury regulations);
6. Qualified subchapter S subsidiary corporations (if the parent S corporation has qualifying investors, the parent S corporation is a pass-through entity which must compute the tax on a consolidated basis with all its qualifying subchapter S subsidiaries); and
7. Any pass-through entity if all the equity investors are: (1) Ohio corporation franchise taxpayers; and/or (2) corporations exempt under R.C. 5733.09 from the Ohio corporation franchise tax.

A qualifying investor is any investor other than the following:

1. Investors which are pension plans or charities;
2. Investors which are publicly-traded partnerships;
3. Investors which are colleges or universities;
4. Investors which are public utilities in Ohio and required to pay the Ohio public utility excise tax;
5. Investors which are insurance companies, fraternal corporations, beneficial corporations, bond investment corporations, health maintenance organizations, or any other corporation required to file an annual report with the Ohio Superintendent of Insurance;
6. Investors which are dealers in intangibles;
7. Investors which are real estate investment trusts, regulated investment companies, and real estate mortgage investment conduits;
8. Investors who are individuals and residents of Ohio for the qualifying pass-through entity's entire taxable year;
9. Investors which are estates or trusts that are residents of Ohio for the qualifying pass-through entity's entire taxable year;
10. Nonresident individuals on whose behalf the qualifying pass-through entity files Ohio form IT 4708;
11. Investors that are financial institutions required to pay the Ohio corporation franchise tax;
12. Investors which are themselves qualifying pass-through entities if the investee qualifying pass-through entities' investors, during the three-year period beginning 12 months prior to the first day of the taxable year, are limited to those investors listed in items 1 through 11, above;
13. Investors that are themselves pass-through entities, but only if the owners of those other pass-through entities are limited to:

PASS-THROUGH ENTITY

- (1) individuals who are full-year residents of Ohio;
 - (2) estates domiciled in Ohio;
 - (3) nonresident individuals on whose behalf those other pass-through entities file Ohio form IT 4708; and/or
 - (4) nonresident estates on whose behalf those other pass-through entities file Ohio form IT 4708 for the taxable year;
14. Corporate investors which satisfy the following three requirements:
- (1) the investor submits a written statement to the qualifying pass-through entity stating that the investor agrees that the investor has nexus with Ohio and is liable for corporation franchise tax with respect to the investor's distributive share of income attributable to the pass-through entity;
 - (2) the investor makes a good faith and reasonable effort to comply with the corporation franchise tax reporting and payment requirements; and
 - (3) neither the investor nor the qualifying pass-through entity carries out any transactions that would result in a reduction or deferral of corporation franchise tax;
15. Investors that are either trusts or funds whose beneficiaries are limited to the following during the taxable year of the qualifying pass-through entity:
- (1) persons that are or may be beneficiaries of a pension plan trust, profit-sharing trust, a stock bonus plan trust or similar retirement trust; or
 - (2) persons that are or may be beneficiaries of or the recipients of payments from a trust or fund that is a nuclear decommissioning reserve fund, a designated settlement fund, or any other similar trust or fund established to resolve and satisfy injury claims; or
 - (3) persons who are or may be the beneficiaries of a complex trust, but only if the trust irrevocably agrees in writing that, for the taxable year during or for which the trust distributes any of its income to any of its beneficiaries who are individuals residing outside Ohio, the trust will withhold tax as required under R.C. 5747.41 through 5747.453; and
16. Investors which are "investment pass-through entities," but only if the investment pass-through entity provides to the qualifying pass-through entity the name, address, and social security number of each person who has an equity investment in the investment pass-through entity.

Form IT 4708 —

These entities cannot be investors included in form IT 4708:

1. C corporations subject to the tax imposed by R.C. 5733.06;
2. An investor that is a trust to the extent that any direct or indirect, current, future, or contingent beneficiary of the trust is a C corporation subject to the tax imposed by R.C. 5733.06; and
3. An investor that is itself a pass-through entity to the extent that any direct or indirect investor in that pass-through entity is a C corporation subject to the tax imposed by R.C. 5733.06.

CREDITS (R.C. 5733.0611, 5747.08, 5747.059):

A refundable Ohio individual income tax credit is available for qualifying investors subject to the Ohio individual income tax. A nonrefundable corporation franchise tax credit is available for qualifying investors subject to the corpora-

tion franchise tax. Certain corporate qualifying investors exempt from corporation franchise tax are able to claim a refundable credit.

The credits described above are based upon the investor's proportionate share of the 5.0 percent withholding tax or the 8.5* percent entity tax paid on the qualified investor's distributive share of income from the qualifying pass-through entity. In order to claim this credit, the qualifying investor must provide a copy of Internal Revenue Service form K-1, indicating the amount of the 8.5* percent entity tax paid and/or 5.0 percent withholding tax paid which is attributable to the qualifying investor.

If the investor has deducted its proportionate share of the 5.0 percent withholding tax or 8.5* percent entity tax from its income, the investor must add back such tax as income on the Ohio individual income tax return or corporation franchise tax return.

(*Phase-out rates apply, per the table earlier in this chapter that lists those phase-out percentages, for those qualifying investors that are subject to the phase-out rates.)

**(R.C. 5747.08):****Form IT 1140 —**

1. Qualifying trusts are also subject to tax. A qualifying trust is generally any trust meeting all four of the following tests:
 - (1) it is required to file IRS form 1041,
 - (2) it has at least one beneficiary who is neither a full-year Ohio resident individual nor an Ohio resident estate,
 - (3) it makes a distribution to a nonresident beneficiary, and
 - (4) the distribution relates either to real estate located in Ohio or to tangible personal property located in Ohio. If an entity is a trust whose beneficiaries are limited to full-year Ohio resident individuals and/or Ohio resident estates, then it is not a qualifying trust and is not subject to the pass-through entity tax. Qualifying trusts are subject to the 5.0 percent withholding tax on distribution of certain types of income to individuals who are nonresidents of Ohio. The filing, payment, and credit provisions that apply to qualifying pass-through entities and investors also apply to qualifying trusts and beneficiaries.
2. The 8.5 percent tax does not apply to any pass-through entity to the extent the pass-through entity's distributive shares of income and gain pass through from that entity to another pass-through entity (referred to as the "investing entity"), as long as four conditions are met:
 - (1) the investing entity is not an investment pass-through entity, as defined in provision 3, below;
 - (2) the investing entity acknowledges that it has nexus with this state during the taxable year;

PASS-THROUGH ENTITY

- (3) the investing entity makes a good faith effort to comply with the 8.5 percent entity tax and 5.0 percent withholding tax; and
- (4) the investing entity includes in its apportionment factors its proportionate share of each lower-tiered pass-through entity's property, payroll, and sales.
3. Neither the 8.5 percent entity tax nor the 5.0 percent withholding tax applies to the items and income, listed below, which are earned by an "investment pass-through entity." An investment pass-through entity is a pass-through entity having at least 90 percent of its assets represented by intangible assets and having at least 90 percent of its gross income from one or more of these sources: dividend income, interest income, net capital gains from the sale or exchange of intangible property, certain fees, and all types and classifications of income and gain attributable to distributive shares of income and gain from other pass-through entities.
4. An investor (termed the "deemed investor") in an investment pass-through entity, as defined in provision 3, shall be deemed to be an investor in any other qualifying pass-through entity in which the investment pass-through entity is a direct investor. Each deemed investor's portion of such qualifying pass-through entity's adjusted qualifying amount will be the product of:
- (1) the adjusted qualifying amount which would otherwise pass-through to the investment pass-through entity, and
 - (2) the percentage of the deemed investor's direct ownership in the investment pass-through entity.

Form IT 4708 —

1. The pass-through entity cannot claim nonbusiness exemptions or nonbusiness credits, such as the personal exemption credit. However, the pass-through can claim its distributive share of business credits (e.g., the credit for purchases of manufacturing machinery and equipment).
2. The election to file a composite return applies only to the taxable year for which the election is made. Unless the Tax Commissioner provides otherwise, this election is binding and irrevocable for the taxable year for which the election is made.



(R.C. 5747.08, 5747.09, 5747.42, 5747.43, 5747.44, AND OHIO ADMINISTRATIVE CODE 5703-7-01):

Form IT 1140 —

Qualifying pass-through entities whose total "adjusted qualifying amounts" exceed \$10,000 must make estimated quarterly tax payments on form IT 1140 ES. The annual pass-through entity and trust withholding tax return (IT 1140) must be filed by the 15th day of the fourth month following the end of the entity's taxable year. For taxpayers with a January 1 - December 31 taxable year, the

return is due on April 15. If the entity has an extension of time to file its federal tax return (IRS form 1065 or 1120 S), then the qualifying pass-through entity has the same extension of time to file the Ohio tax return. However, there is no extension of time granted for payment.

Form IT 4708 —

The return is generally due on April 15 of the calendar year immediately following the calendar year in which the pass-through entity's taxable year ends. If the pass-through entity has an extension of time to file its federal tax return, then the pass-through entity has the same extension of time to file the Ohio return on form IT 4708. The pass-through entity must make estimated tax payments on form IT 4708 ES if the pass-through entity's tax due for the current year is more than \$500.

DISPOSITION OF REVENUE:

The revenue collected from the 5.0 percent withholding tax and the Form IT 4708 tax is treated as individual income tax revenue, with 91.2 percent deposited in the General Revenue Fund, 4.9 percent deposited in the Library and Local Government Support Fund, 3.4 percent deposited in the Local Government Fund, and 0.5 percent deposited in the Local Government Revenue Assistance Fund.

Revenue collected from the 8.5 percent entity tax is treated as corporation franchise tax revenue, with 94.6 percent deposited in the General Revenue Fund, 3.7 percent deposited in the Local Government Fund, 0.5 percent deposited in the Local Government Revenue Assistance Fund, and 1.2 percent deposited in litter tax funds and the Attorney General claims fund.

These distributions are in accordance with the freeze of local government funds at FY 2001 levels that began in 2002 and has been continued by subsequent budget bills.

ADMINISTRATION:

The Tax Commissioner administers the tax and the distribution of revenue to the various funds.

OHIO REVISED CODE CITATIONS:

Chapters 5733 and 5747.



Amended Substitute House Bill 530 (House Bill 530), 126th Ohio General Assembly (effective March 30, 2006). R.C. 5701.11:

Among other provisions this new law enacted new Ohio Revised Code section

PASS-THROUGH ENTITY

(R.C.) 5701.11 which for all of Title 57 of the Ohio Revised Code defines the term "Internal Revenue Code as 'amended'" as being the Internal Revenue Code existing on the effective date of R.C. 5701.11 as enacted by House Bill 530 (R.C. 5701.11 became effective on March 30, 2006). By enacting R.C. 5701.11, the Ohio General Assembly adopted for income tax purposes all the changes to the Internal Revenue Code enacted by Congress since the General Assembly last amended R.C. 5747.01 (R.C. 5747.01 was last amended December 30, 2004).

Substitute H.B. 66, 126th General Assembly (FY 2006-2007 biennium budget bill, effective June 30, 2005 for taxable years ending on or after July 1, 2005).

Pass-Through Entity Tax Phase-Out for Qualifying Investors:

The phase-out of the pass-through entity tax on distributive shares of income that passes through to certain corporate qualifying investors subject to the corporation franchise tax phase-out began on the 2005 form IT 1140. The phase-out rate is calculated by the 20 percent reduction beginning on the 2005 return, a 40 percent reduction for 2006, a 60 percent reduction for 2007, and an 80 percent reduction on the 2008 return. Thereafter, there is no pass-through entity tax on distributive shares of income that pass through to the certain corporate qualifying investors. Instead, those taxpayers are subject to the full amount of commercial activity tax (CAT).

TABLE 1
PASS-THROUGH ENTITY TAX LIABILITY (FORM IT 1140)
TAX YEARS 2002 - 2005 (FIGURES IN MILLIONS)

Tax Year	Withholding Tax (5.0%)	Entity Level Tax (8.5%)	Total Pass-Through Entity Tax Liability
2002	\$55.0	\$10.8	\$65.8
2003	62.6	14.4	77.0
2004	71.4	20.2	91.6
2005	91.2	37.9	129.1

TABLE 2
COLLECTIONS FROM THE COMPOSITE INCOME TAX PAID ON BEHALF OF NONRESIDENT INVESTORS IN PASS-THROUGH ENTITIES (FORM IT 4708), FISCAL YEARS 2002 - 2005
(FIGURES IN MILLIONS)

Fiscal Year	Revenue Collected*
2002	\$49.4
2003	67.3
2004	75.5
2005	101.7

* Includes estimated tax payments (form IT 4708 ES).

PUBLIC UTILITY EXCISE TAX

The public utility excise tax, a tax for the privilege of doing business in Ohio, is payable by some companies that are classified by statute as public utilities. This includes natural gas, heating, pipeline, telegraph, water transportation, and water works companies. Companies liable for this tax do not pay the corporation franchise tax. Utilities owned by municipal corporations are exempt from the public utility excise tax.

Gross receipts comprise the tax base for the utility classes, with rates of 6.75 percent for pipeline companies and 4.75 percent for all others. Companies with a preceding year's tax liability of \$1,000 or more (except natural gas companies) are liable during each calendar year for three advance payments — each in an amount equal to one-third of the previous year's certified tax liability. When the current year's total tax liability exceeds the sum of the three advance payments, a final payment is due in November for the difference. A refund is issued if the advance payments exceed the total liability.

Natural gas companies whose annual tax liability exceeds \$325,000 file on a quarterly basis, while natural gas companies whose tax liability is less than \$325,000 file annually.

A total of \$166 million in public utility excise taxes was levied during tax year 2005. Natural gas companies accounted for about 96.9 percent of total tax revenue. These natural gas companies are also subject to the Mcf (1,000 cubic feet) tax (see the **Natural Gas Consumption Tax** chapter).

Total revenue collected from the public utility tax amounted to \$187.2 million in Fiscal Year 2006. Of the amounts collected, 5.2 percent was distributed to the Local Government Fund, 0.7 percent was distributed to the Local Government Revenue Assistance Fund, and 94.1 percent was distributed to the General Revenue Fund.

House Bill 283, 123rd General Assembly, created many changes to the public utility excise tax as it applies to the natural gas industry. Since May 1, 2000, some natural gas companies pay the excise tax quarterly based upon the previous quarter's gross receipts. The first payment on this tax schedule was November 15, 2000, and was based on receipts from May 1, 2000 to September 30, 2000. Since then, the payments are based upon the previous quarter's receipts.

Companies that have an annual tax liability of at least \$325,000 pay on this quarterly basis. Natural gas companies below this threshold pay annually, with the tax due 45 days from the last day of the fourth quarter of the previous year (first payment was due February 14, 2001). Companies that provide both natural

gas and electric services must separate the services from each other so the applicable tax applies.

Amended Substitute Senate Bill 3, 123rd General Assembly, effective October 3, 1999, was the electric utility deregulation bill that made numerous tax changes to the industry. A utility company's gross receipts of electric services were last subject to the public utility excise tax on April 30, 2001. Their last payment under the excise tax schedule was November 2001.

The excise tax on electric companies was replaced by the kilowatt-hour tax (see the **Kilowatt-Hour Tax** chapter). The kilowatt-hour tax is remitted monthly. The first payment was made in June 2001, based upon May 2001's liabilities. Electric utilities are also subject to the corporation franchise tax, as of January 2002. Companies that provide both natural gas and electric services must separate the services from each other so the applicable tax applies.

TAXPAYER:

Most public utilities in Ohio, such as heating, pipeline, telegraph, water transportation, water works, and natural gas companies (**note:** although telegraph companies are subject to the tax, there are currently no such companies in Ohio). Exemptions include those public utilities that are owned by municipal corporations, inter-exchange telecommunications companies, electric companies, rural electric companies, and railroads.

TAX BASE (OHIO REVISED CODE 5727.01):

Gross receipts for all utilities.

RATES:

Utility Class	Tax Base	Tax Rate
Heating, telegraph, water transportation, water works (R.C. 5727.38)	Gross receipts	4.75%
Natural Gas (R.C. 5727.25)	Gross receipts	4.75%
Pipeline (R.C. 5727.38)	Gross receipts	6.75%
There is a minimum tax of \$50 for each tax year (R.C. 5727.25, 5727.38).		

PUBLIC UTILITY EXCISE TAX

TAX REPORTING AND
CERTIFICATION DEADLINES:

The following deadlines apply to those utility companies required to file the public utility gross receipts excise tax return, except for natural gas companies:

Utility Class	Deadline	For
All public utilities (1) (R.C. 5727.31, 5727.32, 5727.33, 5727.38)	August 1 (2)	Company's annual statement to the Tax Commissioner for year ending April 30 (June 30 for telegraph companies).
	First Monday in November	Tax Commissioner assesses tax and certifies amount to company and Treasurer of State.
(1) Except natural gas companies, which pay quarterly. (2) Subject to extension up to 60 days (R.C. 5727.48). A public utility that fails to file a report by the due date is subject to a penalty of \$50 per month for each month or fraction thereafter late, up to \$500 maximum (R.C. 5727.60).		

EXEMPTIONS AND DEDUCTIONS (R.C. 5709.35, 5727.05, 5727.33):

1. Exempt utilities:
 - (a) municipally-owned utilities;
 - (b) nonprofit water companies;
 - (c) inter-exchange telecommunications;
 - (d) electric companies and rural electric companies;
 - (e) railroads; and
 - (f) telephone companies beginning in tax year 2005.
2. Deduction for all companies is \$25,000. Since May 1, 2000, natural gas companies that pay quarterly have a \$6,250 deduction on each quarterly return.
3. Amounts attributable to sales of merchandise.
4. Receipts derived wholly from interstate business.
5. Sales to other public utilities for resale.
6. Receipts from business done for the federal government.
7. Receipts from facilities used to convert coal to gaseous, liquid, or solid fuels, for a period of 30 years.
8. Amounts billed on behalf of other entities by telephone companies.
9. Receipts of telephone companies from sales to other telephone companies for resale.
10. Amounts billed on behalf of other entities by natural gas companies.

CREDITS (R.C. 5727.29, 5727.39, 5727.391, 5727.44):

Telephone companies are allowed a credit against the public utility excise tax equal to the non-recurring (start-up) costs of a 9-1-1 telephone system (emergency service telephone system). The credit must be claimed in the year that

the system becomes available for use. Any excess credit may be carried over to following years until completely used. The total amount of the credit that may be taken (for all companies combined) is limited to 25 percent of the total excise tax levied on telephone companies in 1984. This credit ceiling is adjusted annually for increases in the consumer price index. Once the total credits allowed equal the credit ceiling, no additional credits will be allowed.

A telephone company that provides telephone service to aid the communicatively impaired in accessing the telephone network is allowed a credit against the tax for the cost of providing such service.

Natural gas companies that pay quarterly are able to take a credit against their quarterly payments equal to 1/60 of their total estimated payments made in October 1999, March 2000, and June 2000. The credit is to expire when the entire amount of the estimated payments is taken as the credit or in 15 years, whichever is first.

Starting with the third quarter filings in 2005, natural gas companies may claim a refundable or nonrefundable venture capital credit against the excise tax due. The credit amount and tax year in which the venture capital credit may be claimed shall be listed on a tax credit certificate issued by the Ohio Venture Capital Authority.

ADVANCE AND FINAL PAYMENT DATES (EXCEPT NATURAL GAS):

Advance Payments — October 15, March 1, and June 1
(R.C. 5727.25 and R.C. 5727.31):

All advance reports and payments are due to the Treasurer of State on the dates specified. These payments will be applied to the tax liability certified to the Treasurer on the first Monday in November. Each advance payment is equal to one-third of the previous year's liability. These reports and payments are due from each utility with an excise tax liability for the previous year in excess of \$1,000.

Final Payment — 30 days from date tax bill is mailed
(R.C. 5727.42):

The final payment is equal to total tax certified to the Treasurer of State, less advance payments made (refund is made if advance payments exceed assessment).

**Natural Gas:**

Beginning May 1, 2000, natural gas companies that exceeded \$325,000 in annual liability began paying the excise tax quarterly. The first payment was based upon receipts from May 1, 2000 to September 30, 2000 and was paid on

PUBLIC UTILITY EXCISE TAX

November 15, 2000. Thereafter, the payments are due 45 days after the end of each calendar quarter. Natural gas companies below the \$325,000 threshold pay annually, with payment made 45 days after the last day of the fourth quarter.

DISPOSITION OF REVENUE (R.C. 5727.45):
The Local Government Fund receives 4.2 percent, the Local Government Revenue Assistance Fund 0.6 percent, and the General Revenue Fund 95.2 percent of public utility excise tax collections.

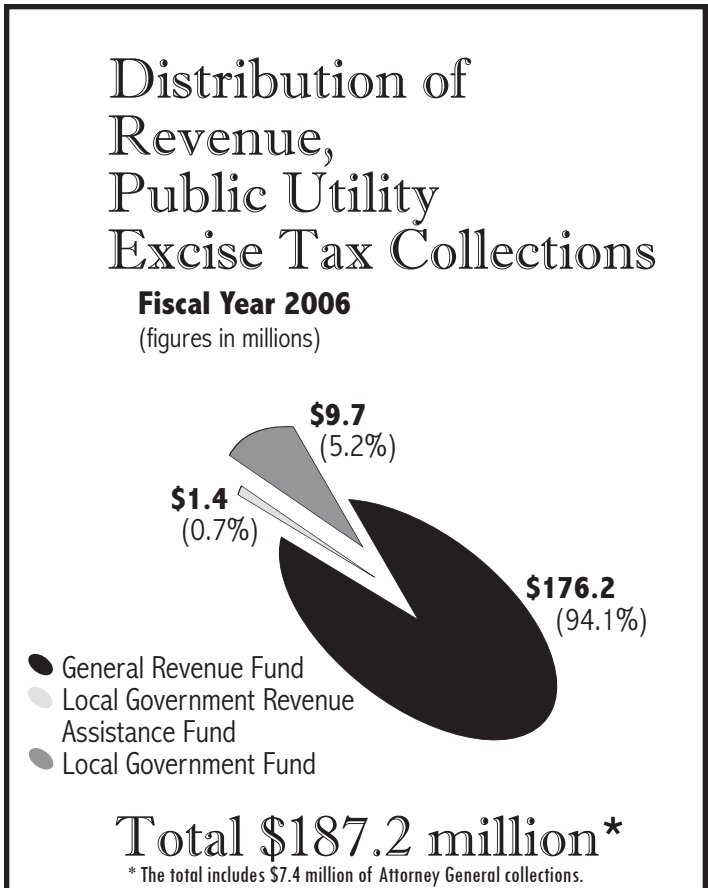
This distribution was changed however, as structured by H.B. 66, 126th General Assembly, the FY 2006-2007 biennium budget bill, which continued a freeze on local government funds that began in 2002. For each month of FY 2006, the Local Government Fund and Local Government Revenue Assistance Fund received a designated amount stipulated in the budget bill (see chart at right).

ADMINISTRATION:
The Tax Commissioner administers the tax and certifies the amounts to be collected to the Treasurer of State.

OHIO REVISED CODE CITATIONS:
Chapters 5703 and 5727.



Am. Sub. H.B. 66, 126th General Assembly (FY 2006-2007 biennium budget bill, effective June 30, 2005). R.C. 150.07, 150.10, 5727.241:
Created a natural gas excise tax venture capital credit as listed on an Ohio Venture Capital Credit tax credit certificate. The amount of the venture capital credit and the tax year in which it may be claimed will be listed on the tax credit certificate. The natural gas company may elect to take either a refundable or nonrefundable credit.



PUBLIC UTILITY EXCISE TAX

TABLE
PUBLIC UTILITY EXCISE TAX LEVIED BY CLASS OF UTILITY
TAX YEARS 2001 - 2005 (a)

Class of Utility	Number of Taxpayers in 2005	Tax Rate 2005	Tax Year				
			2001(d)	2002(e)	2003	2004	2005
Electric	0	-	\$417,378,610	0	0	0	0
Natural Gas (b)	31	4.75%	146,357,385	\$142,793,886	\$145,553,831	\$144,259,415	\$161,505,284
Telephone	0	-	122,746,743	123,114,681	117,333,061	106,197,855	0
Rural Electric	0	-	20,347,758	0	0	0	0
Water Works	16	4.75	3,007,909	2,895,320	3,182,696	3,090,875	3,142,948
Pipeline	17	6.75	313,530	233,487	278,723	147,777	349,816
Other (c)	7	4.75	1,676,351	1,707,891	1,657,460	1,650,390	1,617,721
Total	71		\$711,828,286	\$270,745,265	\$268,005,771	\$255,346,310	\$166,615,769

(a) Amount of tax certified for collection (except for natural gas companies).
(b) Beginning in 2001 natural gas companies use a current payment schedule and measurement period; the figures represent tax payments made by natural gas companies during fiscal years 2001 through 2005.
(c) Includes water transportation and heating.
(d) There was one combined electric/natural gas company for 2001. Taxes levied on this entity are separated by utility type.
(e) Beginning in 2002 electric and rural electric companies are no longer subject to the public utility excise tax.
(f) Beginning in 2005 telephone companies are no longer subject to the public utility excise tax.



PUBLIC UTILITY PROPERTY TAX

This chapter describes the taxes levied on both the real and personal property of public utilities during calendar year 2005. However, the data in the tables in this section pertain only to the personal property of public utilities. Data for public utility real property are included in the tables in the **Real Property Tax** chapter.

The assessed valuation of public utility personal property was over \$9.8 billion in tax year 2005. Electric utilities accounted for about 61.1 percent of the total public utility personal property valuation in 2005 and the telephone industry accounted for 16.4 percent of the total valuation. These amounts were determined using the tax year 2005 assessment rates.

Revenue from the public utility property tax amounted to about \$755.2 million in calendar year 2005 (see **Table 3** in **Revenue from Taxes Administered by the Tax Commissioner**). This revenue was distributed to counties, municipalities, townships, school districts, and special districts, according to the individual millage levied, less local administrative deductions.

A number of changes to the public utility property tax were enacted during the 126th General Assembly in Amended Substitute House Bill 66, the biennium budget bill for Fiscal Years 2006-2007 (see **Recent Legislation**). These changes will, over time, decrease revenue from some utilities.

TAXPAYER:

Local telephone, telegraph, electric, natural gas, pipeline, water works, water transportation, heating, rural electric, railroads, and inter-exchange telephone companies holding property in Ohio.

TAX BASE (OHIO REVISED CODE 5715.01, 5727.01, 5727.06, 5727.10, 5727.11, 5727.111, 5727.12, 5727.14, 5727.15):

The property tax base of all public utilities, except railroads and water transportation companies, consists of all tangible personal property owned and located in Ohio on December 31 of the preceding year. The water transportation company tax base consists of all tangible personal property, except watercraft, owned or operated in Ohio on December 31 of the preceding year and all watercraft owned or operated by the water transportation company in Ohio during the preceding calendar year. Real property includes land and improve-

ments, while personal property includes all plant and equipment either owned or leased by the utility under a sale-lease back agreement, and not classified as real property or intangible property.

For most public utility personal property, true value is the capitalized cost less the composite annual allowances, which vary according to the actual age and expected life of the property. It should be noted that most utilities are valued by this method.

The true value of electric company production equipment and all taxable property of a rural electric company is 50 percent of capitalized cost. The exception to this is electric company or rural electric company production equipment purchased, transferred, or sold after the effective date of Substitute Senate Bill 3, 123rd General Assembly, the electric utility restructuring bill. The true value of electric production equipment in these instances is the capitalized cost on the books and records, less composite annual allowances.

The true value of current gas stored underground is the monthly average value of such gas, determined by dividing the cost of the ending monthly balances by the number of months in business, while the true value of non-current gas stored underground is 35 percent of cost on lien date.

To determine the true value of railroad real and personal property, the unitary method is used to value the company's entire railroad system. The value is apportioned to this state in the proportion that the length of track in this state bears to the whole length of track. Values for railroad real property used in operation are apportioned on the basis of their relative value, while values for railroad personal property used in operation are apportioned on the basis of miles of track in each taxing district weighted according to traffic density. Values for railroad real and personal property not used in operation are situated on the basis of their physical location.

Public utility real property is assessed at 35 percent of true (market) value while public utility personal property is assessed at varying ratios.

Assessment rates for public utility personal property in tax years 2005 through 2010 are shown on the next page.

PUBLIC UTILITY PROPERTY TAX

Type of Utility	Assessment Rates for Tax Year					
	2005	2006	2007	2008	2009	2010
Electric companies and rural electric companies: production personal property	25%	24%	24%	24%	24%	24%
Electric companies: transmission and distribution personal property	88%	85%	85%	85%	85%	85%
Electric companies: all other tangible personal property	25%	24%	24%	24%	24%	24%
Rural electric companies: transmission and distribution personal property	50% for all years					
Rural electric companies: all other tangible personal property	25% for all years					
Natural gas companies	25% for all years					
Railroads: real property only	35% for all years					
Railroads: personal property only	25%	18.75%	12.5%	6.25%	0	0
Inter-exchange telecommunications companies	25%	25%	20%	15%	10%	5%
Telephone companies (only personal property taxed in tax year 1995 and thereafter)	25%	25%	20%	15%	10%	5%
All other existing telephone company personal property (prior to 1995)	67%	46%	20%	15%	10%	5%
Heating, pipeline, and water works companies	88% for all years					
Water transportation companies	25% for all years					

Real property values of all utilities except railroads are placed into the various taxing districts according to the physical location of the property.

Personal property values of all utilities are apportioned (using a specific base) among the taxing districts in which the utilities operate. The bases for distributing personal property values among taxing districts for the various classes of utilities are shown in the table to the right.

Class of Utility	Distribution Base
Electric companies	Production equipment Taxable cost of all other property
Natural gas, heating, pipeline, water works, rural electric, water transportation	Taxable cost
Telephone and inter-exchange telecommunications companies	Miles of wire/taxable cost
Railroads	Miles of track and trackage rights weighted by use



PUBLIC UTILITY PROPERTY TAX

RATES (R.C. 319.30, 319.301, 5705.02-.05, 5705.19):

Tax rates vary with the taxing jurisdiction. The total tax rate includes all levies enacted by legislative authority or approved by voters for all taxing jurisdictions within which the property is located or to which it is apportioned (e.g., county, township, municipal corporation, and school district). Although the nominal tax rates applied to public utility real and personal property are the same, the effective rates on the two types of property may differ substantially because of the effects of the tax reduction factor applied to real property taxes. Public utility real property taxes (in addition to other real property taxes) are reduced by a computed reduction factor whenever real property values increase due to reappraisal. This reduction factor does not apply to taxes levied on public utility personal property.

EXEMPTIONS AND CREDITS (R.C. 319.302, 5701.03, 5709.111, 5709.25, 5709.61, 5727.01, 5727.05, 6111.31):

1. Municipally-owned utilities.
2. Certified air, water, and noise pollution control facilities.
3. Licensed motor vehicles.
4. Tangible personal property under construction.
5. Real and personal property of nonprofit corporations and political subdivisions used exclusively in the treatment, distribution, and sale of water to consumers.
6. Qualified electric generating property may qualify for a property tax reduction if placed in an enterprise zone.
7. An allowance is available for funds used during construction and interest used during construction. This does not apply to electric company and rural electric company property, except transmission and distribution property first placed into service after December 31, 2000. It also does not apply to the taxable property a person purchases, which includes transfers, if that property was used in business by the seller prior to the purchase.

REPORTING, CERTIFICATION, AND PAYMENT DATES:

Dates	R.C.	Description
March 1(a)	5727.08 5727.48	Company's annual report to Tax Commissioner
On or before the first Monday in October	5727.10 5727.23	Tax Commissioner notifies utilities and county auditors of values
December 31(b)	323.12 323.17	At least half of total tax liability due
June 20(b)	323.12 323.17	Balance of tax liability due
(a) Tax Commissioner may grant an extension of up to 60 days.		
(b) These deadlines may be extended by 45 days (longer in certain circumstances).		

DISPOSITION OF REVENUE (R.C. 319.54, 321.24, 321.26, 321.261, 321.31, 321.34):

After local administrative deductions, revenue is distributed to counties, municipalities, townships, school districts, and special districts according to the taxable values and total millage levied by each.

ADMINISTRATION (R.C. 5713.01, 5727.06):

The Tax Commissioner assesses the tangible personal property of all public utilities and inter-exchange telecommunications companies. The Tax Commissioner also assesses the real estate of railroads. County auditors assess all other public utility real estate.

OHIO REVISED CODE CITATIONS:

Chapters 319, 321, 323, 5701, 5705, 5709, 5715, 5719, 5727, and 6111.



Am. Sub. House Bill 66, 126th General Assembly (Fiscal Year 2006-2007 biennium budget bill, effective June 30, 2005). R.C. 5711.01, 5711.21, 5711.22, 5713.01, 5727.01, 5727.02, 5727.031, 5727.06, 5727.08, 5727.10, 5727.11, 5727.111, 5727.12, 5727.23:

This bill enacted a number of changes to the public utility property tax.

Starting in 2006:

- Patterns, jigs, dies, and drawings will be considered taxable personal property of electric companies;
- assessment percentage of electric transmission and distribution personal property is reduced from 88 percent to 85 percent;
- assessment percentage of all other electric personal property is reduced from 25 percent to 24 percent;
- non-operating real property of a railroad will be valued and assessed by the county auditor; and
- assessment of railroad personal property will be phased out over three years. The assessment percentage on railroad personal property will be 18.75 percent in 2006, 12.5 percent in 2007, 6.25 percent in 2008, and 0 percent in 2009 and thereafter.

Starting in 2007:

- Telephone companies and inter-exchange telecommunications companies will be defined as general business taxpayers instead of public utilities and will be valued and assessed under R.C. 5711;
- taxable value of telephone and inter-exchange telecommunications personal property will continue to be apportioned under R.C. 5727;
- assessment of telephone and inter-exchange telecommunications personal

PUBLIC UTILITY PROPERTY TAX

property will be phased out over three years; and

- assessment percentage for all telephone and inter-exchange telecommunications personal property will be 20 percent in 2007, 15 percent in 2008, 10 percent in 2009, 5.0 percent in 2010, and 0 percent in 2011.

Starting in 2009:

- Defines a “public utility lessor company” as a taxpayer that leases personal property to a public utility other than a railroad, water transporta-

tion company, or telephone or telegraph company and requires this taxpayer to report and pay the tax on the taxable personal property under R. C 5727; and

- requires a taxpayer that is engaged in some other primary business to which the supplying of electricity to others is incidental to be treated as an electric company and required to report and pay the tax on the electric generation personal property.

TABLE 1

PUBLIC UTILITY PERSONAL PROPERTY - CERTIFIED ASSESSED VALUE BY CLASS OF UTILITY AND TOTAL TAXES LEVIED, TAX YEARS 2001 - 2005

Class of Utility	Number of Taxpayers (2005)	Assessed Values				
		2001	2002	2003	2004	2005
Electric (1)	18	\$5,268,840,110	\$5,457,071,420	\$5,450,273,000	\$5,523,375,530	\$5,702,660,740
Telephone (2)	194	2,646,647,630	2,776,522,250	2,627,731,270	2,571,456,080	2,082,059,560
Natural Gas (3)	29	522,365,280	555,361,960	560,131,920	591,653,220	622,753,060
Railroad	33	384,089,250	262,126,650	275,488,860	270,911,390	280,935,810
Pipeline	17	645,520,830	638,727,270	645,206,580	695,838,050	719,356,480
Rural Electric	27	261,197,740	279,920,260	294,763,870	308,889,580	322,366,860
Water Works	17	109,361,370	102,110,620	119,104,530	122,202,520	130,002,630
Other (4)	7	4,667,040	4,017,170	3,675,010	3,010,510	2,737,940
Totals (5)	342	\$9,842,689,250	\$10,075,857,600	\$9,976,375,040	\$10,087,336,880	\$9,862,873,080
Taxes Levied		\$722,757,663	\$746,058,859	\$751,787,109	\$775,375,587	\$755,171,101

(1) Assessment of electric company property was lowered from 100% to 25% in 2001, while the number of taxpayers increased from 14 (2000) to 17 (2001) and has fluctuated in subsequent years.

(2) Includes inter-exchange telecommunications companies.

(3) Assessment of natural gas company property was lowered from 88% to 25% in 2001; also the valuation method for gas storage was changed from current monthly cost to 12-month average.

(4) Includes water transportation and heating.

(5) Only companies with taxable property are included.

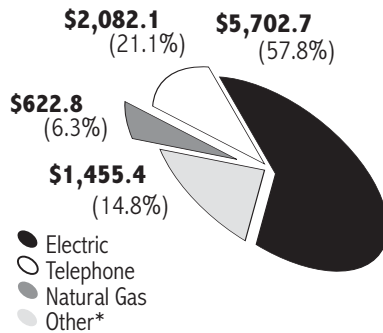
Source: Department of Taxation

PUBLIC UTILITY PROPERTY TAX

Public Utility
Personal Property
Valuation
by Type
of Utility

Tax Year 2005

(figures in millions)



Total \$9,862.9 million

* Includes railroad, pipe line, rural electric, water works, water transportation, and heating.



TABLE 2

ASSESSED VALUE OF PUBLIC UTILITY PERSONAL PROPERTY AND TAXES LEVIED,
BY COUNTY, TAX YEAR 2005

County	Assessed Value of Public Utility Personal Property	Taxes Charged on Public Utility Personal Property	County	Assessed Value of Public Utility Personal Property	Taxes Charged on Public Utility Personal Property
ADAMS	\$156,193,450	\$6,854,717	LOGAN	\$37,702,670	\$2,376,617
ALLEN	86,569,560	4,870,162	LORAIN	293,044,830	23,859,915
ASHLAND	59,306,470	4,109,505	LUCAS	273,047,630	25,169,163
ASHTABULA	104,466,460	8,058,865	MADISON	32,081,000	2,075,844
ATHENS	84,400,680	6,547,480	MAHONING	182,002,970	14,239,569
AUGLAIZE	27,493,570	1,607,841	MARION	61,772,690	3,996,374
BELMONT	71,292,490	4,262,205	MEDINA	103,958,340	9,438,614
BROWN	27,646,720	1,415,459	MEIGS	38,768,360	1,891,458
BUTLER	245,781,550	17,729,292	MERCER	22,989,830	1,339,605
CARROLL	42,232,050	2,232,909	MIAMI	61,842,730	4,322,435
CHAMPAIGN	29,687,690	1,878,801	MONROE	45,548,930	2,249,049
CLARK	80,719,230	5,698,840	MONTGOMERY	346,477,690	32,636,928
CLERMONT	282,270,320	19,290,179	MORGAN	56,379,210	2,815,197
CLINTON	32,928,150	1,681,526	MORROW	26,694,370	1,477,964
COLUMBIANA	82,536,470	4,738,885	MUSKINGUM	80,144,210	5,081,726
COSHOCTON	98,508,390	5,018,284	NOBLE	35,215,480	1,662,002
CRAWFORD	27,357,020	1,989,737	OTTAWA	152,584,190	8,775,992
CUYAHOGA	857,096,760	90,375,493	PAULDING	25,131,780	1,426,307
DARKE	54,015,660	2,638,838	PERRY	42,219,650	2,629,170
DEFIANCE	54,102,640	3,364,383	PICKAWAY	69,164,030	3,947,696
DELAWARE	143,657,400	10,904,275	PIKE	34,689,431	2,005,600
ERIE	67,650,680	5,568,469	PORTAGE	97,004,090	8,700,493
FAIRFIELD	105,681,490	7,711,571	PREBLE	37,846,600	2,044,580
FAYETTE	33,384,940	1,870,069	PUTNAM	29,004,260	1,482,811
FRANKLIN	785,224,140	77,344,690	RICHLAND	96,915,410	7,277,851
FULTON	41,933,300	3,048,005	ROSS	65,223,240	3,794,582
GALLIA	154,316,540	6,299,846	SANDUSKY	45,525,100	2,593,143
GEAUGA	71,892,690	6,927,182	SCIOTO	78,152,810	4,597,722
GREENE	101,063,670	7,916,739	SENECA	56,945,320	3,613,502
GUERNSEY	48,014,730	2,884,569	SHELBY	41,061,700	2,352,027
HAMILTON	733,751,610	66,114,614	STARK	266,709,570	20,003,754
HANCOCK	58,898,310	3,453,084	SUMMIT	299,027,590	25,930,701
HARDIN	23,991,300	1,440,047	TRUMBULL	141,281,080	10,403,762
HARRISON	20,430,750	1,219,677	TUSCARAWAS	70,699,140	4,440,399
HENRY	23,614,210	1,657,906	UNION	51,514,770	3,710,981
HIGHLAND	28,370,820	1,306,624	VAN WERT	21,211,370	1,431,695
HOCKING	49,717,480	3,027,270	VINTON	26,974,700	1,211,166
HOLMES	27,148,360	1,535,837	WARREN	152,939,740	12,515,801
HURON	36,667,690	2,199,032	WASHINGTON	129,813,790	6,741,933
JACKSON	41,580,410	1,855,569	WAYNE	66,978,400	4,990,503
JEFFERSON	221,851,440	12,094,892	WILLIAMS	25,030,330	1,690,944
KNOX	39,517,390	2,453,832	WOOD	87,482,030	6,854,321
LAKE	379,428,180	31,309,358	WYANDOT	14,903,240	760,124
LAWRENCE	60,890,780	2,210,571			
LICKING	128,112,960	7,893,955			
			Total	\$9,855,100,901	\$755,171,101

Source: Abstracts filed by county auditors with the Department of Taxation.

REAL PROPERTY

In tax year 2005, the assessed valuation of real property was nearly \$222.5 billion, an increase of approximately 9.8 percent over the 2004 amount. Taxes on these values were distributed by county auditors to the local taxing authorities during calendar year 2006. Net taxes charged after the application of the reductions required by Ohio Revised Code section 319.301 were more than \$12.3 billion for tax year 2005, an increase of 9.2 percent over 2004. This figure is before deductions of the tax rollback of 10 percent on all real property, as well as the homestead exemption and the 2.5 percent rollback for owner-occupied dwellings.

The state reimburses local governments for the full amount of the 2.5 and 10 percent rollbacks, as well as for the homestead exemption. The estimated amount of property tax relief for calendar year 2005 (reimbursed in 2006) was approximately \$893.7 million for the 10 percent reduction, \$68.6 million for the homestead exemption, and roughly \$172.3 million for the 2.5 percent reduction. These figures do not include those taxpayers that filed late for the homestead and 2.5 percent reductions.

Under state law and Department of Taxation rules, real property in all counties is reappraised every six years and property values are updated in the third year following each sexennial reappraisal. The department compares the assessed taxable value to the sales price of properties, then uses these sales ratios to check the reappraisal process.

TAXPAYER:

All real property owners who are not specifically exempt are subject to the real property tax.

TAX BASE (OHIO REVISED CODE 5713.03, 5715.01):

The real property tax base is the taxable (assessed) value of land and improvements. The taxable value is 35 percent of true (market) value, except for certain land devoted exclusively to agricultural use.

RATES (R.C. 319.301, 5705.02-.05, 5705.19):

Real property tax rates vary with the taxing jurisdiction. The total tax rate includes all levies enacted by a legislative authority or approved by the voters for all taxing jurisdictions in which the property is located (e.g., county, township, municipality, school district, etc.). In 2005, the statewide average "gross" millage rate was 85.24 mills on residential and agricultural real property; and the statewide average "effective" millage rate on all real property was 55.18 mills. The difference between the gross and effective rate is due to the tax reduction factors, which generally prevent increases in voted taxes when the valuation of existing real property is increased (see **Credits**).

The Ohio Constitution prohibits governmental units from levying property taxes that in the aggregate exceed 1.0 percent of true value, unless the voters approve them. This is known in state law as the 10-mill limitation on nonvoted or "inside" millage. The inside mills are levied on taxable value — 35 percent of true value — creating a statutory limit of 0.35 percent, or nearly three times as strict as the 1.0 percent constitutional limitation.

EXEMPTIONS (R.C. 5709.07-18, 5709.25, 5713.23, 5713.31, 6111.34):

The Ohio Constitution requires real property (land and improvements) to be taxed by uniform rule according to value. Authorized exemptions implemented by statute include:

- 1. General.** Real property of governmental or private institutional organizations on the grounds of ownership and/or usage (e.g., schools, charities, churches, municipal corporations, etc.) is generally exempted. Many other specific exemptions are provided for by the Revised Code.
- 2. Farm Land.** Land devoted exclusively to commercial agricultural use may be valued according to current use instead of "highest and best" use. Such land must meet one of the following requirements for three years prior to the year in which application for the current use treatment is made:
 - (a) ten acres or more must be devoted to commercial agricultural use; or
 - (b) under ten acres must be devoted to commercial agricultural use and produce an average yearly gross income of at least \$2,500.
 In addition, when the land is converted from agricultural use, a charge is levied on such land in an amount equal to the amount of tax savings on the converted land during the three tax years immediately preceding the year in which the conversion occurs.
- 3. Forest Land.** Forest land, devoted exclusively to forestry or timber under the rules of the Ohio Department of Natural Resources, Division of Forestry, may be taxed at 50 percent of the local rate.

CREDITS (R.C. 319.301, 319.302, 323.151-.157):

- 1. Percentage Rollbacks:** Under prior law, tax relief was granted in the form of a 10 percent reduction in each taxpayer's real property tax bill. Starting with tax year 2005, the 10 percent rollback is applied to all real property that is not intended primarily for use in a business activity. In addition, a 2.5 percent rollback of real property taxes is granted on a homestead that is occupied by the homeowner. The state reimburses local governments for the cost of these tax credits.
- 2. Tax Reduction Factors:** For purposes of the tax reduction factors, real property is divided into two classes: Class I for residential and agricultural property and Class II for all other real property. Separate percentage reductions are applied to taxes levied against each of these two classes when the value of existing real property in the class increases. These reduction factors remain in effect until there is an increase in the value of existing property (new construction would not trigger a change in reduction factors). New reduction factors are calculated annually and applied. The computation of these percentage reduction factors involves the following:
 - (a) Tax reduction factors are calculated to eliminate the effect of an increase in the valuation of existing real property in a taxing unit (school district, county, municipality, etc.) on certain voted taxes.
 - (b) If the tax reduction factors result in an effective tax rate, for current expenses of a school district, of less than 20 mills on real property in either class, the reduction factors are adjusted to yield a minimum of 20 effective mills. The reduction factors of joint vocational

school districts are adjusted to yield a minimum of two effective mills on each class of real property.

These factors are applied to the taxes levied on real estate, including public utility real property. The result of these calculations yielded net taxes of approximately \$12.3 billion in tax year 2005, as shown in the tax tables in this section.

3. Homestead Exemption: Property tax reductions are granted to qualified low-income homeowners who are at least 65 years of age or are permanently and totally disabled or to surviving spouses at least 59 years of age if the deceased spouse had previously received the exemption. The reduction is equal to the gross millage rate multiplied by the reduction in taxable value shown in the following schedule (for tax year 2006):

Total Income of Owner and Spouse	Reduce Taxable Value by the Lesser of:
\$13,400 or less	\$5,500 or 75%
More than \$13,400 but not more than \$19,700	\$3,400 or 60%
More than \$19,700 but not more than \$26,200	\$1,100 or 25%
More than \$26,200	-0-

Since tax year 2000, the income brackets have been indexed for inflation. Beginning with tax year 2002, the dollar amount reductions in taxable value are also indexed annually for inflation.

Total income for homestead exemption purposes is defined as federal adjusted gross income, plus social security and railroad retirement benefits; retirement, pension, annuity, or other types of retirement payments or benefits not included in federal adjusted gross income; and interest on federal, state, and local government obligations. Disability benefits paid by the U.S. Department of Veterans Affairs or a branch of the armed forces are excluded from total income, as are increases in social security benefits. All disability benefits included in federal adjusted gross income are excluded from total income up to \$5,200. Disability benefits that are not included in federal adjusted gross income are excluded from total income. When the applicant who was receiving the homestead exemption because of disability reaches age 65, special rules apply that will exclude most of the retirement income.

Table 7 shows the number of homestead exemptions granted, the average reduction in real taxable value, and the total reduction in real property taxes for each county for tax year 2004. Totals for the state show that 220,525 exemptions were approved for tax year 2004. The average reduction in taxable value was \$3,290 and the total reduction in property taxes was \$70,117,421. Local governments are reimbursed in full for these reductions from the state's General Revenue Fund.

Homestead Exemption Example

The example below illustrates the computation of homestead exemption property tax relief for tax year 2006. For this example, assume that a senior citizen homeowner has the following characteristics:

- (a) Total income of \$15,000, consisting of \$5,000 in wages, \$5,000 in social security old age and survivors benefits, and \$5,000 in dividends.
- (b) A home with a market value of \$50,000 and a taxable value of \$17,500 (taxable value = 35 percent of market value).
- (c) A local property tax rate of 50 mills (gross rate before tax reduction factors).

Since the homeowner is in the \$13,401- \$19,700 income bracket, the reduction in taxable value equals the lesser of \$3,400 or 60 percent of taxable value. Since 60 percent of \$17,500 is \$10,500, the reduction in taxable value used to calculate this exemption is \$3,400. The tax savings equals the \$3,400 reduction in taxable value multiplied by the 50-mill tax rate, or \$170.

Like all other real property taxpayers, the senior citizen homeowner in the example is entitled to a tax reduction factor which is applied against the property tax (assume a 15 percent reduction). Also, the homeowner is granted a 12.5 percent tax reduction (10 percent and 2.5 percent property tax rollbacks), which is reimbursed to the local governments from the state's General Revenue Fund. When these are considered, the computation of net property tax due is shown below:

Property tax before any reductions		
\$17,500 taxable value x 50 mills	=	\$875.00
Subtract tax reduction factor (\$875 x 15%)		- 131.25
Net taxes levied after tax reduction factor	=	\$743.75
Subtract 12.5% rollback (.125 x \$743.75)		- 92.97
Net taxes before homestead	=	\$650.78
Subtract homestead exemption (\$ 3,400 x 50 mills)		- 170.00
Net property tax due =		\$480.78

**Manufactured Home Tax (R.C. 4505.01, 4503.06, 4503.065):**

1. The manufactured home is subject to an annual property tax. The assessed value of a manufactured home, if situated in Ohio prior to January 1, 2000, is 40 percent of the amount derived by multiplying the greater of either the home's cost or market value at the time of purchase by a depreciation percentage (from one of two schedules). The tax is determined by applying the gross tax rate of the taxing district in which the home is situated to the home's assessed value.
2. If a home was situated or had ownership transferred on or after January 1, 2000, and it is not taxed as personal property, it is assessed at 35 percent of true value. This method of assessment also applies to homes situated before January 1, 2000, if the owner made an election to have the home taxed like real property. The tax is determined by applying the effective tax rate to the assessed value and reducing the tax by 10 percent. Taxes may be reduced by an additional 2.5 percent if the home is owner-occupied. A homestead exemption is available for qualifying homeowners (see **Credits**).
3. One-half of the amount of the annual tax is due by March 1 with the balance due by July 31. These dates are subject to extension in the same manner provided for real property (noted below). If the structure is taxable as personal property under R.C. 5709.01, it is not subject to the manufactured home tax. Travel trailers and park trailers that are unused or unoccupied and are stored at a qualified location are also not subject to the manufactured home tax.

PAYMENT DATES (R.C. 323.12, 323.17):**December 31:** At least one-half is due.**June 20:** Balance due.

When the delivery of the tax duplicate is delayed for certain statutory reasons, the payment dates may be automatically extended for 30 days. Further extensions, not to exceed 15 days, may be granted for emergencies by application of the county auditor or treasurer to the Tax Commissioner. When an unavoidable delay occurs, an additional extension may be granted by application of both the county auditor and treasurer to the Tax Commissioner, in order to avoid penalties to taxpayers.

DISPOSITION OF REVENUE (R.C. 319.54, 321.24, 321.26, 321.261, 321.31, 321.33, 321.34):

After local administrative fee deductions, revenue is distributed to the counties, municipalities, townships, school districts, and various special districts according to the taxable values and total millage levied by each.

ADMINISTRATION (R.C. 319.28, 5705.03, 5713.01, 5715.01, 5715.02, 5719.05):

The Tax Commissioner supervises the taxation of real property in the state and is charged with the duty of achieving uniformity in the taxation of real property. The county auditor is responsible for assessing all real property within the county. The auditor prepares the general tax list and duplicate. Using the duplicate, the county treasurer prepares property tax bills and is responsible for the actual collection of the tax. The county board of revision hears complaints on the assessment or valuation of real property. It may increase or decrease an assessment or order a reassessment.

OHIO REVISED CODE CITATIONS:

Chapters 319, 321, 323, 4501, 4503, 5705, 5709, 5713, 5715, 5719, 6111.

**Amended Substitute Senate Bill 10, 126th General Assembly (effective September 5, 2005). R.C. 5705.191 and 5705.222:**

R.C. 5705.191 is amended to include in the levy for human or social services a county's contribution to a multi-county board of mental retardation and developmental disabilities (MRDD). R.C. 5705.222 is amended to allow a board of county commissioners to authorize a tax levy either for a single county MRDD board or to pay its contribution to a multi-county MRDD board.

Am. Sub. House Bill 530, 126th General Assembly (effective June 30, 2006; certain provisions effective March 30, 2006). R.C. 133.01, 133.04, and 133.06 – School District Bond Consents (effective March 30, 2006, by Sections 815.03 and 818.03):

R.C. 133.01 (PP) changed the definition of "tax valuation" for purposes of the net indebtedness calculation under R.C. 133.06 to exclude the valuation of tangible personal property and three items of public utility personal property.

R.C. 133.04 (B) (10) is added to exclude the securities issued in an amount equal to the property tax replacement payments received under R.C. 5751.21 or 5751.22 for the loss in revenue from the phase-out of the tangible personal property tax.

R.C. 133.06 is amended to make four major changes:

- (1) Div. (C) changes the deadline for filing the requests for consent with the Superintendent of Public Instruction and the Tax Commissioner from 30 days to 105 days before the election;
- (2) Div. (C) requires the Superintendent of Public Instruction to certify to the school district both the superintendent's and the commissioner's consents within 30 days after receipt of the request for consents;
- (3) Div. (C) provides that the superintendent's and the commissioner's consents are good for two consecutive elections; and

- (4) Div. (I) expands the type of costs that may be included in a bond issue under Chapter 3318 for which a school district may issue such debt without the consents of the Tax Commissioner and the Superintendent of Public Instruction and without special needs approval.

R.C. 133.18, 5705.03, and 5705.195 – Tax Rate Certifications (effective March 30, 2006, by Section 818.03):

These sections are amended to require the county auditor to take into account the assessment percentages in R.C. 5711.22 during the phase-out of the tangible personal property tax, when considering the tangible personal property component of a subdivision's tax valuation for purposes of certifying tax rates for bond issues (R.C. 133.18) and school district emergency levies (R.C. 5705.195), as well as when certifying either tax rates or tax revenue for all other tax levies (R.C. 5705.03).

R.C. 3317.021 (A) (6) – School Foundation Adjustment for Tax Increment Financing Compensation (effective March 30, 2006, by Section 815.03):

The amendments to this section require the Tax Commissioner to certify to the Ohio Department of Education (DOE) compensation values for school districts that represent the compensation received by a school district, either from a political subdivision or a private party, as a result of certain tax increment financing (TIF) exemptions, which serve to compensate the school district for the loss in revenue because of the TIF exemptions. The DOE will use those certified values to adjust the amount of state aid to be paid to the school district by accounting for the amount of compensation received locally on the TIF property.

R.C. 5705.19 (TT) – Levy to Promote Science and Natural History (effective March 30, 2006, by Section 818.03):

This section allows a board of county commissioners to authorize a tax levy for the maintenance and operation of a facility that is organized in whole or in part to promote the sciences and natural history under R.C. 307.761.

R.C. 5705.211 – Growth Levy for School Districts (effective June 30, 2006):

This provision allows a city, local, or exempted village school district to place a current operating expense levy on the ballot for a continuing period of time or for a specific number of years of five or more and at a rate that will cause the total taxes payable from the levy to equal the adjusted charge-off increase for the tax year, providing that the sums levied in any tax year cannot exceed 104 percent of the sums levied from the tax against carry over property in the preceding year. "Adjusted charge-off increase" means "2.3 percent of the cumulative carry over property value increase."

R.C. 5705.34 – Tax Replacement Money and Rate Setting (effective March 30, 2006, by Section 818.03):

This section is amended to require the county auditor, when estimating tax rates on levies for a fixed sum of money or to pay debt charges, to set that rate to raise the required sum less the estimated amount of any payments received by the subdivision for those levies from the State of Ohio to compensate the subdivision for the loss in revenue because of the phase-out of the tangible personal property tax.

R.C. 5709.08 – State Property that is Leased (effective March 30, 2006, by Section 818.03):

This section allows property owned by the State of Ohio that is used as public service facilities under R.C. 1501.07, as concessions under R.C. 1531.06 (F), as refuge harbors or marine recreational facilities under R.C. 1547.72, or as forest land under R.C. 1503.03 to be declared public property used exclusively for a public purpose, even if such property is leased to or otherwise operated by a private entity. Section 757.09.03 of the Act applies R.C. 5709.08, as amended, to all applications for exemption from taxation pending on the amendment's effective date or filed with the Tax Commissioner on or after that date.

R.C. 5709.081 – Recreational Facilities (effective March 30, 2006, by Section 818.03):

This section is amended to provide an exemption to a public recreational facility that was originally leased from a political subdivision in 1998 for such purposes and meets the other conditions already in the section. For purposes of this section, "political subdivision" includes the state or an agency of the state, if the city, local, or exempted village school district in which the property is situated expressly consents to exempting the property from taxation. Section 757.12 of the Act applies R.C. 5709.081, as amended, to the tax years at issue in any application for exemption from taxation pending on the amendment's effective date before the Tax Commissioner, the Board of Tax Appeals, or any court on appeal and to the property that is the subject of the application.

R.C. 5709.23, 5709.40, 5709.42, 5709.73, 5709.74, 5709.75, 5709.78, 5709.79, and 5709.80 – Tax Increment Financing Exemptions (effective March 30, 2006, by Section 818.03):

In addition to extensive clean-up language, these sections are amended to accomplish two major goals. First, a municipality, township, or county granting a tax increment financing (TIF) incentive district exemption cannot designate police or fire equipment as public infrastructure improvements, and no service payments in lieu of taxes received by the subdivision can be used for police or fire equipment. Second, for a municipal, township, or county TIF incentive district exemption, the number of tax levies that the granting subdivision must reimburse from the service payments in lieu of taxes to the appropriate taxing authorities increased from six to 12, by adding levies for the following purposes: zoological park services and facilities, township park districts, joint recreational districts, county park districts, the various health and welfare purposes under R.C. 5705.191, and general health districts.

Section 757.06 of the Act – Church Exemption Amnesty (effective March 30, 2006, by Section 818.03):

This uncodified section allows a previous owner of qualified property to file an application for exemption from taxation for tax year 2003 within 60 days after the effective date of this section because the prior owner failed to file timely said application. "Qualified property" is property that is currently owned by a church, was purchased from a church, and was exempted under R.C. 5709.07 (A) (2) as a house of public worship before the previous owner acquired the property. To grant the exemption, the Tax Commissioner must find that the qualified property met the conditions for exemption under R.C. 5709.07 (A) (2) for tax year 2003.

Section 757.09 of the Act – Charitable Exemption Amnesty (effective March 30, 2006, by Section 818.03):

This uncodified section allows a previous owner of qualified property to file an application for exemption from taxation for tax years 2001 through 2004 within 60 days after the effective date of this section because a timely filed application for exemption from taxation was dismissed after the qualified property had been transferred to the current owner. “Qualified property” is property that is currently owned by a municipal corporation, was acquired from an entity that operated a hospital and was exempt from federal income taxation under Internal Revenue Code (I.R.C.) 501 (c) (3), and that entity previously filed an application for exemption from taxation that was dismissed after the property was transferred to the municipal corporation. To grant the exemption, the Tax Commissioner must find that the qualified property met the conditions for exemption under R.C. 5709.12 or 5709.121 for tax years 2001 through 2004.



Columbus City School District Board of Education v. Wilkins, 106 Ohio St.3d 200 (2005).

The Supreme Court has previously held that only the legal title holder of real property has an application for exemption from taxation under R.C. 5715.27 in *Performing Arts School of Metro. Toledo, Inc., v. Wilkins*, 104 Ohio St.3d 284 (2004). In this case, the property in question was held in a charitable-remainder annuity trust. Under this arrangement, the individual beneficiaries received annuity payments for life with the remainder going to the Columbus State Community College District (Columbus State) upon the death of the last living beneficiary. The deed for the property granted title to “Columbus State, Trustee.” Since the trustee holds legal title to the trust corpus, the Court held that the application for exemption filed in the name of “Columbus State” must be dismissed because “Columbus State” was not the owner of the property at the time of filing. The application should have been filed in the name of “Columbus State, Trustee,” as owner.

Village Condominiums Owners’ Association v. Montgomery County Board of Revision, 106 Ohio St.3d 223 (2005).

The Supreme Court held that a condominium owners’ association does not have standing to file a complaint against the value of the common areas of a condominium because the association is not the owner of the common areas. Under R.C. 5311.04 (A), the common areas are owned by the unit owners as tenants in common. Moreover, this particular complainant lacked standing to file the complaint because it could not prove that it owned any other real property in the county under R.C. 5715.19 (A)(1).

Berea City School District Board of Education v. Cuyahoga County Board of Revision, 106 Ohio St.3d 269 (2005).

The Supreme Court overruled earlier decisions of the Court that held that real property must be valued as a fee-simple estate, unencumbered by leases or other restrictions, using market rents and expenses, because those decisions disregarded the plain language of R.C. 5713.03. The Court now holds that when real property has been subject to a recent arm’s-length sale between a willing buyer and a willing seller, the sale price shall be the true value for taxation purposes. Moreover, appraisals based on factors other than sales price are appropriate for use in determining value only when no arm’s-length sale has taken place, or where it is shown that the sales price is not reflective of the true value.

Athens County Auditor v. Wilkins, 106 Ohio St.3d 293 (2005).

A private, for-profit entity owned a dormitory that was used by the students of Hocking Technical College. The Supreme Court held that the property was not exempt under R.C. 3357.14 because it only exempts from taxation property acquired, owned, or used by a technical college district. This property was not “used” by the college, but rather by the students, and was insured and operated by the private owner through its agreement with the college, which owner gave up no rights under the agreement. In addition, the Court held that this property was not exempt under R.C. 5709.07 (A) (4), which exempts property connected with public colleges. The dormitory was not “connected with” the college because the college: (1) did not own or lease the dorms; (2) was not contractually obligated to pay the taxes on the building; and (3) had neither applied for nor would benefit from the tax exemption sought by the private owner.

Cobblestone Square Co., Ltd. v. Lorain County Board of Revision, 106 Ohio St.3d 305 (2005).

In order to get Kmart to be the anchor store in its new shopping center, Cobblestone had to assume Kmart’s existing lease at another site. After several months of not being able to sublease Kmart’s property, Cobblestone determined that the purchase of that property made better sense than continuing to pay rent. The Supreme Court held that the property owner failed to rebut the presumption that the recent sale was arm’s-length and reflected the property’s true market value on the grounds of economic duress because Cobblestone was neither compelled to assume Kmart’s lease nor needed this particular retailer, Kmart, to make the new shopping center viable.

Hardy v. Delaware County Bd. of Revision, 106 Ohio St.3d 359 (2005).

Two issues were addressed in this opinion. First, the Supreme Court held that the property owner presented no convincing evidence that production-flexibility contracts with the U.S. Department of Agriculture represented the type of federal program contemplated by the provision in R.C. 5713.30, establishing current agricultural use value (CAUV) qualifications, which refer to “payments or other compensation under a land retirement or conservation program under an agreement with an agency of the federal government.” Second, the Court held that the auditor’s deadline for sending a denial notice in R.C. 5713.32 of the first Monday in August is directory, not jurisdictional. The Court commented that the notice, dated August 23, 2002, although technically late, did not prejudice the property owner because it satisfied the notice’s intended purpose, which is to give the property owner sufficient time to challenge the auditor’s findings. In

fact, the owner did file timely complaints against the auditor's determination. Moreover, that notice is only required if the property owner files an application to obtain CAUV status that year.

Cleveland Municipal School District Board of Education v. Cuyahoga County Board of Revision, 107 Ohio St.3d 250 (2005).

The owners had leased the property for their restaurant for approximately \$6,000 a month for several years before purchasing it. After the initial lease term expired, the prior owner said he would raise the rent to \$16,000 a month or sell the property to them for \$1,800,000. After over two years of negotiating, the selling price was lowered to \$1,350,000. Moreover, the restaurant owners spent approximately \$725,000 to finish the space and equip the restaurant, and stated that if they were forced to move, they could not take more than \$60,000 worth of improvements with them. Based on these considerations, the owners claimed that the sale price was not an arm's-length transaction and suggested a market value of \$415,000.

After comparing this case to its earlier decision in *Lakeside Ave. Limited Partnership v. Cuyahoga County Board of Revision, 75 Ohio St.3d 540 (1996)*, the Supreme Court held that the property owners failed to rebut the presumption that the recent sale was arm's-length and reflected the property's true market value on the grounds of economic duress because of the following considerations: (1) the selling price was negotiated down; (2) no evidence existed that any bank turned down the financing of the purchase, and over 95 percent of the purchase price was financed; (3) no evidence was presented that the owners made any efforts to determine whether the business could have been relocated and the costs of such relocation; and (4) while the owners would have lost much of their investment in the fixtures if they had to move, no evidence existed that the restaurant could not be relocated or that losing this location would cause the owners to file bankruptcy.

Strongsville Board of Education v. Wilkins, 108 Ohio St.3d 115 (2006).

In a further elaboration on its earlier decision in *Cleveland Clinic Foundation v. Wilkins, 103 Ohio St.3d 382 (2004)*, the Supreme Court, in a 4-3 decision, stated that whether the unpaid charges are special assessments or taxes, the same principle applies: the Tax Commissioner does not have jurisdiction to consider an application for exemption that has attached to it a certificate of the county treasurer that shows unpaid taxes or assessments that cannot be remitted, and such charges must be paid by the time the exemption application is filed. Moreover, the commissioner's pay-tax letter sent to the applicant, stating that the applicant must pay the nonremittable taxes within 30 days after receipt of the letter or the application will be dismissed, cannot act as a waiver of the jurisdictional requirements.

Lakota Local School District Board of Education v. Butler County Board of Revision, 108 Ohio St.3d 310 (2006).

The purchase agreement allocated the sale price of \$1,134,000 between the value of the real property, \$950,000, and interest charges and carrying costs for the seller-provided financing, \$184,000. The county auditor set the property's value at \$1,878,740, ignoring the recent sale. The owner sought a value of \$950,000, wishing to exclude the amount of the sale price allocated to financing.

The Supreme Court, relying on the *Berea* decision cited on the previous page, held that since no evidence was presented rebutting the presumption that the recent sale was the result of an arm's-length transaction, the sale price of \$1,134,000 establishes the property's true value.

State, ex rel. Lakeview Local School District Board of Education v. Trumbull County Board of Commissioners, 109 Ohio St.3d 200 (2006).

Under R.C. 5705.11, federal payments made to the county in lieu of the general real property taxes under United States Code (U.S.C.) 701 c-3 (Flood Control Act of 1954) must be distributed by the board of county commissioners to all the taxing districts affected by the removal of federal lands from the tax duplicate. The Supreme Court held that mineral-lease payments made under the Flood Control Act do not fall under R.C. 5705.11 because they are not made directly to the county, but to the state, whose legislature may prescribe the use of such monies for the benefit of the counties, and they do not constitute payments in lieu of general real property taxes. Consequently, the school district is not entitled to any distribution of such monies.

Dirksen v. Greene County Board of Revision, 109 Ohio St.3d 470 (2006).

In determining whether noncommercial timber qualifies for current agricultural use value (CAUV) status under R.C. 5713.30 (A), the Supreme Court held that the requirement in division (A) (1) that "the land on which the timber is grown is contiguous to or part of a parcel of land under common ownership that is otherwise devoted exclusively to agricultural use" means that such contiguous land "must qualify on its own, independently of the noncommercial timber." Moreover, since the contiguous land in this case, consisting of five acres, did not meet the income requirements in division (A) (2), that land had to meet the ten-acre minimum contained in division (A) (1). Since that contiguous land obviously failed the division (A) (1) requirement, the noncommercial timber could not qualify for CAUV status.

RECENT RULE CHANGES:

Effective December 15, 2005, rule 5703-25-10 of the Division of Tax Equalization was amended to change some existing code groups and to add additional code groups to assist in the implementation of the new partial exemption in R.C. 319.302, as amended by Am. Sub. H.B. 66 (126th General Assembly).

Effective December 15, 2005, rule 5703-25-18 of the Division of Tax Equalization was promulgated to provide guidance to the county auditors in determining whether a particular parcel of real property qualifies for the new partial exemption in R.C. 319.302.

RECENT FORMS:

DTE Form 15 T, Qualified Exempt Value in Tax Increment Financing Incentive District, Tax Year 2005, was prescribed in April 2006.

DTE Form 130, Certificate of Estimated Average Annual Property Tax Levy for Bonds of Subdivisions of the State, was revised in May 2006.

DTE Form 131, Net Indebtedness Calculation for School District Bonds, was revised in May 2006.

DTE Form 140 M, Certificate of Estimated Property Tax Millage Rate (with worksheets 140 M-W1, 140 M-W2, 140 M-W3, and 140 M-W4), was revised in May 2006.

DTE Form 140 R, Certificate of Estimated Property Tax Revenue (with worksheets 140 R-W1, 140 R-W2, 140 R-W3, and 140 R-W4), was revised in May 2006.

RECENT JOURNAL ENTRIES, BULLETINS, AND MEMORANDA:

Tax Commissioner's Journal Entry No. 05-09-0305 – Prescribes the form and content of the tax bill for manufactured and mobile homes for tax year 2006; entered September 13, 2005.

Tax Commissioner's Journal Entry No. 05-09-0303 – Prescribes the form and content of the real property tax bill for tax year 2005; entered September 13, 2005.

Tax Commissioner's Journal Entry No. 05-09-0304 – Prescribes the form and content of the county auditor's tax list and county treasurer's duplicate of real and public utility property for tax year 2005, and thereafter; entered September 13, 2005.

Tax Commissioner's Journal Entry No. 05-10-0524 – Certifies the adjusted total income amounts and the adjusted amounts by which taxable/assessable value is reduced in the homestead exemption schedules for tax year 2006 for real property and for tax year 2007 for manufactured and mobile homes; entered October 20, 2005.

Bulletin 8 – Memorandum Regarding Requirements for State Consents to Board of Education Bond Issue Elections, was revised in May 2006 to reflect changes to R.C. 133.01 (PP), 133.04, and 133.06 made by Am. Sub. H.B. 530 (126th General Assembly).

Memorandum – To all county auditors, explaining the renewal and replacement of property tax levies, issued June 19, 2006.

Memorandum – To all county auditors, explaining the new procedures starting with tax year 2005 in applying the 10 percent rollback, as a result of amendments to R.C. 319.302 enacted by Am. Sub. H.B. 66 (126th General Assembly), issued August 23, 2005.

TABLE 1
ASSESSED VALUE OF TAXABLE REAL ESTATE, TAXES CHARGED, AVERAGE TAX RATES, AND TAX RELIEF, TAX YEARS 2001 - 2005

	2001	2002	2003	2004	2005
Value of Taxable Property	\$173,975,282,762	\$186,756,854,520	\$196,583,301,381	\$202,591,836,961	\$222,488,359,822
Residential & Agricultural	132,036,957,842	142,544,497,300	151,127,413,080	156,078,137,391	170,735,325,098
Other (a)	41,938,324,920	44,212,357,220	45,455,888,301	46,513,699,570	51,753,034,724
Taxes Charged (b)	9,183,387,507	9,807,854,075	10,473,581,729	11,242,570,059	12,276,786,818
Residential & Agricultural	6,719,265,594	7,217,105,610	7,747,678,792	8,346,325,594	8,997,828,917
Other (a)	2,464,121,913	2,590,748,465	2,725,902,937	2,896,244,464	3,278,957,901
Average Effective Tax Rate (c)	52.79 mills	52.52 mills	53.28 mills	55.49 mills	55.18 mills
Residential & Agricultural	50.89 mills	50.63 mills	51.27mills	53.48 mills	52.70 mills
Other (a)	58.76 mills	58.60 mills	59.97 mills	62.27 mills	63.36 mills
10% Reduction in all Real					
Property Taxes	\$906,944,834	\$984,682,415	\$1,047,877,702	\$1,124,053,183	\$893,708,184
2.5% Reduction in Homeowner's					
Real Property Taxes	128,186,729	138,287,112	149,435,621	160,761,041	172,281,517
Homestead Exemption Reduction (d)					
	63,980,939	64,841,272	67,951,739	69,297,551	68,560,798
Net Taxes Collectible (after 12.5% Reduction & Homestead Exemption)					
	\$8,084,275,006	\$8,620,043,276	\$9,209,719,664	\$9,888,458,284	\$11,142,236,319

(a) Includes commercial, industrial, mineral, and public utility property.
 (b) Net taxes charged after application of percentage reductions required by R.C. 319.301.
 (c) Taxes charged divided by value of taxable property.
 (d) These figures exclude those taxpayers that filed late for the tax reduction and the administrative fees associated with this program.



TABLE 2 – GROSS AND NET TAX MILLAGE RATES ON THE TWO CLASSES OF REAL PROPERTY, BY COUNTY, TAX YEAR 2005

County	Residential & Agricultural		Public Utility, Commercial, Industrial & Mineral		County	Residential & Agricultural		Public Utility, Commercial, Industrial & Mineral	
	Gross Rate (a)	Net Rate(b)	Gross Rate(a)	Net Rate(b)		Gross Rate (a)	Net Rate(b)	Gross Rate(a)	Net Rate(b)
ADAMS	47.98	37.92	46.93	42.05	LOGAN	63.76	44.82	64.13	47.62
ALLEN	56.43	45.79	56.20	46.92	LORAIN	79.34	51.22	79.98	58.64
ASHLAND	73.32	44.87	75.96	51.75	LUCAS	97.82	56.59	95.39	72.37
ASHTABULA	77.53	49.83	78.24	55.74	MADISON	64.63	49.08	65.24	52.10
ATHENS	84.03	54.99	91.02	62.37	MAHONING	79.70	52.52	81.73	59.17
AUGLAIZE	59.52	41.91	59.20	48.34	MARION	64.25	43.06	65.32	49.17
BELMONT	61.99	42.08	61.26	44.98	MEDINA	93.34	50.58	94.46	53.82
BROWN	50.25	39.01	50.80	42.24	MEIGS	46.98	38.82	49.05	45.26
BUTLER	75.25	50.68	75.23	55.81	MERCER	58.66	48.70	58.26	51.33
CARROLL	55.82	40.54	56.34	42.64	MIAMI	69.15	43.27	69.15	47.98
CHAMPAIGN	61.69	41.85	68.61	48.40	MONROE	50.16	32.78	49.68	42.14
CLARK	70.06	49.51	70.26	54.58	MONTGOMERY	97.52	61.40	94.88	70.65
CLERMONT	86.30	50.94	84.56	54.44	MORGAN	50.68	35.19	50.57	39.25
CLINTON	52.30	41.28	50.57	42.34	MORROW	54.72	40.74	59.34	46.03
COLUMBIANA	57.41	41.29	58.61	44.44	MUSKINGUM	64.16	42.28	65.24	44.57
COSHOCTON	60.03	41.09	60.96	45.05	NOBLE	46.90	33.53	45.89	38.42
CRAWFORD	73.87	45.88	74.26	57.22	OTTAWA	68.63	37.51	66.06	41.18
CUYAHOGA	112.50	69.21	103.89	78.44	PAULDING	60.26	48.94	66.14	53.01
DARKE	49.42	36.16	51.61	39.09	PERRY	62.79	43.75	63.75	49.11
DEFIANCE	61.72	44.86	62.61	46.30	PICKAWAY	58.42	43.51	62.29	47.02
DELAWARE	77.25	48.60	79.56	53.01	PIKE	61.85	42.48	68.93	49.31
ERIE	83.06	45.04	84.55	56.21	PORTAGE	90.24	49.44	91.02	57.30
FAIRFIELD	81.87	47.46	83.98	46.91	PREBLE	53.63	40.38	55.79	42.27
FAYETTE	58.74	46.19	61.26	48.24	PUTNAM	50.38	41.46	48.78	43.22
FRANKLIN	100.51	55.67	95.74	67.91	RICHLAND	74.37	48.58	74.91	58.01
FULTON	74.01	49.66	71.61	51.84	ROSS	58.19	42.20	62.92	47.40
GALLIA	46.94	39.67	45.89	39.75	SANDUSKY	57.64	40.36	54.42	42.13
GEAUGA	99.53	52.93	99.51	57.01	SCIOTO	60.10	50.12	63.96	52.41
GREENE	80.50	57.11	80.07	57.93	SENECA	63.68	41.49	66.54	53.09
GUERNSEY	59.71	47.84	61.23	52.13	SHELBY	58.94	42.59	60.26	47.28
HAMILTON	92.36	53.02	89.73	64.50	STARK	76.73	47.57	75.63	54.42
HANCOCK	61.18	40.75	62.48	51.73	SUMMIT	86.22	52.91	84.91	59.64
HARDIN	60.79	45.38	59.76	45.71	TRUMBULL	72.37	50.73	70.75	54.86
HARRISON	59.17	38.56	60.53	44.40	TUSCARAWAS	64.73	41.69	65.77	46.98
HENRY	71.79	51.56	73.03	61.95	UNION	73.39	53.24	74.00	60.65
HIGHLAND	46.00	37.52	45.63	39.00	VAN WERT	68.32	49.24	69.50	60.78
HOCKING	60.88	44.84	60.87	47.24	VINTON	46.18	43.11	48.46	46.27
HOLMES	53.84	43.11	53.92	45.79	WARREN	83.70	53.09	86.56	58.42
HURON	60.17	39.75	62.77	44.06	WASHINGTON	53.62	38.75	54.13	40.78
JACKSON	46.82	41.06	48.60	43.53	WAYNE	74.85	47.38	82.29	59.18
JEFFERSON	58.57	39.35	58.46	49.32	WILLIAMS	69.68	43.79	70.47	48.26
KNOX	62.88	44.46	58.92	48.61	WOOD	81.97	49.88	82.16	53.75
LAKE	91.31	52.21	89.03	60.70	WYANDOT	52.21	32.76	50.05	34.27
LAWRENCE	36.62	32.41	37.29	33.27					
LICKING	65.96	46.96	62.67	46.52	Statewide Average(c)	85.24	52.70	87.27	63.36

(a) Rate on property prior to application of tax reduction factors. Gross rate equals taxes levied divided by taxable value.
(b) Rate on property in the county after application of tax reduction factors. These rates were computed prior to the deduction of the property tax rollbacks and homestead exemption. Net rate equals taxes charged divided by taxable value.
(c) For the two combined classes of real property, the statewide average gross rate is 85.71 mills and the statewide average net rate is 55.18 mills.

Source: Abstracts filed by county auditors with the Department of Taxation.

TABLE 3
TOTAL REAL PROPERTY TAXES, VALUES, AND EFFECTIVE TAX RATES, BY COUNTY, TAX YEAR 2005

County	Assessable Value	Gross Taxes Levied	Taxes Charged(a)	Special Assessments	Effective Tax Rate(b)	County	Assessable Value	Gross Taxes Levied	Taxes Charged(a)	Special Assessments	Effective Tax Rate(b)
ADAMS	\$329,606,460	\$15,718,204	\$12,879,567	\$2,838,637	39.08	LOGAN	\$819,868,930	\$52,324,798	\$37,145,401	\$6,562,983	45.31
ALLEN	1,516,886,150	85,515,709	69,885,826	2,930,579	46.07	LUCAS	5,601,869,920	445,092,952	294,461,001	2,759,129	52.56
ASHLAND	820,049,060	60,439,879	37,619,105	36,246	45.87	LUCAS	7,726,011,340	751,185,839	466,747,127	30,474,456	60.41
ASHTABULA	1,581,013,890	122,790,500	80,533,880	2,333,591	50.94	MADISON	699,142,270	45,248,781	34,624,009	1,451,380	49.52
ATHENS	701,533,730	60,009,950	39,698,995	927,618	56.59	MAHONING	3,740,639,930	299,789,370	201,883,045	2,238,795	53.97
AUGLAIZE	750,433,350	44,623,744	32,281,841	832,125	43.02	MARION	852,127,770	54,929,156	37,730,281	1,180,485	44.28
BELMONT	801,944,630	49,564,553	34,333,625	17,261	42.81	MEDINA	4,017,110,080	375,691,614	205,317,504	2,420,984	51.11
BROWN	551,779,458	27,754,364	21,697,208	460,750	39.32	MEigs	226,026,820	10,705,937	9,044,386	20,696	40.01
BUTLER	6,939,408,120	522,151,908	359,428,084	20,148,135	51.80	MERCER	705,678,140	41,363,052	34,598,579	666,233	49.03
CARROLL	434,433,450	24,275,777	17,172,042	16,499	40.77	MIAMI	1,830,419,630	126,576,167	80,812,460	1,267,540	44.15
CHAMPAIGN	600,749,670	37,566,567	25,622,472	40,763	42.65	MONROE	185,265,660	9,276,182	6,398,363	9,904	34.54
CLARK	2,090,593,930	146,551,881	105,713,467	483,983	50.57	MONTGOMERY	9,674,872,900	937,386,999	615,313,521	25,157,775	63.60
CLERMONT	3,770,595,080	324,001,564	194,849,360	4,347,614	51.68	MORGAN (c)	171,878,790	8,708,267	6,160,816	0	35.84
CLINTON	724,085,330	37,569,601	30,075,126	377,644	41.54	MORROW	570,871,610	31,448,983	23,496,845	173,985	41.16
COLUMBIANA	1,318,980,830	79,430,236	57,630,363	863,626	41.79	MUSKINGUM	1,196,728,300	77,067,160	51,205,977	263,961	42.79
COSHOCTON	488,291,690	29,408,059	20,477,544	31,871	41.94	NOBLE	159,473,850	7,461,160	5,437,943	1,638	34.10
CRAWFORD	574,291,450	42,459,293	27,382,714	179,596	47.68	OTTAWA	1,322,870,680	90,186,003	50,479,857	2,755,418	38.16
CUYAHOGA	31,036,968,200	3,398,622,427	2,247,763,651	57,996,873	72.42	PAULDING	249,940,160	15,260,054	12,369,635	365,552	49.49
DARKE	828,954,210	41,220,112	30,311,253	370,321	36.57	PERRY	417,702,200	26,269,220	18,512,749	79,006	44.32
DEFIANCE	594,835,920	36,808,521	26,841,827	758,948	45.12	PICKAWAY	893,519,890	52,753,877	39,382,829	176,892	44.08
DELAWARE	5,462,089,170	423,440,311	268,323,146	10,851,352	49.12	PIKE	17,451,021	12,067,100	10,952	43.50	
ERI	1,721,651,600	143,535,744	81,554,094	1,599,974	47.37	PORTAGE	2,869,183,240	259,344,798	146,186,473	1,632,265	50.95
FAIRFIELD	435,536,540	25,806,273	20,299,528	1,090,863	46.61	PREBLE	689,480,460	37,155,925	27,997,281	2,040,571	40.61
FAYETTE	25,820,609,650	2,559,700,217	1,528,693,916	42,746,330	59.20	PUTNAM	572,045,500	26,219,847	21,730,504	376,877	41.63
FRANKLIN	771,836,620	56,775,949	38,648,351	1,312,351	50.07	RICHLAND	1,944,792,750	144,831,083	98,035,543	1,572,003	50.41
GALLIA	411,359,920	19,191,292	16,328,169	36,819	39.69	ROSS	900,954,050	53,231,430	38,903,405	276,398	43.18
GEAUGA	2,845,904,003	283,241,457	151,895,158	1,687,307	53.37	SANDUSKY	947,668,251	54,047,235	38,569,649	399,918	40.70
GREENE	3,188,491,760	256,410,779	182,565,169	2,055,751	57.26	SCIO TO	723,740,740	44,052,316	36,603,194	677,359	50.58
GUERNSEY	448,884,830	26,947,323	21,882,905	139,929	48.75	SENECA	51,548,053	34,917,574	472,608	43.47	
HAMILTON	18,838,078,050	1,726,928,287	1,055,252,145	57,670,946	56.02	SHELBY	829,892,840	49,146,263	36,179,743	826,683	43.60
HANCOCK	1,345,397,840	82,666,711	57,824,862	1,243,963	42.98	STARK	6,323,703,890	483,766,872	309,695,170	2,451,175	48.97
HARDIN	377,838,880	22,911,837	17,165,458	952,706	45.43	SUMMIT	11,751,866,480	1,009,881,120	639,280,453	22,211,941	54.40
HARRISON	205,594,890	12,207,364	8,107,575	32,001	39.43	TROUBALL	3,261,940,930	235,024,928	168,149,913	1,706,666	51.55
HENRY	456,218,280	32,825,827	24,136,968	620,770	52.91	TUSCARAWAS	1,421,862,610	92,334,610	60,803,909	298,121	42.76
HIGHLAND	544,212,020	25,003,863	20,579,157	559,632	37.72	UNION	1,023,563,150	75,255,437	56,117,639	233,873	54.83
HOCKING	428,362,820	26,077,662	19,318,196	25,898	45.10	VAN WERT	391,383,100	26,801,967	19,876,193	907,426	50.78
HOLMES (c)	636,530,010	34,283,262	27,764,332	0	43.62	VINTON	1,231,125,950	57,155,886	53,491,194	1,668	43.44
HURON	882,521,740	53,489,062	35,720,074	258,875	40.48	WARREN	4,717,788,820	397,326,359	255,028,753	4,964,150	54.06
JACKSON	403,162,620	19,033,984	16,776,332	20,704	41.61	WASHINGTON	849,306,540	45,643,475	33,320,541	93,023	39.23
JEFFERSON	793,146,690	46,432,903	32,945,309	326,776	41.54	WAYNE	1,896,448,060	144,661,770	94,163,156	543,072	49.65
KNOX	954,113,040	59,502,081	42,934,662	1,271,101	45.00	WILLIAMS	569,484,350	39,767,115	25,422,432	1,371,575	44.64
LAKE	5,573,944,160	506,191,946	301,327,644	8,396,185	54.06	WOOD	2,575,903,240	211,276,451	130,923,629	5,965,867	50.83
LAWRENCE	624,523,600	22,930,641	20,320,211	351,201	32.54	WYANDOT	333,549,270	17,304,356	11,002,614	72,265	32.99
LICKING	3,281,840,890	214,638,593	153,867,914	2,008,370	46.88	TOTAL	\$222,488,359,822	\$19,069,972,915	\$12,276,786,818	\$350,664,021	55.18

(a) Represents taxes charged after tax reduction factors are applied. The 10% rollback for all real property, 2.5% rollback for residential real property, and homestead exemption reduction have not been subtracted from this figure because they are fully reimbursed to the local governments and school districts from the state General Revenue Fund.

(b) Rates shown in mills equal taxes charged divided by taxable value.

(c) Counties which levied no special assessments.

Source: Abstracts filed by county auditors with the Department of Taxation.

TABLE 4 - TAXES CHARGED ON REAL PROPERTY, AND PROPERTY TAX RELIEF, BY COUNTY, TAX YEAR 2005 (a)

County	Taxes Charged (b)	10% Reduction (c)	Homestead Exemption Reduction (c)(d)	2.5% Reduction in Taxes of Homeowners (c)	Net Taxes Collectible(e)	County	Taxes Charged (b)	10% Reduction (c)	Homestead Exemption Reduction (c)(d)	2.5% Reduction in Taxes of Homeowners (c)	Net Taxes Collectible(e)
ADAMS	\$12,879,567	\$907,023	\$204,469	\$51,391	\$11,716,684	LOGAN	\$37,145,401	\$2,995,170	\$160,027	\$318,214	\$33,671,990
ALLEN	69,885,876	5,220,838	314,519	999,476	63,550,993	LORAIN	294,461,001	23,411,375	1,409,306	4,423,762	265,216,558
ASHLAND	37,619,105	3,119,128	273,333	592,814	33,633,831	LUCAS	466,747,127	33,037,875	3,083,201	7,046,875	423,579,177
ASHTABULA	80,533,880	6,391,157	902,572	972,052	72,268,099	MADISON	34,674,009	2,975,959	175,291	569,026	30,953,733
ATHENS	39,988,995	3,025,321	476,121	432,160	35,765,393	MAHONING	201,883,045	15,272,074	2,246,617	3,051,914	181,312,441
AUGLAIZE	32,281,841	2,603,902	132,234	481,556	29,064,148	MARION	37,730,281	2,938,629	391,472	538,788	33,861,391
BELMONT	34,333,625	2,522,909	671,965	442,221	30,696,530	MEDINA	205,317,504	16,992,512	964,259	3,594,061	183,766,671
BROWN	21,697,208	1,941,474	230,415	232,728	19,292,591	MEigs	9,044,386	714,848	191,350	81,197	8,056,991
BUTLER	359,428,084	27,540,257	1,263,716	4,989,358	325,634,753	MERCER	34,598,579	2,990,699	159,577	471,350	30,976,953
CARROLL	17,712,042	1,572,670	186,989	213,995	15,738,388	MIAMI	80,812,460	6,481,944	498,312	1,175,610	72,656,593
CHAMPAIGN	25,622,472	2,211,665	180,701	270,993	22,959,113	MONROE	6,398,363	492,327	107,826	54,733	5,743,477
CLARK	105,713,467	8,187,689	853,024	1,519,736	95,153,017	MONTGOMERY	615,313,521	45,243,865	3,966,546	9,257,257	556,845,853
CLERMONT	194,849,360	15,408,827	672,673	3,014,484	175,753,376	MORGAN	6,160,816	507,073	111,575	51,901	5,490,085
CLINTON	30,075,126	2,281,082	110,096	320,308	27,363,640	MORROW	23,496,845	2,135,012	160,506	275,594	20,925,733
COLUMBIANA	57,630,363	4,792,156	814,807	733,727	51,289,674	MUSKINGUM	51,205,977	3,948,414	610,852	644,847	46,001,865
COSHOCTON	20,477,544	1,581,217	202,663	221,234	18,472,431	NOBLE	5,437,943	473,670	99,455	50,145	4,806,673
CRAWFORD	27,382,714	2,219,823	409,767	307,746	24,445,379	OTTAWA	50,479,857	4,078,317	229,165	307,845	45,864,530
CUYAHOGA	2,247,763,651	134,246,846	13,179,884	28,601,320	2,071,735,601	PAULDING	12,369,635	1,060,091	92,915	183,251	11,033,378
DARKE	30,311,253	2,582,604	250,494	387,057	27,091,097	PERRY	18,512,749	1,628,998	332,801	293,375	16,257,575
DEFIANCE	26,841,827	2,186,343	162,347	426,461	24,066,677	PICKAWAY	39,382,829	3,276,063	187,677	548,863	35,370,226
DELAWARE	268,323,146	23,434,198	285,550	4,550,334	240,053,064	PIKE	12,067,100	998,023	248,188	153,655	10,667,236
ERIE	81,554,094	6,134,401	459,640	1,155,045	73,805,008	PORTAGE	146,186,473	11,416,330	708,785	1,878,793	132,182,565
FAIRFIELD	128,421,202	10,722,973	593,286	1,859,404	115,245,539	PREBLE	27,997,281	2,444,498	218,450	444,778	24,889,555
FAVETTE	20,299,528	1,722,793	162,383	267,241	18,147,111	PUTNAM	17,390,504	1,948,366	112,807	395,293	19,274,038
FRANKLIN	1,528,693,916	101,818,838	4,375,095	20,883,004	1,401,616,978	RICHLAND	98,035,543	7,079,610	941,955	1,340,398	88,673,580
FULTON	38,648,351	3,134,762	206,815	610,709	34,696,064	ROSS	38,903,405	3,097,894	457,237	479,101	34,869,173
GALLIA	16,328,169	1,181,725	266,020	140,296	14,740,128	SANDUSKY	38,569,649	3,096,693	277,360	586,602	34,608,995
GEAUGA	151,895,158	13,421,594	465,938	2,558,282	135,449,344	SCIOTO	36,603,194	2,674,677	904,045	479,785	32,544,687
GREENE	182,565,169	14,896,069	450,141	2,581,737	164,637,221	SENECA	34,917,574	2,772,988	471,223	261,860	31,411,503
GUERNSEY	21,882,905	1,692,755	295,983	241,116	19,653,051	SHELBY	36,179,743	2,779,811	178,968	408,510	32,812,453
HAMILTON	1,055,252,145	75,244,867	3,195,141	15,526,070	961,286,068	STARK	309,695,170	23,999,067	2,223,217	4,733,802	278,739,083
HANCOCK	57,824,862	4,354,180	227,132	892,922	52,350,628	SUMMIT	639,280,453	47,891,423	4,170,801	9,511,167	577,707,063
HARDIN	17,165,458	1,467,268	154,022	239,734	15,304,434	TRUMBULL	168,149,913	13,220,964	1,948,758	2,214,422	150,765,768
HARRISON	8,107,575	673,026	154,212	78,989	7,201,347	TUSCARAWAS	60,803,909	4,738,988	661,171	764,719	54,639,030
HENRY	24,136,968	2,051,058	146,985	322,628	21,616,297	UNION	56,117,639	4,277,826	143,610	638,859	51,057,344
HIGHLAND	20,529,157	1,756,001	244,133	177,551	18,351,472	VAN WERT	19,876,193	1,678,195	193,825	294,309	17,709,863
HOCKING	19,318,196	1,709,031	191,960	268,271	17,148,934	VINTON	5,349,194	465,531	121,380	55,980	4,706,303
HOLMES	27,764,332	2,227,490	83,570	248,768	25,204,504	WARREN	255,028,753	20,574,170	542,608	4,316,896	229,595,080
HURON	35,720,074	2,918,444	275,228	557,762	31,968,639	WASHINGTON	33,320,541	2,515,322	316,939	398,545	30,089,735
JACKSON	16,776,332	1,275,829	317,132	100,128	15,083,243	WAYNE	94,163,156	7,253,973	462,188	1,287,750	85,159,244
JEFFERSON	32,945,309	2,435,003	663,295	419,661	29,427,351	WILLIAMS	25,422,432	2,016,628	195,907	367,823	22,842,074
KNOX	47,934,662	3,697,332	269,193	546,817	38,421,320	WOOD	130,923,629	9,578,805	418,095	1,615,926	119,310,803
LAKE	301,327,644	22,609,381	1,360,775	4,431,998	272,925,491	WYANDOT	11,002,614	927,431	96,817	129,413	9,848,953
LAWRENCE	20,320,211	1,730,864	608,166	262,009	17,719,173						
LICKING	153,867,914	12,803,246	422,967	2,445,232	138,196,470	TOTAL	\$12,276,786,818	\$893,708,184	\$68,560,798	\$172,281,517	\$11,142,236,319

(a) Taxes charged in tax year 2005 and collected or reimbursed in calendar year 2006.
 (b) Net taxes charged after application of percentage reductions required by R.C. 319.301.
 (c) Estimated figures.
 (d) Reduction is applied to residential and agricultural property not exceeding one acre.
 (e) County figures may not add to total due to rounding.

Source: Abstracts filed by county auditors and records of the Department of Taxation.

REAL PROPERTY

TABLE 5

ASSESSED VALUATION OF EXEMPT REAL PROPERTY, BY OWNERSHIP CLASSIFICATIONS,
TAX YEARS 2001 - 2005
(FIGURES IN MILLIONS)

Property Under Public Ownership	2001	2002	2003	2004	2005
Boards of Education	\$4,361.8	\$4,701.3	\$5,019.3	\$5,239.0	\$5,569.1
Municipalities	3,981.9	4,218.9	4,413.1	4,497.2	4,667.8
State	2,760.3	2,781.8	2,915.6	2,984.6	3,113.6
Counties	1,860.8	1,977.2	2,070.6	2,235.9	2,144.9
United States	1,425.8	1,259.7	1,568.9	1,578.7	1,619.9
Park Districts	406.8	470.3	489.4	479.3	518.7
Townships	204.3	251.7	238.9	249.5	271.0
Total	\$15,001.8	\$15,660.9	\$16,715.9	\$17,282.2	\$17,904.9
Property Under Private Ownership	2001	2002	2003	2004	2005
Tax Abatements	\$4,364.8	\$5,169.9	\$5,501.7	\$5,679.1	\$6,264.1
Charities	3,102.5	3,435.3	3,556.9	3,693.1	3,888.3
Churches	3,008.3	3,215.7	3,339.6	3,431.0	3,726.0
Schools and Colleges	2,136.4	2,549.0	2,631.7	2,743.0	3,054.8
Cemeteries	213.6	208.6	213.2	213.3	232.2
Total	\$12,825.7	\$14,578.5	\$15,243.1	\$15,759.5	\$17,165.4
Grand Total*	\$28,431.7	\$30,884.3	\$32,610.8	\$33,688.6	\$35,741.6

* Includes other tax-exempt organizations (e.g., metropolitan housing authorities, volunteer fire departments, etc.) not included in any of the listed categories.

Source: Exempt real property abstracts filed by county auditors with the Department of Taxation.

REAL PROPERTY

TABLE 6

ASSESSED VALUATION OF EXEMPT REAL PROPERTY COMPARED TO TOTAL ASSESSED REAL VALUATION, BY COUNTY, TAX YEAR 2005

County	Assessed Value of Taxable Real Property	Assessed Value of Exempt Real Property	Percent of Tax Base Exempt from Taxation	County	Assessed Value of Taxable Real Property	Assessed Value of Exempt Real Property	Percent of Tax Base Exempt from Taxation
ADAMS	\$329,606,460	\$46,072,970	13.98%	LOGAN	\$819,868,930	\$103,986,380	12.68%
ALLEN	1,516,886,150	265,346,450	17.49	LORAIN	5,601,869,920	717,971,000	12.82
ASHLAND	820,049,060	128,200,080	15.63	LUCAS	7,726,011,340	1,282,289,430	16.60
ASHTABULA	1,581,013,890	184,260,990	11.65	MADISON	699,142,270	138,310,720	19.78
ATHENS	701,533,730	292,175,890	41.65	MAHONING	3,740,639,930	473,896,130	12.67
AUGLAIZE	750,439,350	87,312,310	11.63	MARION	852,127,770	157,254,970	18.45
BELMONT	801,944,630	139,163,800	17.35	MEDINA	4,017,110,080	321,714,560	8.01
BROWN	551,779,458	49,472,630	8.97	MEIGS	226,026,820	25,225,340	11.16
BUTLER	6,939,408,120	1,119,000,360	16.13	MERCER	705,678,140	88,585,158	12.55
CARROLL	434,433,450	28,910,520	6.65	MIAMI	1,830,419,630	238,335,570	13.02
CHAMPAIGN	600,748,670	56,378,680	9.38	MONROE	185,265,660	22,100,130	11.93
CLARK	2,090,593,930	262,603,760	12.56	MONTGOMERY	9,674,872,900	1,698,336,860	17.55
CLERMONT	3,770,595,080	378,601,390	10.04	MORGAN	171,878,790	20,073,300	11.68
CLINTON	724,085,330	95,588,250	13.20	MORROW	570,871,610	42,362,340	7.42
COLUMBIANA	1,378,980,830	190,307,490	13.80	MUSKINGUM	1,196,728,300	236,346,490	19.75
COSHOCTON	488,291,690	55,941,300	11.46	NOBLE	159,473,850	34,021,370	21.33
CRAWFORD	574,291,450	47,118,760	8.20	OTTAWA	1,322,870,680	103,407,810	7.82
CUYAHOGA	31,036,968,200	5,157,794,660	16.62	PAULDING	249,940,160	34,749,270	13.90
DARKE	828,954,210	84,300,710	10.17	PERRY	417,702,200	70,543,320	16.89
DEFIANCE	594,835,920	90,836,520	15.27	PICKAWAY	893,519,890	147,471,690	16.50
DELAWARE	5,462,089,170	734,047,690	13.44	PIKE	277,420,100	287,273,760	103.55*
ERIE	1,721,651,600	177,682,830	10.32	PORTAGE	2,869,183,240	619,397,740	21.59
FAIRFIELD	2,710,651,110	250,004,620	9.22	PREBLE	689,480,460	63,291,070	9.18
FAYETTE	435,536,540	42,510,600	9.76	PUTNAM	522,045,500	89,304,570	17.11
FRANKLIN	25,820,609,650	5,621,921,040	21.77	RICHLAND	1,944,792,750	280,653,490	14.43
FULTON	771,836,620	180,187,690	23.35	ROSS	900,954,050	200,138,190	22.21
GALLIA	411,359,900	84,957,510	20.65	SANDUSKY	947,668,251	178,222,220	18.81
GEAUGA	2,845,904,003	206,767,300	7.27	SCIOTO	723,740,740	232,111,260	32.07
GREENE	3,188,491,760	757,565,290	23.76	SENECA	803,298,310	111,810,790	13.92
GUERNSEY	448,884,830	108,978,330	24.28	SHELBY	829,892,840	98,522,100	11.87
HAMILTON	18,838,078,050	3,914,216,710	20.78	STARK	6,323,703,890	913,112,470	14.44
HANCOCK	1,345,397,840	187,434,400	13.93	SUMMIT	11,751,866,480	1,479,097,380	12.59
HARDIN	377,838,880	60,073,030	15.90	TRUMBULL	3,261,940,930	401,999,630	12.32
HARRISON	205,594,890	29,442,820	14.32	TUSCARAWAS	1,421,862,610	145,370,060	10.22
HENRY	456,218,280	64,451,360	14.13	UNION	1,023,563,150	75,668,870	7.39
HIGHLAND	544,212,020	57,428,400	10.55	VAN WERT	391,383,100	62,170,760	15.88
HOCKING	428,362,820	66,559,470	15.54	VINTON	123,125,950	20,989,200	17.05
HOLMES	636,530,010	40,528,750	6.37	WARREN	4,717,788,820	633,503,030	13.43
HURON	882,521,740	107,018,840	12.13	WASHINGTON	849,306,540	139,562,290	16.43
JACKSON	403,162,620	89,813,090	22.28	WAYNE	1,896,448,060	299,193,230	15.78
JEFFERSON	793,144,690	130,083,460	16.40	WILLIAMS	569,484,350	89,155,770	15.66
KNOX	954,113,040	153,602,170	16.10	WOOD	2,575,903,240	530,754,130	20.60
LAKE	5,573,944,160	464,124,530	8.33	WYANDOT	333,549,270	27,602,690	8.28
LAWRENCE	624,523,600	112,467,410	18.01				
LICKING	3,281,840,890	404,412,590	12.32	TOTAL	\$222,488,359,822	\$35,741,553,988	16.06%

* The exempt percentage in Pike County is over 100% because of the higher value of exempt property in the county. This is primarily due to the federal uranium enrichment plant in Piketon.

Source: Abstracts filed by county auditors with the Department of Taxation.

REAL PROPERTY

TABLE 7

NUMBER OF HOMESTEAD EXEMPTIONS GRANTED, AVERAGE REDUCTION IN TAXABLE VALUE,
AND TOTAL REDUCTION IN TAXES, BY COUNTY,
TAX YEAR 2004

County	Number of Homestead Exemptions Granted(a)	Average Reduction in Taxable Value(a)	Total Reduction in Real Property Taxes(b)	County	Number of Homestead Exemptions Granted(a)	Average Reduction in Taxable Value(a)	Total Reduction in Real Property Taxes(b)
ADAMS (c)	1,010	\$3,981	\$208,392	LOGAN	605	\$3,935	\$164,419
ALLEN	1,457	3,931	335,900	LORAIN	4,305	4,035	1,423,907
ASHLAND	868	3,842	269,845	LUCAS	8,783	3,526	3,291,100
ASHTABULA	2,728	4,128	858,893	MADISON	638	4,111	173,437
ATHENS	1,545	3,899	467,553	MAHONING	7,807	3,763	2,330,105
AUGLAIZE	587	3,569	131,772	MARION	1,538	4,157	430,136
BELMONT	2,810	3,905	693,275	MEDINA	2,697	3,530	868,234
BROWN	1,147	3,952	219,074	MEIGS	1,076	3,750	194,605
BUTLER	4,817	4,039	1,247,777	MERCER	740	3,768	158,911
CARROLL	826	3,912	188,426	MIAMI	1,863	3,894	501,641
CHAMPAIGN	765	3,901	186,589	MONROE	560	4,048	112,755
CLARK	2,951	4,149	910,244	MONTGOMERY	10,755	3,900	4,016,628
CLERMONT	2,179	3,921	677,065	MORGAN (d)	537	3,785	120,157
CLINTON	529	3,945	117,690	MORROW	725	3,925	159,343
COLUMBIANA	3,533	3,972	844,861	MUSKINGUM	2,336	4,177	656,873
COSHOCTON	809	3,842	210,602	NOBLE	539	3,875	99,738
CRAWFORD	1,389	3,913	429,623	OTTAWA	949	3,549	236,934
CUYAHOGA	33,957	3,917	14,207,924	PAULDING	382	4,043	128,013
DARKE	1,243	3,918	256,378	PERRY	1,150	3,991	324,858
DEFIANCE	651	3,941	156,948	PICKAWAY	741	3,964	170,982
DELAWARE	1,034	3,823	277,940	PIKE	1,010	3,866	241,029
ERIE	1,455	3,883	475,362	PORTAGE	2,185	3,650	728,194
FAIRFIELD	1,942	3,973	578,682	PREBLE	1,006	4,021	222,797
FAYETTE	560	4,388	151,061	PUTNAM	555	3,895	113,588
FRANKLIN	11,554	4,017	4,481,242	RICHLAND	2,898	4,143	983,638
FULTON	710	3,833	378,756	ROSS	1,933	3,886	448,712
GALLIA	1,265	4,142	184,317	SANDUSKY	1,280	3,782	276,461
GEAUGA	1,309	3,693	450,264	SCIOTO	3,460	4,351	685,869
GREENE	1,624	3,785	456,831	SENECA	1,021	3,881	273,713
GUERNSEY	1,338	3,716	295,030	SHELBY	781	3,886	184,842
HAMILTON	8,961	3,867	3,295,918	STARK	7,760	3,866	2,294,735
HANCOCK	958	3,899	241,543	SUMMIT	12,358	3,998	4,252,855
HARDIN	601	4,055	149,594	TRUMBULL	6,313	4,108	1,892,798
HARRISON	673	3,856	155,923	TUSCARAWAS	2,560	3,967	666,323
HENRY	579	3,717	151,373	UNION	547	3,777	148,351
HIGHLAND	1,307	4,082	244,903	VAN WERT	669	4,091	188,880
HOCKING	759	3,936	192,313	VINTON	634	4,021	122,389
HOLMES	395	3,725	90,401	WARREN	1,787	3,515	499,623
HURON	1,416	3,112	280,412	WASHINGTON	1,454	3,734	323,251
JACKSON	1,407	4,409	296,250	WAYNE	1,620	3,850	466,016
JEFFERSON	2,923	3,946	676,858	WILLIAMS	704	3,914	201,752
KNOX	1,001	4,085	280,833	WOOD	1,451	3,595	405,483
LAKE	3,919	3,791	1,379,254	WYANDOT	460	3,642	93,972
LAWRENCE	3,587	4,516	617,522				
LICKING	1,822	4,009	437,960	TOTAL	220,525	\$3,920	\$70,117,421

(a) Compiled from surveys of county auditors conducted by the Department of Taxation.

(b) From distribution records of the Revenue Accounting Division of the Department of Taxation. These figures include those taxpayers that filed late for the tax reduction and exclude the administrative fees associated with this program.

(c) The figures in the first two columns are tax year 2003 data; this county did not submit data for tax year 2004.

(d) The figures in the first two columns are tax year 2002 data; this county did not submit data for tax years 2003 or 2004.

Source: Surveys filed with the Department of Taxation by county auditors.

REPLACEMENT TIRE FEE

The replacement tire fee provides revenue to defray the cost of regulating the various scrap tire facilities, to abate accumulations of scrap tires, to provide funding for grants to promote research regarding alternative methods of recycling scrap tires, and to provide funding for loans to promote the recycling or recovery of energy from scrap tires. This fee was enacted by the Ohio General Assembly and became effective December 1, 1993. In Fiscal Year 2006, approximately \$7.3 million was collected on behalf of the Ohio Environmental Protection Agency.



(R.C. 3734.904):
The 20th day of each month.

TAXPAYER (OHIO REVISED CODE 3734.903):
The fee is paid by any wholesale distributor of replacement tires or any retail dealer acquiring tires on which the fee has not been paid.

DISPOSITION OF REVENUE (R.C. 3734.9010):
The Tire Fee Administration Fund receives 2.0 percent for appropriation to the Department of Taxation to cover the costs of administering the fee. The remaining 98 percent of the revenue is distributed to the Scrap Tire Management Fund.

TAX BASE (R.C. 3734.90, 3734.901):
The fee applies to the sale of new tires with rims of 13 inches or more designed for use on a motor vehicle and sold as replacements. Tires that are used, or retreaded, or tires on a new motor vehicle are not subject to the fee.

ADMINISTRATION:
The fee is administered and revenue to the various funds is distributed by the Tax Commissioner.

RATE (R.C. 3734.901):
\$1.00 per tire.

OHIO REVISED CODE CITATIONS:
R.C. 3734.90 – 3734.99.



If the return and total fees due are filed and paid on or before the day they are due, then the taxpayer is entitled to a discount of 4.0 percent on the total amount owed.



Amended Substitute House Bill 66, 126th General Assembly (FY 2006-2007 biennium budget bill, effective July 1, 2005).

- This bill extended the fee to June 30, 2011; and
- reduced the Tire Fee Administration Fund from 4.0 percent to 2.0 percent of the total revenue collected. This fund is certified directly to the credit of the Tire Fee Administration Fund for appropriation to the Department of Taxation to cover the costs of administering the fee. The remainder of the revenue is distributed to the Scrap Tire Management Fund.

TABLE

REPLACEMENT TIRE FEE REVENUE, FISCAL YEARS 2002 - 2006

Fiscal Year	Scrap Tire Management Fund	Administrative Fund	Total
2002	\$6,184,306	\$257,679	\$6,441,985
2003	6,777,997	282,417	7,060,414
2004	7,315,940	304,831	7,620,771
2005	6,506,387	271,099	6,777,487
2006	7,141,764	153,535	7,295,299

Source: Office of Budget and Management monthly accounting report (RRVSMO2S).

SALES & USE TAX

The sales and use tax is the second largest revenue producer for the state, exceeding \$7.67 billion in Fiscal Year 2006. Of this amount, 3.4 percent or \$263.6 million was distributed to the Local Government Fund, 0.5 percent or \$37.7 million to the Local Government Revenue Assistance Fund, and 96.1 percent or \$7.4 billion was distributed to the General Revenue Fund.

Amended Substitute House Bill 66, the FY 2006-2007 biennium budget bill, enacted a number of changes in the sales and use tax statutes. The state tax rate, which had been temporarily raised by Am. Sub. H.B. 95 of the 125th General Assembly to 6.0 percent for the period ending June 30, 2005, was set permanently at 5.5 percent effective July 1, 2005. H.B. 66 also continued the temporary increase in the vendor discount from three-fourths of 1.0 percent to nine-tenths of 1.0 percent through June 30, 2007.

The Ohio sales and use tax initially took effect in January 1935. The sales tax rate was 3.0 percent until 1967, when a 4.0 percent rate was adopted. A temporary 5.0 percent sales tax imposed from January through June 1981 became permanent in November 1981. The sales and use tax was originally restricted to the sale or rental of tangible personal property, but was later extended to a number of services (see **Tax Base**).

In 1967, the General Assembly authorized counties to levy a permissive sales and use tax of 0.5 percent, in addition to the state sales and use tax, for the purpose of providing additional county general revenue. The tax is levied pursuant to a resolution of the county commissioners and is subject to repeal by a majority vote of the county electorate. In January 1982, counties were given the option of levying a full 1.0 percent permissive tax.

In 1986, the General Assembly further authorized counties to levy an additional 0.5 percent sales tax subject to voter approval for one or more of the following purposes:

- (a) payment of bonds issued for a convention facility;
- (b) revenue for a transit authority;
- (c) additional county general revenue;
- (d) revenue for permanent improvements; and
- (e) implementation and operation of a 9-1-1 system.

If the additional levy is solely for general revenue, the county commissioners may levy it pursuant to a resolution, but it is subject to repeal by a majority vote of the county electorate.

In July 1987, counties were granted authority to levy the permissive sales and use tax in quarter-percent increments. Then, in 1993, the General Assembly authorized counties to levy the sales tax to provide revenue for the operation and maintenance of a detention facility. Legislation in 1995 authorized the use of the additional county sales tax for construction or renovation of a sports facility, and in 2001 for acquisition of agricultural easements.

On July 1, 2006, 88 counties in Ohio levied a county permissive sales and use tax. In calendar year 2005, the state collected over \$1,221.7 million for county governments.

In 1974, the General Assembly authorized transit authorities to levy a permissive sales and use tax to be collected in addition to the state sales and use tax and county permissive sales and use tax for the purposes of providing revenues for public mass transit systems. The tax is levied pursuant to a resolution of the transit authority and subsequent approval by a majority of the voters at a special or general election. The tax can be levied at a rate of up to 1.5 percent in quarter-percent increments. As of June 30, 2006, the Greater Cleveland, Central Ohio, LakeTran, Greater Dayton, Stark Area, Summit County Metro, and Portage Area regional transit authorities levied a permissive sales and use tax. In calendar year 2005, the state collected more than \$284.8 million for the transit authorities.

The state collects the combined state and local tax and returns the local share directly to the counties and transit authorities. The same exemptions and exceptions, credits, and payment dates apply to the permissive taxes as to the state tax.

In 2002, the 124th General Assembly passed S.B. 143, which adopted the Simplified Sales and Use Tax Act. This bill allows Ohio to participate with other states in the SSTP. The SSTP is a multi-state effort to make the states' sales and use tax laws more uniform and to provide simplified registration, reporting, and remittance requirements.

The Ohio sales and use tax underwent major changes at the beginning of FY 2004 with the enactment of the state's two-year budget for FY 2004-2005, Am. Sub. H.B. 95. The 125th General Assembly passed H.B. 95 on June 26, 2003. This bill temporarily increased the statewide sales and use tax rate to 6.0 percent from 5.0 percent as of July 1, 2003, to remain in effect until June 30, 2005. Another key provision expanded the tax base, effective August 1, 2003, to include a number of additional services. The bill also adopted many of the provisions necessary to bring Ohio into compliance with the multi-state Streamlined Sales and Use Tax Agreement.

TAXPAYER (OHIO REVISED CODE 5739.01, 5739.03, 5739.031, 5739.17, 5741.01):

Any person, retailer, business, organization, etc. making retail sales or making taxable purchases on which the tax has not been paid is required to file a return and remit the tax due.

TAX BASE (R.C. 5739.01, 5741.01):

The state, county, and transit authority sales and use taxes apply to all retail sales of tangible personal property that are not specifically exempt. Retail sales also include the rental of tangible personal property, the rental of hotel rooms by transient guests, and the sales of the following specified services:

- (a) repair of tangible personal property;
- (b) installation of tangible personal property;
- (c) washing, cleaning, waxing, polishing, and painting of a motor vehicle;
- (d) laundry and dry cleaning services;
- (e) automatic data processing, computer services, and electronic information services used in business;

- (f) telecommunications services;
- (g) lawn care and landscaping;
- (h) private investigation and security;
- (i) building maintenance and janitorial services;
- (j) employment services and employment placement services;
- (k) exterminating services;
- (l) physical fitness facility services;
- (m) recreation and sports club services;
- (n) mobile telecommunications services;
- (o) satellite broadcasting services;
- (p) personal care services;
- (q) transportation of persons by motor vehicle or aircraft entirely within this state;
- (r) motor vehicle towing services; and
- (s) snow removal services.

Retail sales also include all transactions by which a warranty, maintenance, or service contract is, or is to be, provided and all transactions by which tangible personal property is, or is to be, stored.

The county and transit authority use taxes apply to purchases made outside of the state and to purchases made from vendors located in an area which does not have the permissive sales and use tax, or levies it at a lower rate, when the property or service is used in an area that levies a permissive sales and use tax.

RATES (R.C. 5739.02, 5739.021, 5739.023, 5739.025, 5739.026, 5739.033, 5741.02, 5741.021, 5741.022, 5741.023):

The state sales and use tax rate was temporarily increased to 6.0 percent during FY 2003 and 2004. On July 1, 2005, the rate was changed permanently to 5.5 percent. Counties and transit authorities are authorized to levy additional per-

DESCRIPTION OF TAXPAYERS (R.C. 5739.17):

Taxpayer	Cost of License	Description
Vendor	\$25	Each person or business establishment located in Ohio making retail sales.
Service vendor	\$25	Person or business that provides automatic data processing, computer services, and electronic information services; telecommunications services; mobile telecommunications services; lawn care and landscaping services; private investigation and security services; building maintenance and janitorial services; employment and employment placement services; exterminating services; satellite broadcasting services; and snow removal services. The license is valid statewide.
Transient vendor	\$25	Retailer who makes sales in any county in which they have no fixed place of business. The license is valid statewide.
Delivery vendor	\$25	Retailer who maintains no store, showroom, or similar place of business where merchandise is offered for sale, or who has no location where merchandise displayed in catalogs may be selected or picked up by customers.
Seller	No fee	Retailer located outside of Ohio who makes retail sales of property or services for storage, use, or consumption in Ohio.
Direct pay permit holder	No fee	Consumers authorized by the Tax Commissioner to remit tax directly to the state instead of to the vendor. This authority can only be issued upon application if the commissioner determines that granting the authority would improve compliance and increase the efficiency of the administration of the tax.
Clerks of court	No fee	Dealers remit taxes collected on sales of motor vehicles, watercraft, and outboard motors to county clerks of court when a title is issued. Clerks of court also collect the tax on casual sales of motor vehicles, and sales of watercraft and outboard motors required to be titled. Clerks of court remit these receipts to the state.
Division of Liquor Control	No fee	Collects and remits sales tax paid on state-controlled spiritous liquor sold in state-contracted liquor agencies.
Consumers use tax account	No fee	Purchasers who have not paid the tax to a vendor or seller (in most cases for out-of-state transactions) make payments directly to the state.

missive sales and use taxes at rates of 0.25 percent to 1.5 percent in quarter-percent increments.

The following are the number of jurisdictions (counties) at each tax rate as of July 1, 2006.

Total Rate	Number of Jurisdictions
7.5%	1
7.0	38
6.75	13
6.5	28
6.25	5
6.0	3

(A combined sales tax schedule that includes local levies is specified in R.C. 5739.025.)

The applicable sales tax rate for most taxable sales during FY 2006 was the rate applicable at the location of the vendor from which the sale was made. Vendors that wished could opt to irrevocably change their sourcing to the destination basis called for in the SSTP. Generally, the applicable use tax rate for all taxable sales is based on the location of the purchaser.

During FY 2006, the applicable sales or use tax rate for automatic data processing, computer services, electronic information services, telecommunications services, private investigation and security services, lawn care and landscaping services, building maintenance and janitorial services, employment services, employment placement services, exterminating services, satellite broadcasting services, and snow removal services was the location where the service is purchased and performed or received.

However, some of the provisions in the above paragraphs are scheduled to change when the sourcing rules of the SSTP are adopted for all sales. These rules adopt a destination-based approach for determining which jurisdiction's tax a vendor or seller is to collect. Over-the-counter sales will be sourced to the location where the consumer takes possession of the item sold. If the product is delivered to the consumer, the sale is sourced to the delivery location. If neither of the above situations apply, the sale is sourced to the location of an address the vendor or seller has for the consumer that is available from the vendor or seller's records or that is obtained during the transaction.

Special sourcing rules are also put in place for certain sales of digital goods or software delivered electronically that are concurrently available for use by the consumer in multiple locations, for certain types of direct mail, for telecommunications services, and for leases.

Pursuant to the terms of S.B. 26, vendors with more than \$30 million in taxable delivery sales in the previous year were scheduled to switch to destination sourcing, as required by the SSTP, by May 1, 2006. Vendors with more than \$5 million in taxable delivery sales in the previous year were scheduled to switch

to destination sourcing by May 1, 2007. All vendors must make the switch by January 1, 2008.

The terms of S.B. 26 were amended effective September 28, 2006 by House Bill 294. Vendors with total delivery sales in calendar year 2005 that are less than \$30 million may continue to situs their sales under section 5739.035 of the Revised Code from May 1, 2006, through April 30, 2007, except that, if the Tax Commissioner does not enter a determination in the commissioner's journal on or before February 1, 2007 that certified service provider services are being provided by the Governing Board of the Streamlined Sales and Use Tax Agreement for all delivery sales, those dates shall be May 1, 2006, through December 31, 2007. If the commissioner determines that such services are being provided, then a vendor with total delivery sales in calendar year 2006 that are less than \$5.0 million may continue to situs its sales under section 5739.035 of the Revised Code from May 1, 2007, through December 31, 2007 (**note:** the commissioner determined on February 1, 2007, to not issue the journal entry; however, all vendors are still required to make the switch to destination sourcing by January 1, 2008).

EXEMPTIONS AND EXCEPTIONS (R.C. 5709.25, 5709.50, 5739.01, 5739.011, 5739.02, 5741.02, 6111.31, 6121.16, 6123.041):

1. Copyrighted motion picture films unless solely used for advertising;
2. Service transactions in which tangible personal property is an inconsequential element for which no separate charge is made except for the services that are specifically taxable (see **Tax Base**);
3. The value of motor vehicles traded in on new motor vehicles sold by licensed new motor vehicle dealers;
4. Tangible personal property or the benefit of a taxable service to be resold in the form received;
5. The refundable deposit paid on returnable beverage containers, cartons, and cases; and
6. Tangible personal property used or consumed in commercial fishing.
7. Direct use exemptions:
 - (a) material incorporated as a component part of tangible personal property produced for sale by manufacturing, assembling, processing, or refining;
 - (b) material used or consumed directly in the production of tangible personal property by mining, farming, agriculture, horticulture, floriculture, or used in the production of and exploration for crude oil and natural gas;
 - (c) tangible personal property used directly in rendering a public utility service;
 - (d) tangible personal property used or consumed in the preparation for sale of printed and other reproduced material and magazines distributed as controlled circulation publications; and
 - (e) certain property used in making retail sales including: advertising material or catalogs used or consumed in making retail sales that price and describe property; preliminary materials sold to direct marketing vendors that will be used in printing advertising material; printed matter that offers free merchandise or chances to win sweepstakes prizes and includes advertising material; equipment primarily used to accept orders

- for direct marketing retail sales; and certain automatic food vending machines.
8. Tangible personal property used primarily in a manufacturing operation to produce a product for sale. The primary use exemption includes, but is not necessarily limited to, the following items:
 - (a) production machinery and equipment that act upon the product;
 - (b) handling and transportation equipment (except licensed motor vehicles) used in moving property in or between plants during the production process;
 - (c) property used in producing property that is used or consumed in the production of a final product (use on use);
 - (d) coke, gas, water, steam, and similar substances used in the manufacturing operation;
 - (e) catalysts, solvents, water, acids, oil, and similar consumables that interact with the product and are an integral part of the manufacturing operation; and
 - (f) property that is used to control, physically support, or is otherwise necessary for functioning of machinery and equipment and continuation of the manufacturing operation;
 - (g) "Machinery and equipment, detergents, supplies, solvents, and any other tangible personal property located at a manufacturing facility that are used in the process of removing soil, dirt, or other contaminants from, or otherwise preparing in a suitable condition for use, towels, linens, articles of clothing, floor mats, mop heads, or other similar items, to be supplied to a consumer as part of laundry and dry cleaning services, only when the towels, linens, articles of clothing, floor mats, mop heads, or other similar items belong to the provider of the services."
 9. Sales to U.S. government agencies;
 10. Sales to the state or any of its political subdivisions;
 11. Food for human consumption off the premises where sold;
 12. Food sold to students in a dormitory, cafeteria, fraternity, or sorority;
 13. Newspapers;
 14. Magazine subscriptions or magazines distributed as controlled circulation publications;
 15. Motor vehicle fuel subject to the state motor fuel excise tax;
 16. Gas, water, and steam delivered through pipes or conduits by a utility company and electricity delivered through wires;
 17. Communications services provided by telegraph companies;
 18. Casual sales except for motor vehicles, titled watercraft and outboard motors, snowmobiles, and all-purpose-vehicles;
 19. Sales by churches and nonprofit organizations (excluding motor vehicles) provided that the number of sales does not exceed six days each year;
 20. Transportation of persons or property, except the transportation of persons specifically taxed as a service;
 21. Sales to churches, nonprofit organizations included under Internal Revenue Code (I.R.C.) 501 (c) (3), nonprofit scientific research organizations, and to other nonprofit charitable organizations;
 22. Sales to nonprofit hospitals and to those privately-held homes for the aged and hospital facilities that are financed with public hospital bonds;
 23. Building and construction material sold to contractors for incorporation into real property constructed for federal, state, or local governments; for religious and certain other nonprofit charitable institutions; for horticulture and livestock structures; and for other specified organizations and industries;
 24. Ships and rail rolling stock used in interstate or foreign commerce and material used for repair, alteration, or propelling such vessels;
 25. Material, machinery, equipment, and other items used in packaging property to be sold at retail;
 26. All drugs for a human being dispensed pursuant to a prescription (this provision was changed by H.B. 66, effective July 1, 2005, to allow exemption only for drugs for a human being that may only be dispensed pursuant to a prescription), urine and blood testing materials used by diabetics or persons with hypoglycemia; medical oxygen and medical oxygen equipment for personal use; hospital beds for personal use; and epoetin alfa for persons with a medical disease;
 27. Prosthetic devices, durable medical equipment for home use, or mobility enhancing equipment sold pursuant to a prescription for use by a human being;
 28. Emergency and fire protection vehicles used exclusively by nonprofit organizations in providing emergency and fire protection services for political subdivisions;
 29. Sales to nonprofit community centers and to producers offering presentations in music, dramatics, the arts, and related fields to foster public interest and education;
 30. Motor vehicles sold in Ohio to nonresidents for titling and use in another state;
 31. Property used in the preparation of eggs for sale;
 32. Sales of property for use in agricultural production;
 33. Property manufactured in Ohio and immediately shipped outside the state for use in retail business, if sold by the manufacturer to the retailer and shipped in vehicles owned by the retailer;
 34. Sales to non-commercial, educational broadcasting stations;
 35. Sales of animals by nonprofit animal shelters and county humane societies;
 36. Items used in preserving, preparing, or serving food, or material used in maintaining or cleaning these items in a commercial food service operation;
 37. Tangible personal property used in air, noise, or water pollution control facilities or in energy conversion, solid waste energy conversion, or thermal efficiency improvement facilities, by holders of exempt facility certificates issued by the Tax Commissioner;
 38. Bulk water for residential use;
 39. Sales of equipment used in qualified research and development;
 40. Sales and installation of agricultural land tile and the sale and installation of portable grain bins to farmers;
 41. Fees paid for the inspection of emission control equipment on motor vehicles;
 42. Sales, leases, repairs, and maintenance of motor vehicles used primarily in providing highway transportation for hire;
 43. Sales to state headquarters of veterans' organizations chartered by Congress or recognized by the U.S. Department of Veterans Affairs;
 44. Normally taxable food items sold to persons using food stamps;
 45. Sales of tangible personal property and services used directly in providing a telecommunications service, mobile telecommunications service, or satellite broadcasting service;

46. Investment metal bullion and investment coins (**note:** this was repealed July 1, 2005 by H.B. 66);
 47. Trade-ins on purchases of new or used watercraft or outboard motors sold by licensed boat dealers;
 48. Property and labor used to fulfill a warranty or service contract;
 49. Property used to store and handle purchased sales inventory in a warehouse or similar facility, when the inventory is primarily distributed outside Ohio to retail stores of the person who owns or controls the warehouse, to retail stores of an affiliated group of which the owner of the warehouse is a member, or by means of direct marketing;
 50. Sales of computer equipment used for educational purposes made to qualifying certified teachers;
 51. Sales of certain tangible personal property made to qualified motor racing teams;
 52. Twenty-five percent sales tax refund for qualified computer purchases for providers of electronic information services;
 53. Sales of used manufactured and mobile homes;
 54. Sales of coin-operated car washes;
 55. The provision of self-service laundry or dry cleaning facilities;
 56. Intrastate transportation of persons by transit bus or ambulance or by a person that holds a Certificate of Public Convenience and Necessity under 49 United States Code 41102;
 57. Sales of telecommunications services used directly and primarily to perform the functions of a call center;
 58. Sales of personal property and services used directly and primarily in providing taxable intrastate transportation of persons;
 59. Repair and replacement parts and repair and maintenance services for aircraft used primarily in a fractional aircraft ownership program;
 60. Tax in excess of \$800 on any aircraft sold as a fractional share aircraft; and
 61. Items held by a person, but not for that person's own use, and donated to a charitable organization, or to the state or its political subdivisions for exclusively public purposes (use tax only).
3. *Pre-determined agreements* (R.C. 5739.05 and Rule 5703-9-08). Vendors, such as coin-operated vending machine operators, whose business is of a nature that the collection of the tax from consumers would impose an unreasonable burden, may be authorized by the Tax Commissioner to pay the tax at a pre-determined rate based on an analysis of sales and prices.
 4. *Construction contractors* (R.C. 5739.01). Construction contractors are considered to be the consumers of property incorporated into the construction of or improvement to real property and, thus, are responsible for paying the tax on such property.
 5. *Resort area tax* (R.C. 5739.101 – 5739.105). Qualified municipal corporations or townships are authorized to levy a tax at the rate of 0.5 percent, 1.0 percent, or 1.5 percent on gross receipts from general sales made in or intrastate transportation primarily provided to and from the resort area. Receipts from this tax are for the general revenue of the township or municipality. The tax is administered by the Department of Taxation.
 6. *Lodging tax* (R.C. 5739.09). In addition to the state sales tax, municipal corporations, townships, and counties may levy an excise tax on hotel and motel room rentals at a rate not exceeding 3.0 percent. Total combined local levies cannot exceed 6.0 percent. In certain cases, a portion of the receipts are earmarked for convention centers and visitors bureaus. County convention facility authorities were permitted between June 29, 1988 and December 31, 1988 to enact an additional 4.0 percent lodging tax for convention facility or sports center construction. This tax is in addition to the combined maximum 6.0 percent rate for county, township, or municipal lodging taxes, thereby allowing a combined local rate of 10 percent.
 7. *Payment by EFT* (R.C. 5739.032, 5739.122, 5741.121). Payment of tax returns is required to be made by EFT in cases where a taxpayer's annual liability exceeds \$75,000 per calendar year. Taxpayers required to use this payment method will be so notified. Taxpayers with lesser liabilities may request the authorization to remit tax payments via EFT from the Treasurer of State.
 8. *Accelerated tax payment* (R.C. 5739.032, 5739.122, 5741.121). Vendors required to remit tax by EFT are required to make advance payments of each month's tax on the 15th and 25th that month.



1. *Cumulative filing* (R.C. 5739.12, Rule 5703-9-09). The Tax Commissioner may require a vendor that operates from multiple locations or has multiple vendors' licenses to report all liabilities on one consolidated return. Vendors who have two or more places of business in Ohio may, upon approval by the Tax Commissioner, file a single monthly consolidated return reporting on one form the information that normally is required to be reported from each location.
2. *Pre-arranged agreements* (R.C. 5739.05). Vendors, such as fast food outlets, whose business is of a nature that keeping records of which sales are taxable and which are exempt would impose an unreasonable burden, may be authorized by the Tax Commissioner to pay an amount based on a test check conducted to determine the proportion of taxable sales to total sales.

DISCOUNT (R.C. 5739.12, 5741.12):

Payment on or before the date a return is required to be filed entitles the vendor to a discount of 0.9 percent of the amount due for returns required to be filed after July 1, 2003 and before June 30, 2007. (Example: \$5,000 tax due - \$45 discount = \$4,955 next tax due.) For returns filed after June 30, 2007, the discount reverts to 0.75 percent.

DISPOSITION OF REVENUE:

1. **State Sales and Use Tax** (R.C. 5739.21, 5741.03):

By statute, the Local Government Fund receives 4.2 percent, the Local Government Revenue Assistance Fund 0.6 percent, and the General Revenue Fund 95.2 percent of sales and use tax collections. However, legislative changes in recent years have temporarily restructured this distribution. In FY 2006 the Local Government Fund received 3.4 percent, the Local Government Revenue Assistance Fund received 0.5 percent, and the General Revenue Fund received

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96.1 percent. This temporary distribution was structured by H.B. 95, 125th General Assembly, the FY 2004-2005 biennium budget bill, which continued a freeze on local government funds that began in 2002 and froze payments at FY 2001 levels. For each month of FY 2005, the Local Government Fund and Local Government Revenue Assistance Fund received the same amount they received for the corresponding month of the July 2003 - June 2004 period. An uncodified provision of H.B. 66, the FY 2006-2007 biennium budget bill, froze FY 2006 and FY 2007 local government fund distributions at FY 2005 levels.

2. County Permissive Sales and Use Tax (R.C. 5739.21, 5743.03):

- (a) One percent credited to the Local Sales Tax Administrative Fund for the use of the Tax Commissioner in defraying costs of administration;
- (b) Remainder to the county general fund.

3. County Additional Permissive Sales and Use Tax (R.C. 5739.21, 5741.03):

- (a) One percent credited to the Local Sales Tax Administrative Fund for the use of the Tax Commissioner in defraying costs of administration;
- (b) Remainder to the special purpose fund for which the additional tax is levied.

4. Transit Authority Sales and Use Tax (R.C. 306.31, 5739.21, 5741.03):

- (a) One percent credited to the Local Sales Tax Administrative Fund for the use of the Tax Commissioner in defraying the costs of administration;
- (b) Remainder to the general revenue of the transit authority for the purpose of acquiring, constructing, operating, maintaining, replacing, improving, and extending transit facilities.

5. Resort Area Tax (R.C. 5739.102):

- (a) One percent credited to the state General Revenue Fund for the cost of administering the tax;
- (b) Remainder to the appropriate taxing entity.

ADMINISTRATION:

The Tax Commissioner administers the sales and use tax for the state, for counties, and for transit authorities.

FILING AND PAYMENT DATES
(R.C. 5739.031, 5739.12, 5739.17, 5741.12, RULE 5703-9-10):

Type of Return	Taxpayer	Payment Date
Weekly	Clerks of court	Payment on Monday for taxes collected during the preceding week on motor vehicles, and on watercraft and outboard motors titled.
Semi-monthly	Division of Liquor Control	By the 15 th day of the month for the tax collected during the last 15 days of the previous month, and by the last day of the month for the tax collected during the first 15 days of the month, on spirituous liquor sold in state-contracted liquor agency stores.
Monthly	Vendors, sellers, service vendors, transient vendors, delivery vendors, direct pay permit holders, consumers use tax accounts	By the 23 rd day of the month following the close of the reporting period.
Quarterly	Direct pay permit holders, consumers use tax accounts	By the 23 rd day of January, April, July, and October for their tax liability during the preceding three months; this method of payment may be authorized for accounts with less than \$5,000 in quarterly tax liability.
Semi-annual	Vendors, sellers, service vendors, transient vendors, delivery vendors	By the 23 rd day of the month following the close of each semi-annual period (pre-determined by filing schedule) for the tax collected during the preceding six-month period; this method of payment may be authorized for vendors and sellers whose tax liability is less than \$1,200 per six-month period.
Special payment requirements	All taxpayers	Payment must be received by the 23 rd day of the month following the close of the reporting period. Taxpayers whose annual liability in a prior year exceeded \$75,000 are required to pay by EFT. These same taxpayers are required to make accelerated payments during each month.

OHIO REVISED CODE CITATIONS:

Chapters 306, 307, 351, 5709, 5739, 5741, and 6111.



Sub. H.B. 294, 126th General Assembly (effective September 28, 2006).

Requires a certification by the Tax Commissioner on or before February 1, 2007, that the Governing Board of the Streamlined Sales and Use Tax Agreement is providing certified service provider services for all delivery sales. If the certification is not made, vendors with delivery sales of less than \$30 million but more than \$5.0 million are not required to convert to destination sourcing until January 1, 2008 (**note:** the Tax Commissioner did not make the certification).

Am. Sub. S.B. 269, 126th General Assembly (effective September 21, 2006). R.C. 5741.02 (C) (10):

Exempts from use tax items held by a person, but not for the person's own use, and donated to a charitable organization or to this state or a political subdivision of this state exclusively for public purposes.

Am. Sub. H.B. 530, 126th General Assembly (effective June 30, 2006). R.C. 5739.011 (A) (1) and (B) (12):

Exempts machinery and equipment, detergents, supplies, solvents, and any other tangible personal property located at a manufacturing facility and used in the process of removing soil, dirt, or other contaminants from, or preparing in suitable condition for use, towels, linens, articles of clothing, floor mats, mop heads, or other similar items, to be supplied to a consumer as part of laundry or dry cleaning services when the towels, linens, articles of clothing, floor mats, mop heads, or other similar items belong to the provider of the services.

R.C. 333.01 through 333.07, 5739.211 and 5741.031:

Allows a county to enter into an agreement prior to December 1, 2006, with a person that proposes to operate an "impact facility" in the county, for the county to make payments of up to 75 percent of the sales tax collected at the facility to the operator of the facility for up to ten years or until the person's "qualifying investment" in the facility is realized.

Am. Sub. H.B. 66, 126th General Assembly (effective July 1, 2005 unless otherwise noted). R.C. 5739.02, 5739.025, 5739.10 and 5741.02:

The state sales and use tax rate became 5.5 percent.

R.C. 5739.12:

Vendor discount of nine-tenths of 1.0 percent set to expire June 30, 2005 extended until June 30, 2007, when the discount will drop to 0.75 percent.

R.C. 5739.02 (B) (35):

The exemption from sales tax for the purchase of investment metal bullion and investment coins was removed. These transactions are now subject to sales/use tax unless the purchaser is a dealer of such property in which case the dealer may claim the resale exception.

R.C. 5739.033:

Modified the sourcing requirements for "multiple points of use" sales, sales of direct mail, and leases or rentals of property requiring periodic payments.

R.C. 5739.03 and 5741.02:

Allowed sellers additional time, up to 90 days, to obtain fully completed certificates of exemption from their customers on exempt sales. Also amended to now allow sellers to provide a fully completed certificate of exemption, if the certificate has been received in good faith, to show that a sale is exempt within 120 days of the Tax Commissioner issuing a written notice of intent to levy and assess.

R.C. 5741.16:

Extended the statute of limitations in certain circumstances on consumers who provide a fully completed certificate of exemption.

R.C. 5739.02 (B) (18):

Made sales of over-the-counter medications not exempt even if such are prescribed by a physician. Purchases of medical oxygen and medical oxygen equipment are only exempt from sales and use tax if purchased by a hospital, nursing home, or other medical facility.

R.C. 5739.01 (H), certain portions not effective until January 1, 2006:

Statute amended to adopt SSTP agreement's definition of "price."

R.C. 5739.012, effective January 1, 2006:

Statute amended to adopt SSTP agreement's tax treatment of bundled transactions.

R.C. 5739.01 (B) (3) (f) and 5739.01 (AA):

Amended the statute to conform with SSTP agreement by including within taxable telecommunications service prepaid calling service, prepaid wireless calling service, and ancillary service. The definitions of these services were also changed to conform to the SSTP agreement. The overall taxability of such services was not changed from previous law.

R.C. 5739.034, 5739.035, and 5739.17:

Various definitions amended to conform to the SSTP agreement.

Sub. S.B. 218, 125th General Assembly (effective April 29, 2005 unless otherwise noted). R.C. 5739.035, effective January 28, 2005:

Defined where a vendor is to source a sale when the vendor determines the tax liability to be collected from customers under destination-based sourcing.

R.C. 5739.123:

Allowed vendors compensation to assist them in complying with destination-based sourcing requirements.

R.C. 5739.17:

Amended to allow the Tax Commissioner to establish or participate in a registration system whereby any vendor may obtain a vendor's license by submitting to the commissioner a vendor's license application and a fee of \$25.

R.C. 5739.24:

Allowed compensation for counties impacted by vendors changing to destination-based sourcing.

R.C. 5740.08:

Made certain changes with regard to compliance with the SSTP agreement to help protect the confidentiality of consumer information.

R.C. 5740.09:

Provided procedures for a seller's liability for over-collection of sales or use tax.

H.B. 13, 125th General Assembly (effective March 30, 2005).**R.C. 5739.026:**

Allowed a board of county commissioners to levy a sales and use tax for the purpose of providing emergency medical services.

S.B. 26, 126th General Assembly (effective June 2, 2005).**R.C. 5739.01 (HHH) and (III):**

"Durable medical equipment" and "mobility enhancing equipment" were specifically indicated as mutually exclusive.

R.C. 5739.033:

Delayed the date when vendors must collect sales tax based on destination-based sourcing. The date by which a vendor must change to destination-based sourcing was scheduled to be determined on a sliding scale over a period from May 1, 2006 to January 1, 2008 depending on the amount of a vendor's delivery sales.

R.C. 5739.033:

Provided a definition of a "delivery sale."

R.C. 5739.123:

Made certain modifications with regard to compensation for assisting vendors in changing to destination-based sourcing.

The Court found that a general contractor owes use tax on its purchases of third-party janitorial services used in the course of restoring damaged buildings. The taxpayer was a general contractor that restores and rebuilds properties after floods, fires, or other disasters. It employs sub-contractors to remove soot, smoke, mold, and water before bringing in its own employees to perform the actual restoration of drywall, floor coverings, and etc. to put the properties back to their original condition. The taxpayer argued that it should not be required to pay tax on such purchases based on the resale exception found in R.C. 5739.01 (E). The Court found that the taxpayer was the consumer (rather than a retailer) of the building maintenance and janitorial services it purchases from the sub-contractors because it did not convey the services provided by the sub-contractors to its customers in the same form unchanged. Rather, Cousino consumed these services in performing its own building restoration services. The Court reversed the determination of the Board of Tax Appeals that the taxpayer was entitled to exemption on the purchase of the sub-contractor services for contracts with government buildings such as schools. The Board found the services were incorporated into realty as part of an exempt construction contract under R.C. 5739.02 (B) (13). The Court found the taxpayer had not properly raised that objection in its notice of appeal to the Board and so the Board did not have jurisdiction to address it.

***Castle Aviation, Inc. v. Wilkins*, 109 Ohio St.3d 290, 2006-Ohio-2420.**

The Court found that a taxpayer that operated an air taxi service could not claim its purchases were exempt from use tax as being used directly in the rendition of a public utility service under R.C. 5739.01 (E) (2) [now 5739.02 (B) (42) (a)]. While the taxpayer was an "air carrier" subject to certain safety regulation by the Federal Aviation Administration, it was exempt from federal economic regulation. The Court said this type of regulation applied to many businesses and did not constitute "special regulation and control" that governed the taxpayer's business relations with its customers. Therefore, its service did not qualify as a "public utility service." The taxpayer also raised an equal protection claim under the U.S. and Ohio Constitutions, but the Court dismissed this claim to be impermissibly vague and not adequately specifying a claimed error.

RECENT INFORMATION RELEASES:

ST 1993-08 – "Employment Service," September 1993; revised October 1993; December 2000; and May 2006 – the May 2006 revision supersedes all previous versions of information release ST 1993-08 addressing the specifically enumerated taxable service of "employment service."

ST 2005-01 – "Vendor Compensation," revised July 2005.

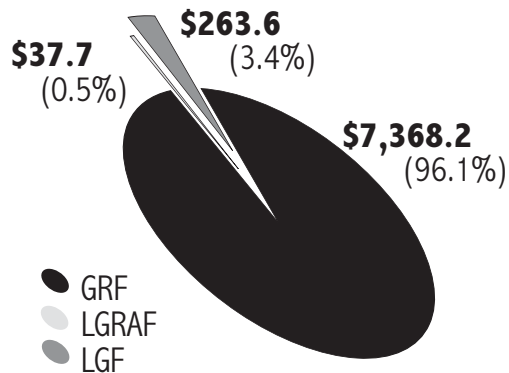
Recent Significant Court Decisions

***Cousino Constr. Co. v. Wilkins*, 108 Ohio St.3d 90, 2006-Ohio-162.**

Distribution of Revenue from Sales & Use Tax

Fiscal Year 2006

(figures in millions)



Total \$7,673.0 million*

* Includes Attorney General collections which amount to \$3.5 million.



TABLE 1

SALES & USE TAX - COLLECTIONS BY TYPE OF PAYMENTS
(INCLUDES STATE AND LOCAL/TRANSIT AUTHORITY PERMISSIVE TAX)
FOR FISCAL YEAR 2006

Type of Sale	Amount
Vendor's Sales	\$6,575,736,619
Motor Vehicle and Watercraft (from Clerks of Court)	1,197,500,597
Seller's Use	931,927,547
Consumers' Use	312,902,925
Direct Payment	232,246,074
Liquor Sales by Division of Liquor Control	27,117,757
Attorney General Sales and Use Tax Collections	26,819,681
Total State and Local Collections	\$9,304,251,200
Less Local Sales and Use Tax Collections	1,595,858,422
Total State Collections	\$7,708,392,778

Figures represent gross collections and therefore include collections from assessments and penalties. Refunds have not subtracted out. Figures are prior to any distribution to any state fund or to county and permissive transit authorities.

Local sales and use tax collections include deposits into the Local Sales Tax Administration Fund, amounting to \$16,211,689. The local sales and use tax figure reflects collections during the July 2005-June 2006 period (rather than distributions made during the July 2005-June 2006 period).

Source: Ohio Department of Taxation records and Office of Budget and Management's monthly accounting reports.

TABLE 2

SALES & USE TAX - NUMBER OF ACCOUNTS, BY TYPE AND PAYMENT SCHEDULE
(AS OF JULY 1, 2006)

Accounts	Payment Schedule			
	Semi-Annual	Monthly	Quarterly	Total
Vendors (includes 39,469 master* accounts issued by counties)	103,961	79,726		183,687
Master* (accounts issued by the state)	174	3,506		3,680
Transient	31,833	4,029		35,862
Service	11,667	9,740		21,407
Delivery	7,121	1,492		8,613
Consumers	7	1,892	12,335	14,234
Direct-Pay	0	381	223	604
Out of State	6,530	7,716		14,246
Grand Total	161,293	108,482	12,558	282,333

* A master account is an account held by a vendor that has multiple locations (and thus multiple vendor's licenses) in one or more counties. Currently, it would not include delivery or service licenses or out-of-state seller accounts.

SALES & USE TAX

TABLE 3
 COUNTY AND TRANSIT AUTHORITY PERMISSIVE SALES TAX COLLECTIONS
 CALENDAR YEARS 2001 - 2005

County	Tax Rate 12/31/05	2001	2002	2003	2004	2005	Initial Enactment	Effective Date of Current Rate
ADAMS	1.50	\$2,508,419	\$2,735,086	\$2,888,832	\$2,797,066	\$3,048,760	June 1, 1991	Jan. 1, 2001
ALLEN	1.00	12,609,819	13,133,787	13,229,392	14,105,944	14,436,614	May 1, 1970	June 1, 1987
ASHLAND	1.25	5,177,525	5,220,317	5,155,880	5,425,965	6,148,759	Mar. 1, 1971	Jan. 1, 1998
ASHTABULA	1.00	7,741,939	7,986,904	7,977,386	8,428,479	8,777,806	Apr. 1, 1977	July 1, 1985
ATHENS	1.25	5,015,813	5,233,606	5,403,916	5,651,235	5,808,440	Feb. 1, 1982	Jan. 1, 1994
AUGLAIZE	1.50	5,577,880	5,503,873	5,829,385	6,183,157	6,525,568	Nov. 1, 1973	June 1, 1996
BELMONT	1.50	11,005,566	11,324,956	11,551,272	11,870,099	12,067,904	May 1, 1985	Jan. 1, 1995
BROWN	1.25	2,933,412	2,909,963	3,038,463	3,180,477	3,284,391	Aug. 1, 1979	Jan. 1, 1996
BUTLER	1.00	16,327,018	16,623,304	17,112,675	18,414,134	22,607,419	June 1, 1985	Oct. 1, 2005
CARROLL	1.00	1,547,391	1,581,707	1,585,981	1,625,241	1,724,715	Sep. 1, 1985	June 1, 1996
CHAMPAIGN	1.50	2,568,349	2,586,881	3,100,915	4,013,697	4,357,255	Jan. 1, 1986	July 1, 2003
CLARK	1.50	12,430,551	17,344,078	12,243,342	12,563,786	16,494,817	Nov. 1, 1972	April 1, 2005
CLERMONT	1.00	18,959,109	19,513,566	20,068,148	20,961,722	20,614,510	Aug. 1, 1979	Oct. 1, 1983
CLINTON	1.50	3,758,093	3,941,549	4,138,079	4,774,107	5,293,755	May 1, 1972	Oct. 1, 2005
COLUMBIANA	1.00	6,487,295	8,365,728	11,531,316	11,850,766	11,293,699	Aug. 1, 1985	Sep. 1, 2005
COSHOCTON	1.00	2,485,860	2,558,793	2,615,900	2,619,792	2,754,626	June 1, 1971	Mar. 1, 1985
CRAWFORD	1.50	4,492,005	4,647,342	4,857,314	5,023,409	5,068,269	May 1, 1978	July 1, 1994
CUYAHOGA	1.00	157,747,011	156,713,498	158,633,995	167,870,952	167,156,017	Sep. 1, 1969	Oct. 1, 1987
DARKE	1.50	4,485,850	4,281,463	4,415,874	4,489,900	4,903,446	July 1, 1975	Oct. 1, 2005
DEFIANCE	1.00	4,331,193	4,658,543	4,254,886	4,482,197	4,433,635	Feb. 1, 1987	Feb. 1, 1987
DELAWARE	1.25	20,406,106	26,069,586	29,110,737	31,861,129	32,540,265	Jan. 1, 1972	Oct. 1, 1996
ERIE	1.00	10,457,954	10,801,348	11,452,269	11,607,891	12,091,821	Mar. 1, 1977	May 1, 1993
FAIRFIELD	0.75	9,328,600	9,988,803	9,978,566	10,339,538	10,863,626	Sep. 1, 1981	Aug. 1, 1995
FAYETTE	1.00	4,009,709	4,194,940	3,948,848	3,986,368	4,103,489	Mar. 1, 1983	July 1, 1988
FRANKLIN	1.00	81,139,049	79,621,688	81,681,821	85,587,547	97,652,189	Sep. 1, 1985	Oct. 1, 2005
FULTON	1.00	3,713,217	3,900,824	3,959,266	3,994,295	4,056,451	May 1, 1972	Feb. 1, 1987
GALLIA	1.25	3,300,565	3,480,707	3,596,869	3,681,635	3,707,314	Dec. 1, 1981	Feb. 1, 1995
GEAUGA	1.00	4,187,169	4,383,695	4,809,116	9,132,782	10,623,796	Aug. 1, 1987	Feb. 1, 2004
GREENE	1.00	17,721,787	18,228,212	18,393,495	19,571,707	19,258,566	Mar. 1, 1971	Feb. 1, 1987
GUERNSEY	1.50	4,849,472	5,303,637	5,223,689	5,495,869	5,607,908	Feb. 1, 1971	Aug. 1, 1993
HAMILTON	1.00	118,656,334	119,722,909	122,212,469	127,712,184	126,800,138	June 1, 1970	June 1, 1996
HANCOCK	0.50	4,923,237	4,865,680	6,074,558	7,847,608	7,049,929	Feb. 1, 1979	July 1, 2005
HARDIN	1.50	1,961,237	2,016,990	1,913,787	1,993,026	3,131,942	Oct. 1, 1985	Jan. 1, 2005
HARRISON	1.50	1,059,708	1,109,957	1,174,339	1,267,537	1,360,630	Dec. 1, 1985	June 1, 1994
HENRY	1.50	2,033,158	2,262,060	2,283,066	2,421,135	2,492,774	Mar. 1, 1972	Oct. 1, 2005
HIGHLAND	1.50	2,813,126	2,908,287	3,040,302	3,206,611	4,015,905	May 1, 1979	July 1, 2005
HOCKING	1.25	2,079,129	2,519,146	2,819,259	2,724,117	2,645,245	Apr. 1, 1979	Jan. 1, 1998
MAHONES	1.00	3,615,131	3,894,484	4,171,202	4,270,098	4,442,924	July 1, 1977	Jan. 1, 1998
HURON	1.50	6,781,287	6,977,054	7,213,260	7,234,249	7,709,108	Feb. 1, 1978	Jan. 1, 1996
JACKSON	1.50	3,860,057	3,915,326	4,055,626	4,383,073	4,448,993	Apr. 1, 1982	Jan. 1, 1998
JEFFERSON	1.50	8,070,683	8,566,108	8,837,082	9,336,204	9,431,938	June 1, 1973	Nov. 1, 1994
KNOX	1.00	4,084,907	4,261,652	4,360,941	4,808,364	5,236,888	May 1, 1971	Feb. 1, 1994
LAKE	0.50	14,359,797	14,466,920	14,882,380	15,277,887	15,109,090	July 1, 1969	Aug. 1, 1988
LAWRENCE	1.50	5,977,278	6,372,556	5,751,625	6,332,245	6,244,193	June 1, 1986	June 1, 1998
LICKING	1.00	14,686,190	14,873,722	15,400,816	16,339,191	16,784,668	Feb. 1, 1971	Feb. 1, 1984
LOGAN	1.50	6,737,920	6,832,540	7,053,319	7,238,342	7,419,757	Jan. 1, 1974	July 1, 1997
LORAIN	0.75	19,346,425	20,506,375	20,611,361	21,904,257	22,040,916	July 1, 1985	July 1, 1995
LUCAS	1.25	67,081,391	68,211,381	67,006,778	69,957,182	70,590,574	Feb. 1, 1971	Jan. 1, 1993
MADISON	1.25	3,508,994	3,668,161	3,891,232	4,650,969	3,994,396	Mar. 1, 1983	July 1, 1999
MAHONING	1.00	25,388,374	25,819,561	26,657,490	27,537,042	17,624,685	Apr. 1, 1980	Oct. 1, 2005
MARION	1.00	6,018,733	6,187,872	6,235,262	6,365,990	6,385,213	Sep. 1, 1985	Apr. 1, 1992
MEDINA	0.50	7,701,566	8,137,853	8,465,661	8,882,248	9,247,658	Apr. 1, 1971	Apr. 1, 1971
MEIGS	1.00	1,150,382	1,119,751	1,101,934	1,071,185	1,090,965	Feb. 1, 1987	Feb. 1, 1987
MERCER	1.00	3,078,404	3,151,037	3,301,439	3,541,059	3,556,298	Nov. 1, 1971	July 1, 1987
MIAMI	1.00	9,145,706	9,613,548	9,648,601	10,449,156	10,398,535	Dec. 1, 1969	Nov. 1, 1999
MONROE	1.50	1,295,895	1,150,584	970,935	1,157,694	1,205,190	Oct. 1, 1986	Nov. 1, 1994
MONTGOMERY	1.00	63,935,967	62,952,069	64,564,376	65,568,624	65,853,110	Jan. 1, 1971	July 1, 1989
MORGAN	1.50	974,991	988,948	967,301	1,042,641	1,057,294	Feb. 1, 1972	Apr. 1, 1990

(Cont'd.)

SALES & USE TAX

TABLE 3 (CONT'D.)

COUNTY AND TRANSIT AUTHORITY PERMISSIVE SALES TAX COLLECTIONS
CALENDAR YEARS 2001 - 2005

County	Tax Rate 12/31/05	2001	2002	2003	2004	2005	Initial Enactment	Effective Date of Current Rate
MORROW	1.50	\$2,336,313	\$2,320,573	\$2,424,705	\$2,487,996	\$2,693,181	July 1, 1971	July 1, 1995
MUSKINGUM	1.50	13,217,016	13,620,339	13,816,527	13,935,522	14,152,783	May 1, 1971	Apr. 1, 1993
NOBLE	1.50	875,360	881,894	919,946	909,810	1,008,093	Jan. 1, 1971	Feb. 1, 1995
OTTAWA	1.00	4,299,825	4,522,532	4,674,287	4,789,192	4,834,964	Oct. 1, 1973	Jan. 1, 1998
PAULDING	1.50	1,535,789	1,500,731	1,522,795	1,611,341	1,599,105	Apr. 1, 1984	Nov. 1, 1991
PERRY	1.00	1,467,299	1,573,349	1,580,310	1,677,500	1,763,038	Mar. 1, 1971	May 1, 1982
PICKAWAY	1.50	3,455,616	5,229,953	5,399,205	5,538,138	5,567,490	Oct. 1, 1983	Dec. 1, 2001
PIKE	1.00	1,891,196	2,041,571	2,041,142	2,094,889	2,275,828	May 1, 1988	May 1, 1988
PORTAGE	1.00	12,364,275	12,629,466	13,187,643	13,550,567	13,751,342	Apr. 1, 1971	Dec. 1, 1999
PREBLE	1.50	3,932,793	3,788,124	4,002,410	4,150,454	4,436,626	Nov. 1, 1979	May 1, 1994
PUTNAM	1.25	2,697,284	2,896,552	2,982,285	2,972,475	3,211,813	Jan. 1, 1974	June 1, 2001
RICHLAND	1.25	17,825,117	18,196,319	21,207,635	19,975,252	17,304,647	June 1, 1979	Apr. 1, 2005
ROSS	1.50	10,023,413	10,250,454	10,235,264	10,866,703	10,668,371	Jan. 1, 1980	Oct. 1, 1993
SANDUSKY	1.00	5,784,111	5,757,414	5,913,822	5,925,675	5,876,824	Aug. 1, 1979	Aug. 1, 1995
SCIOTO	1.50	7,113,715	8,233,430	8,250,582	8,394,244	8,449,421	May 1, 1979	May 1, 2001
SENECA	1.50	4,221,049	4,405,538	5,189,772	6,449,435	6,652,424	Oct. 1, 1983	Aug. 1, 2003
SHELBY	1.50	6,452,038	6,875,897	7,426,472	7,302,106	7,737,780	Mar. 1, 1971	Jan. 1, 1998
STARK	0.25	69,556	278,927	4,363,537	11,337,535	11,233,477	Jan. 1, 1987	July 1, 2003
SUMMIT	0.50	32,216,548	33,081,046	33,994,904	35,261,093	35,524,910	Mar. 1, 1973	Nov. 1, 1995
TRUMBULL	0.50	10,112,719	10,856,884	17,563,200	14,609,638	14,733,480	June 1, 1985	July 1, 2005
TUSCARAWAS	1.00	8,516,440	8,690,202	8,692,703	9,156,759	9,072,030	Apr. 1, 1971	July 1, 1998
UNION	1.00	7,281,115	5,724,615	8,358,356	6,799,470	7,070,147	Apr. 1, 1989	Apr. 1, 1989
VAN WERT	1.50	3,179,041	3,163,301	3,364,282	3,439,543	3,548,502	Mar. 1, 1972	Mar. 1, 1991
VINTON	1.50	711,818	742,621	729,160	715,575	763,791	May 1, 1985	Mar. 1, 1992
WARREN	1.00	20,075,961	20,487,452	21,535,675	23,002,502	24,605,083	Jan. 1, 1972	Jan. 1, 1992
WASHINGTON	1.50	8,202,263	8,542,670	8,601,829	8,979,532	8,956,175	Oct. 1, 1983	Jan. 1, 1990
WAYNE	0.75	7,424,116	7,633,464	7,812,025	8,115,778	8,342,911	Mar. 1, 1971	Jan. 1, 1992
WILLIAMS	1.50	2,924,291	3,023,943	3,266,628	4,535,311	4,529,832	Dec. 1, 1977	Oct. 1, 2003
WOOD	1.00	12,465,150	13,063,171	13,619,983	14,195,793	14,802,876	June 1, 1971	Nov. 1, 1987
WYANDOT	1.00	1,639,128	1,623,637	1,813,228	1,865,055	1,932,519	Feb. 1, 1985	Oct. 1, 2005
County Total		\$1,071,940,085	\$1,101,546,982	\$1,140,944,340	\$1,200,755,686	\$1,221,774,249		
Cleveland RTA (Cuyahoga Co.)	1.00	\$157,823,888	\$156,735,486	\$158,653,957	\$167,894,949	\$167,165,307	Oct. 1, 1975	Oct. 1, 1975
Central Ohio TA (Franklin Co.)	0.25	41,601,224	41,334,523	43,205,469	44,940,803	44,741,979	Sep. 1, 1980	Feb. 1, 1990
LakeTran TA (Lake Co.)	0.25	7,175,596	7,202,698	7,440,529	7,637,135	7,552,509	Aug. 1, 1988	Aug. 1, 1988
Greater Dayton RTA (Montgomery Co.)	0.50	31,968,728	31,433,081	32,290,326	32,783,222	32,923,985	July 1, 1980	July 1, 1980
Portage Area RTA (Portage Co.)	0.25		2,564,174	3,281,207	3,390,061	3,412,879	Feb. 1, 2002	Feb. 1, 2002
Stark Area RTA (Stark Co.)	0.25	10,175,541	10,607,899	10,689,964	11,371,235	11,287,333	July 1, 1997	July 1, 1997
Metro TA (Summit Co.)	0.25	16,078,157	16,484,481	16,995,514	17,605,364	17,749,845	Feb. 1, 1991	Feb. 1, 1991
Transit Authority Total		\$264,823,134	\$266,362,341	\$272,556,965	\$285,622,770	\$284,833,837		
TOTAL		\$1,336,763,219	\$1,367,909,324	\$1,413,501,305	\$1,486,378,456	\$1,506,608,086		

Note: Some counties and transit authorities have repealed and then re-enacted the tax, or have changed the tax rate since the first enactment.

Source: Department of Taxation, Revenue Accounting Division.

SEVERANCE TAX

The severance tax, first levied in 1972, is paid by persons or firms that extract, or sever, certain natural resources from the soil or waters of Ohio. The tax produced approximately \$7.7 million in FY 2006. Severers are licensed by the Tax Commissioner and other designated state agencies.

TAXPAYER (OHIO REVISED CODE 5749.02):
Each severer.

TAX BASE (R.C. 5749.02):
The tax is levied on the weight or volume of certain natural resources extracted from the soil or water of Ohio.

RATES (R.C. 5749.02):

Type of Resource	Rate
Salt	4.0 cents per ton
Coal	9.0 cents per ton*
Oil	10.0 cents per barrel
Natural Gas	2.5 cents per 1,000 cubic feet
Limestone, Dolomite, Sand, and Gravel	2.0 cents per ton
Clay, Conglomerate, Gypsum, Quartzite, Sandstone, and Shale	1.0 cent per ton

* Includes temporary tax of 1.0 cent per ton.

EXEMPTIONS AND CREDITS (R.C. 5749.03):

An annual exemption is granted for natural resources used on the land from which they are taken by the severer, as part of the improvement of or use in their homestead, which have a yearly cumulative market value of \$1,000 or less.



Temporary Coal Tax (R.C. 5749.02 (D)):

A temporary one cent per ton tax on coal is enacted if it is deemed in any year that the balance of the Reclamation Supplemental Forfeiture Fund, plus transfers to the fund and the estimated revenue for the fund, are not sufficient to reclaim lands during that year.



(R.C. 5749.06):

Quarterly — May 15, August 14, November 14, and February 14, for quarterly periods ending the last day of March, June, September, and December, respectively.

Annually — February 14 for annual returns.

DISPOSITION OF REVENUE (R.C. 5749.02):

1. To fund the Geological Mapping Fund, the following distributions are made:

- (a) 6.3 percent of 7.0 of the 9.0 cents tax on coal;
- (b) 15 percent of salt severance tax collections;
- (c) 7.5 percent of limestone, dolomite, sand, and gravel severance tax collections; and
- (d) 10 percent of oil and gas severance tax collections.

2. To fund the Unreclaimed Lands Fund, the following distributions are made:

- (a) 21.6 percent of 7.0 of the 9.0 cents tax on coal;
- (b) 42.5 percent of limestone, dolomite, sand, and gravel severance tax collections; and
- (c) 85 percent of salt severance tax collections.

3. To fund the Oil and Gas Well Fund, 90 percent of the oil and gas severance tax collections is distributed to the fund.

4. To fund the Coal Mining Administration and Reclamation Reserve Fund, 57.9 percent of the remaining 7.0 cents tax on coal is distributed to this fund.

5. To fund the Reclamation Supplemental Forfeiture Fund, the following distributions are made:

- (a) One cent per ton levy on coal;
- (b) Revenue from the temporary one cent per ton levy on coal; and
- (c) 14.2 percent of 7.0 of the 9.0 cents per ton levy on coal.

6. To fund the Surface Mining Administrative Fund, the following distributions are made:

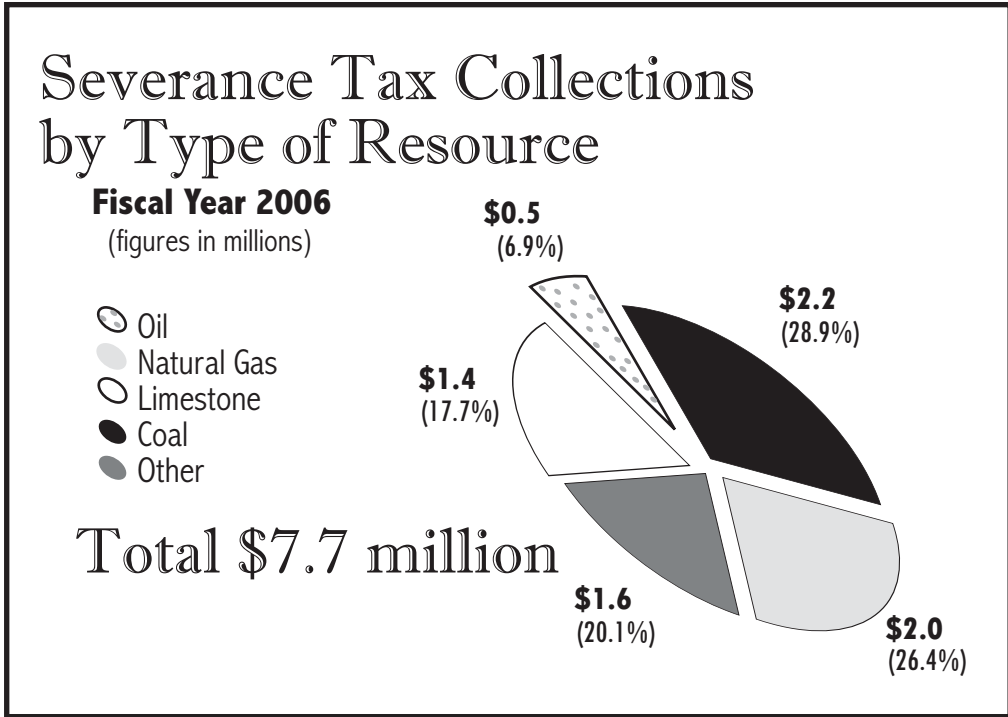
- (a) 50 percent of limestone, dolomite, sand, and gravel severance tax collections;
- (b) 100 percent of the clay, sandstone or conglomerate, shale, gypsum, and quartzite severance tax collections.

ADMINISTRATION:

The tax is administered and distribution to the various funds is made by the Tax Commissioner.

OHIO REVISED CODE CITATIONS:

Chapter 5749.



SEVERANCE TAX COLLECTIONS
FISCAL YEARS 2002 - 2006

Natural Resource	Tax Rate	2002	2003	2004	2005	2006
Coal	9.0 cents per ton	\$2,202,444	\$1,897,705	\$1,992,269	\$2,052,560	\$2,216,710
Natural Gas	2.5 cents per 1,000 c.f.	2,245,761	2,251,683	2,155,185	2,104,101	2,023,276
Limestone	2.0 cents per ton	1,386,122	1,402,610	1,454,611	1,512,348	1,360,579
Oil	10.0 cents per barrel	553,643	570,225	535,399	510,481	530,817
Gravel	2.0 cents per ton	701,979	569,608	562,308	621,376	718,526
Sand	2.0 cents per ton	594,761	521,454	505,841	506,396	510,446
Dolomite	2.0 cents per ton	115,256	83,534	81,296	41,278	41,539
Salt	4.0 cents per ton	175,098	127,967	168,328	186,956	200,422
Clay	1.0 cent per ton	13,628	11,866	19,801	19,742	23,230
Sandstone	1.0 cent per ton	12,102	11,277	11,273	15,594	23,542
Shale	1.0 cent per ton	16,401	11,480	23,761	23,833	25,379
Gypsum	1.0 cent per ton	422	0	139	0	0
Quartzite	1.0 cent per ton	3,245	3,405	3,146	2,986	2,364
Total		\$8,020,862	\$7,462,814	\$7,513,357	\$7,597,651	\$7,676,830

Source: Department of Taxation, as reported on tax returns.

TANGIBLE PERSONAL PROPERTY

The tangible personal property tax is a tax on businesses in Ohio. Taxes levied on tangible personal property totaled approximately \$1.70 billion in tax year 2005 on a taxable value of approximately \$21.3 billion. The \$10,000 exemption reduced the statewide taxable value by approximately \$690 million and taxes levied by \$55.3 million in tax year 2005. The state made partial reimbursement to schools and local governments for this revenue loss through a phase-out of this payment that was started in tax year 2004.

The tangible personal property tax is being phased out between 2006 and 2009 as part of the tax changes contained in Amended Substitute House Bill 66, the biennium budget bill for Fiscal Years 2006-2007. The phase-out is accomplished by lowering the assessment percentage for all tangible personal property; including inventories (see **Recent Legislation**).

Starting in tax year 2007, telephone companies and inter-exchange telecommunications companies will be defined as general business taxpayers instead of public utilities and will be valued and assessed under Ohio Revised Code Chapter 5711. The taxable value of telephone and inter-exchange telecommunications personal property will continue to be apportioned under R. C. 5727. The assessment of telephone company and inter-exchange telecommunications company personal property will be phased out over four years by lowering the assessment percentage (see **Recent Legislation**).

TAXPAYER:

The tangible personal property tax is paid by two types of taxpayers: **inter-county** and **single-county**.

An **inter-county taxpayer** is any business holding taxable tangible personal property in more than one county in Ohio.

A **single-county taxpayer** taxpayer is a business holding taxable tangible personal property in only one county in Ohio.

TAX BASE (OHIO REVISED CODE 5701.03, 5701.08, 5709.01, 5711.03, 5711.15-.18, 5711.22):

The tax base is tangible personal property located and used in business in Ohio — including machinery, equipment, and inventories. The assessment percentage for all tangible personal property, including inventory, for tax year 2006 is 18.75 percent.

Taxable value is determined by applying the applicable assessment percentages to the true value of different classes of tangible personal property. The true value of business property assets (machinery and equipment, furniture and fixtures, etc.) is statutorily defined as depreciated book value, unless the assessor determines otherwise. The true value of manufacturers' and merchants' inventories is determined by the average monthly value (basically cost of acquisition) of the inventories. Inventories of other taxpayers are listed at their value as of the tax listing date (generally December 31).

RATES (R.C. 319.31, 5705.02, 5705.03, 5705.05, 5705.19):

Tangible personal property tax rates vary by taxing jurisdiction. The total tax rate includes all levies enacted by legislative authority or approved by voters for all taxing jurisdictions within which the property is located (e.g. county, township, municipal corporation, school district, etc.). The rates applied to tangible personal property are the same as the rates applied to real estate and public utility property. However, gross taxes levied on real property are reduced when real property values increase, while taxes levied against tangible property are not reduced. The statewide average effective tax rate on tangible property in 2005 was 79.51 mills.

EXEMPTIONS AND EXCEPTIONS:

1. The first \$10,000 of otherwise taxable value for each company (R.C. 5709.01). However, beginning in tax year 2004, taxpayers with a taxable value of less than \$10,000 are no longer required to file a return. A phase-out of the reimbursement to local subdivisions for the revenues lost due to this exemption began in FY 2004. The phase-out will end in FY 2009.
2. Property not used in business; i.e., property owned and not used for gain by any level of government, schools, churches, colleges, etc. (R.C. 5701.08, 5709.07, 5709.08, and 5709.12).
3. Registered motor vehicles and licensed aircraft (R.C. 5701.03 and 5709.01).
4. Personal property used in agriculture (R.C. 5701.08).
5. Patterns, jigs, dies, and drawings used in business which are held for use and not for sale (R.C. 5701.03).
6. Certified air, water, and noise exempt facility equipment (R.C. 5709.20 through 5709.28).
7. Tangible personal property of domestic and foreign insurance companies, financial institutions, and dealers in intangibles (except property held for the purpose of leasing to others) (R.C. 5725.25 and 5725.26).
8. Machinery and equipment while under installation or construction in a plant or facility and not capable of operation (R.C. 5701.08).
9. Certified energy conversion facilities — property used to convert a commercial or industrial facility from the use of natural gas or fuel oil to any other fuel except propane, butane, or naphtha (R.C. 5709.25).
10. Certified thermal efficiency improvement facilities — property used for recovery and use of waste heat or steam produced in generating electricity, heat generation, lighting, refrigeration, or space heating (R.C. 5709.25).
11. Certified solid waste energy conversion facilities — property used to convert solid waste from industrial operations into energy for some useful purpose (R.C. 5709.25).
12. Inventories held in a foreign trade zone (R.C. 5709.44).
13. Property in a public recreational facility used for athletic events, if certain criteria are met (R.C. 5709.081).
14. Inventories shipped from outside Ohio, held in storage only, and shipped back out of Ohio (R.C. 5701.08 and 5711.22).
15. Leased property used by the lessee exclusively for agricultural purposes (R.C. 5701.08).
16. New and used machinery, equipment, and accessories designed and built for agricultural use, while in the inventory of a merchant (R.C. 5701.08).

TANGIBLE PERSONAL PROPERTY

- 17. Property used in the production of grape juice or wine and grape juice and wine inventory not held in labeled containers in which it will be sold (R.C. 5709.55).
- 18. Public recreational facility used by a major league athletic team if certain conditions are met (R.C. 5709.081).
- 19. Manufacturing machinery and equipment first placed in service in Ohio on or after January 1, 2005 (R.C. 5711.16 and 5711.22).

Third Monday in August: County auditor certifies and delivers tangible personal property list to the county treasurer.

September 20th: Inter-county corporations pay total tax liability by this date. Second half of tax due from all other taxpayers. If an emergency occurs as defined in R.C. 323.17, this due date may be extended for up to 30 days by the county treasurer.



DISPOSITION OF REVENUE (R.C. 319.50, 319.54, 5705.10, 5719.02, 5719.05):

After local administrative deductions, revenue is distributed to counties, municipalities, townships, school districts, and special districts according to the taxable values and total voted millage levied by each or as apportioned by the county budget commission (for millage inside the 10-mill limit). In 2005, school districts received 71.9 percent of the total tax revenue, while municipalities received 5.4 percent, townships 3.9 percent, and counties and special districts 18.8 percent.

Enterprise Zone Abatement and \$10,000 Exemption (R.C. 321.24, 5709.61-.69):

- 1. Companies may receive up to a 75 percent exemption for up to ten years for tangible personal property used in an enterprise zone located within a municipality. The exemption is limited to 60 percent for zones in unincorporated areas. Exemptions may exceed these levels if agreed upon by school districts. Companies seeking to receive an exemption must submit an investment proposal to the local authority that created the zone where the operation will be located. Special exemptions are available for property being used at a facility located initially within a contaminated site which is being remediated and for property at a large manufacturing operation that has ceased or will cease operation.
- 2. The local revenue loss caused by the \$10,000 exemption is reimbursed from state revenues. However, taxpayers with a taxable value of less than \$10,000 are no longer required to file a return, beginning in tax year 2004. A phase-out of the reimbursement to local subdivisions for the revenues lost due to this exemption began in FY 2004. The phase-out will end in FY 2009.

ADMINISTRATION (R.C. 5711.11, 5711.13):

Each county auditor is a deputy of the Tax Commissioner for purposes of this tax. Taxpayers are required to file annual returns with either the Tax Commissioner or the county auditor. The following table indicates where the returns are filed and who is responsible for assessing the property.

Taxpayer	Filed with and assessed by
Inter-county taxpayers (businesses with taxable property in more than one county)	Tax Commissioner
Single-county taxpayers* (businesses with taxable property in only one county)	County Auditor
* Returns are filed in duplicate with one copy forwarded to the Tax Commissioner.	



(R.C. 319.29, 323.17, 5711.01, 5711.04, 5711.25, 5719.02, 5719.03):

February 15th to April 30th: Returns are filed by all businesses during this period unless the county auditor or Tax Commissioner allows an extension to June 15. Taxpayers first engaging in business after January 1 file a return within 90 days of the day they start business. Single-county taxpayers pay one-half of tax due when filing tax returns.

OHIO REVISED CODE CITATIONS:
Chapters 319, 323, 5701, 5705, 5709, 5711, and 5719.

Second Monday in August: The date the Tax Commissioner certifies preliminary tangible personal property valuations of inter-county taxpayers to the county auditors.

TANGIBLE PERSONAL PROPERTY


Am. Sub. H.B. 66, 126th General Assembly (FY 2006-2007 biennium budget bill, effective June 30, 2005).
Tangible Personal Property Tax Phase-Out:

The general business tangible personal property tax will be phased out beginning in tax year 2006. The listing percentage (i.e., taxable portion) of the true value of all tangible personal property including inventory will be 18.75 percent for tax year 2006, 12.5 percent for tax year 2007, 6.25 percent for tax year 2008, and 0 percent for tax year 2009 and thereafter.

The one exception to these percentages will be for manufacturing equipment not previously used in business in this state by the owner, or related member, or predecessor of the owner before January 1, 2005. This equipment will not be taxed in tax year (i.e., calendar year) 2006 and thereafter. This exception does not apply to inventory. New definitions for manufacturer, manufacturing equipment, manufacturing facility, and manufacturing inventory were created to distinguish manufacturing equipment that will not be taxed from other tangible personal property.

Other changes are highlighted below.

Starting in tax year 2007:

- Telephone companies and inter-exchange telecommunications companies will be defined as general business taxpayers instead of public utilities and will be valued and assessed under R. C. 5711;

- taxable value of telephone and inter-exchange telecommunications personal property will continue to be apportioned under R.C. 5727;
- assessment of telephone company and inter-exchange telecommunications company personal property will be phased out over four years; and
- assessment percentage for all telephone and inter-exchange telecommunications personal property will be 20 percent in 2007, 15 percent in 2008, 10 percent in 2009, 5.0 percent in 2010, and 0 percent in 2011.

Starting in tax year 2009:

- Defines a "public utility lessor company" as a taxpayer that leases personal property to a public utility other than a railroad, water transportation company, or a telephone or telegraph company and requires this taxpayer to report and pay the tax on the taxable personal property under R.C. 5727; and
- requires a taxpayer that is engaged in some other primary business to which the supplying of electricity to others is incidental to be treated as an electric company and required to report and pay the tax on the electric generation personal property.

SIGNIFICANT INFORMATION RELEASES:

PP 2005-03 – "Definition of 'Primarily' for Dealer in Intangibles Tax," December 2005.

ET 2005-01/PP 2005-02 – "Property and Estate Taxes Have New Interest Rate," September 2005.

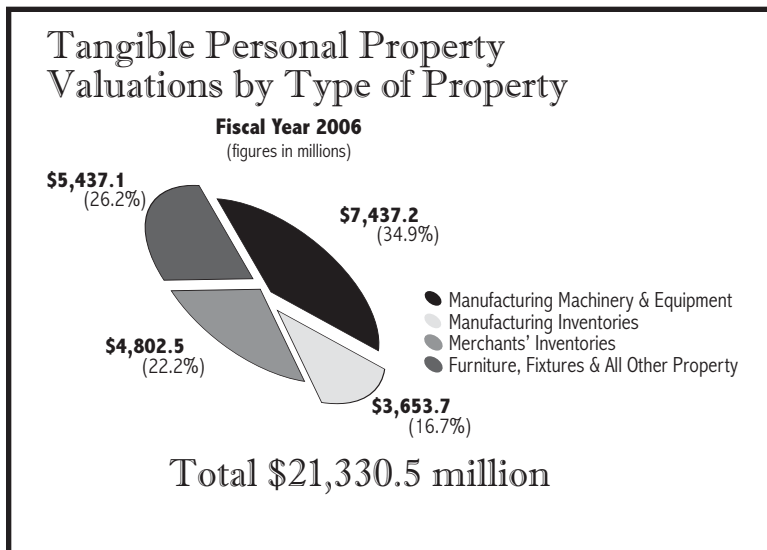
PP 2005-01 – "Valuation of Personal Property in a Lump-Sum Transaction Involving a Complete Business, Division, or Entire Plant," January 2005.

PP 2004-02 – "New Requirements in Filing 2005 Personal Property Tax Returns," December 2004.

PP 2004-01 – "Taxation on Software," February 2004.

PP 2003-01 – "New Valuation Schedule for Stand-Alone Computers," February 2003.

County Auditor Bulletin #284 – "Classification of Canopies," June 1999.



TANGIBLE PERSONAL PROPERTY

TABLE 1
 ASSESSED VALUE OF TANGIBLE PERSONAL PROPERTY AND TAXES LEVIED,
 TAX YEARS 2001-2005

Tax Year	Value of Tangible Property	Taxes Levied	Annual Change Value	Annual Change Taxes	Average Tax Rate (in mills)
2001	\$24,046,239,068	\$1,802,487,778	3.2%	4.8%	74.96
2002	23,296,013,406	1,768,343,517	-3.1%	-1.9%	75.91
2003	21,451,814,203	1,637,418,361	-7.9%	-7.4%	76.33
2004	21,264,429,182	1,651,707,142	-0.9%	0.9%	77.67
2005	21,330,431,245	1,695,986,799	0.3%	2.7%	79.51

TABLE 2
 TAXES LEVIED ON TANGIBLE PERSONAL PROPERTY BY SUBDIVISION,
 TAX YEARS 2001-2005

Tax Year	Taxes Levied by Subdivision				Delinquent Taxes from Prior Years	Total Taxes and Delinquencies
	City and Village	School District (a)	Township	County (b)		
2001	\$106,582,761	\$1,291,626,108	\$68,679,274	\$335,599,634	\$355,417,154	\$2,157,904,932
2002	102,036,281	1,267,303,840	67,062,769	331,940,627	375,529,812	2,143,873,330
2003	93,547,557	1,174,325,644	64,089,237	305,455,923	397,404,921	2,034,823,282
2004	91,805,256	1,180,559,846	65,186,570	314,155,470	422,188,610	2,073,895,751
2005	91,706,105	1,219,108,372	66,583,844	318,588,478	478,564,314	2,174,551,113

(a) Includes Joint Vocational Schools.
 (b) Includes special districts.

TABLE 3
 TAXES LEVIED ON TANGIBLE PERSONAL PROPERTY IN
 OHIO CITIES, BY SUBDIVISION, TAX YEARS 2001-2005

Tax Year	Taxes Levied in Cities				Delinquent Taxes from Prior Years	Total Taxes and Delinquencies
	City and Village	School District (a)	Township	County (b)		
2001	\$94,906,650	\$878,897,218	\$8,637,352	\$230,648,683	\$237,729,275	\$1,450,819,178
2002	90,971,227	867,288,963	7,793,821	228,421,803	254,458,590	1,448,934,404
2003	83,548,226	797,482,520	7,063,107	208,912,027	291,573,544	1,388,579,423
2004	81,650,597	794,411,073	7,009,862	212,647,084	290,270,093	1,385,988,710
2005	81,300,541	820,752,565	6,990,412	214,755,299	307,210,705	1,431,009,522

(a) Includes Joint Vocational Schools.
 (b) Includes special districts.

TANGIBLE PERSONAL PROPERTY

TABLE 4
 ASSESSED VALUE OF TANGIBLE PERSONAL PROPERTY, BY CLASS OF PROPERTY,
 TAX YEARS 2004-2005 (IN MILLIONS OF DOLLARS)

Class of Property	Assessments Levels (% of True Value)		Assessed Taxable Value of All Taxpayers	
	2004	2005	2004 (a)	2005 (b)
Manufacturing Machinery & Equipment	25%	25%	\$7,417.0	\$7,437.2
Manufacturers' Inventories	23%	23%	3,542.7	3,653.7
Merchants' Inventories	23%	23%	4,731.3	4,802.5
Furniture, Fixtures, & All Other Property	25%	25%	5,573.4	5,437.1
Total			\$21,264.4	\$21,330.4

(a) Figures are derived by determining the percentage share accounted for by each tangible personal property class, using figures reported by the Department of Taxation for purposes of computing the tangible personal property tax value losses under House Bill 66, and applying those percentage shares to the total tangible personal property taxable value reported on county auditor abstracts. Railroad property has been excluded from these figures.

(b) Figures by class of property are estimated.

TABLE 5
 LISTING PERCENTAGES APPLIED TO TRUE VALUE OF TANGIBLE
 PERSONAL PROPERTY TO DETERMINE TAXABLE VALUE, TAX YEARS 1996-2006

Tax Year	Manufacturing Machinery and Equipment	Manufacturers' Inventories	Merchants' Inventories	Electrical Equipment*	All Other Property**
1996 - 2001	25%	25%	25%	88%	25%
2002	25	24	24	88	25
2003 - 2005	25	23	23	88	25
2006	18.75	18.75	18.75	85	18.75

* Property used in generating or distributing electricity to others (except utilities).

** Includes furniture and fixtures.

TANGIBLE PERSONAL PROPERTY

TABLE 6

ASSESSED VALUE OF TANGIBLE PERSONAL PROPERTY, TAXES LEVIED AND
AVERAGE COUNTY RATES ON TANGIBLE PROPERTY, BY COUNTY, TAX YEAR 2005

County	Value of Taxable Property	Current Taxes Levied	Average County Rate (in mills)	County	Value of Taxable Property	Current Taxes Levied	Average County Rate (in mills)
ADAMS	\$28,421,940	\$1,366,815	48.09	LOGAN	\$152,026,908	\$9,439,384	62.09
ALLEN	370,033,133	21,135,463	57.12	LORAIN	480,308,150	37,636,310	78.36
ASHLAND	81,027,934	6,101,509	75.30	LUCAS	843,180,798	79,081,934	93.79
ASHTABULA	201,761,340	15,423,392	76.44	MADISON	71,570,190	4,624,042	64.61
ATHENS	34,893,765	3,086,209	88.45	MAHONING	324,640,320	25,804,307	79.49
AUGLAIZE	133,564,788	8,586,855	64.29	MARION	138,144,455	9,185,103	66.49
BELMONT	108,348,389	6,606,830	60.98	MEDINA	271,362,226	24,347,622	89.72
BROWN	19,852,506	956,055	48.16	MEIGS	9,310,500	444,227	47.71
BUTLER	753,457,961	50,914,657	67.57	MERCER	65,038,051	3,715,419	57.13
CARROLL	29,688,043	1,713,745	57.73	MIAMI	269,489,020	18,644,868	69.19
CHAMPAIGN	75,688,553	4,923,247	65.05	MONROE	25,771,260	1,265,300	49.10
CLARK	201,617,483	13,665,472	67.78	MONTGOMERY	925,659,701	84,936,639	91.76
CLERMONT	191,693,138	16,537,354	86.27	MORGAN	9,391,062	479,022	51.01
CLINTON	107,312,450	5,819,855	54.23	MORROW	24,920,670	1,586,956	63.68
COLUMBIANA	120,745,550	7,104,023	58.83	MUSKINGUM	139,222,110	9,293,337	66.75
COSHOCTON	73,643,972	4,336,207	58.88	NOBLE	14,839,558	709,810	47.83
CRAWFORD	96,066,291	7,282,666	75.81	OTTAWA	75,941,544	5,390,663	70.98
CUYAHOGA	2,310,046,197	226,528,749	98.06	PAULDING	22,576,759	1,309,821	58.02
DARKE	80,335,891	4,149,731	51.65	PERRY	21,870,294	1,370,519	62.67
DEFIANCE	86,258,690	5,242,061	60.77	PICKAWAY	78,578,585	4,308,495	54.83
DELAWARE	229,335,732	17,337,856	75.60	PIKE	53,616,346	3,334,422	62.19
ERIE	194,400,010	16,122,785	82.94	PORTAGE	248,949,562	22,076,015	88.68
FAIRFIELD	125,321,433	9,876,345	78.81	PREBLE	77,813,190	4,374,555	56.22
FAYETTE	65,122,284	3,582,826	55.02	PUTNAM	59,565,208	3,100,387	52.05
FRANKLIN	2,075,484,595	196,316,981	94.59	RICHLAND	294,734,839	22,705,110	77.04
FULTON	125,269,560	8,800,057	70.25	ROSS	123,118,490	7,281,840	59.14
GALLIA	42,657,626	1,679,175	39.36	SANDUSKY	148,555,375	7,998,649	53.84
GEAUGA	160,860,840	15,023,405	93.39	SCIOTO	76,385,650	4,394,866	57.54
GREENE	164,331,898	12,711,740	77.35	SENECA	94,764,754	6,464,769	68.22
GUERNSEY	81,915,490	4,670,885	57.02	SHELBY	283,681,888	16,545,587	58.32
HAMILTON	1,698,977,840	147,563,028	86.85	STARK	716,077,682	54,325,758	75.87
HANCOCK	240,100,584	14,084,666	58.66	SUMMIT	1,056,979,860	89,017,228	84.22
HARDIN	51,263,193	2,958,389	57.71	TRUMBULL	416,552,610	29,557,120	70.96
HARRISON	18,786,640	1,142,920	60.84	TUSCARAWAS	198,369,327	12,976,904	65.42
HENRY	83,113,464	6,102,321	73.42	UNION	236,180,013	17,552,726	74.32
HIGHLAND	56,365,399	2,636,874	46.78	VAN WERT	49,520,870	3,384,361	68.34
HOCKING	31,243,965	1,893,626	60.61	VINTON	12,033,940	548,978	45.62
HOLMES	94,055,580	4,939,790	52.52	WARREN	452,092,300	36,810,654	81.42
HURON	131,373,190	7,927,219	60.34	WASHINGTON	207,804,130	10,912,647	52.51
JACKSON	57,595,394	2,685,468	46.63	WAYNE	243,409,200	19,524,443	80.21
JEFFERSON	135,899,620	8,057,801	59.29	WILLIAMS	108,593,080	7,662,980	70.57
KNOX	93,670,667	5,673,123	60.56	WOOD	296,527,314	24,107,934	81.30
LAKE	498,547,462	44,625,262	89.51	WYANDOT	65,580,736	3,280,799	50.03
LAWRENCE	46,633,260	1,675,857	35.94				
LICKING	238,898,980	14,904,997	62.39	Total	\$21,330,431,245	\$1,695,986,799	79.51

Source: Abstracts filed by county auditors with the Department of Taxation.

TABLE 7

TANGIBLE PERSONAL PROPERTY TAX - REDUCTION IN TAXABLE VALUE & IN TAXES LEVIED
DUE TO THE \$10,000 EXEMPTION, BY COUNTY, TAX YEAR 2005

County	Reduction in Taxable Value	Reduction in Taxes Levied*	County	Reduction in Taxable Value	Reduction in Taxes Levied*
ADAMS	\$936,480	\$47,609	LOGAN	\$3,377,150	\$201,584
ALLEN	7,400,920	424,005	LORAIN	15,187,440	1,153,572
ASHLAND	3,567,421	266,665	LUCAS	27,676,595	2,598,698
ASHTABULA	5,846,680	444,483	MADISON	1,723,330	116,034
ATHENS	2,623,154	227,766	MAHONING	17,454,190	1,276,646
AUGLAIZE	3,583,110	217,613	MARION	2,860,770	194,446
BELMONT	3,479,281	218,107	MEDINA	11,169,250	976,823
BROWN	1,491,807	72,642	MEIGS	818,680	45,796
BUTLER	19,147,291	1,370,086	MERCER	3,786,790	215,035
CARROLL	1,471,470	82,126	MIAMI	7,083,980	483,723
CHAMPAIGN	1,979,406	124,819	MONROE	649,600	30,478
CLARK	6,559,780	463,925	MONTGOMERY	32,502,750	2,892,734
CLERMONT	8,163,620	689,340	MORGAN	534,740	24,159
CLINTON	2,192,220	118,265	MORROW	1,273,800	69,166
COLUMBIANA	5,926,080	340,114	MUSKINGUM	5,541,440	380,833
COSHOCTON	2,186,620	142,780	NOBLE	536,770	28,402
CRAWFORD	2,723,269	209,187	OTTAWA	3,559,450	241,041
CUYAHOGA	80,280,517	8,221,308	PAULDING	1,150,902	66,050
DARKE	3,870,000	195,348	PERRY	2,507,672	94,243
DEFIANCE	2,712,600	164,307	PICKAWAY	1,889,210	104,473
DELAWARE	7,864,269	596,435	PIKE	1,055,040	64,969
ERIE	5,136,390	423,002	PORTAGE	9,630,381	828,220
FAIRFIELD	5,913,010	474,123	PREBLE	2,013,930	101,600
FAYETTE	1,528,424	83,880	PUTNAM	2,665,190	135,771
FRANKLIN	61,686,330	5,944,452	RICHLAND	7,726,510	624,965
FULTON	3,505,170	245,929	ROSS	3,290,850	193,120
GALLIA	1,564,769	65,004	SANDUSKY	4,221,809	224,616
GEAUGA	6,737,280	634,174	SCIOTO	3,673,620	212,721
GREENE	6,526,090	511,102	SENECA	3,340,564	215,451
GUERNSEY	2,386,610	145,621	SHELBY	3,903,890	232,887
HAMILTON	55,316,080	5,026,695	STARK	24,266,434	1,757,827
HANCOCK	5,444,440	336,066	SUMMIT	35,409,405	2,898,391
HARDIN	1,381,760	83,501	TRUMBULL	11,634,996	832,549
HARRISON	521,400	31,580	TUSCARAWAS	7,447,240	488,705
HENRY	2,003,241	145,495	UNION	2,629,540	209,416
HIGHLAND	1,995,760	91,379	VAN WERT	1,976,820	134,776
HOCKING	1,285,380	78,446	VINTON	562,911	27,561
HOLMES	6,958,210	363,546	WARREN	10,168,620	815,145
HURON	4,202,040	252,454	WASHINGTON	5,512,670	286,074
JACKSON	1,774,603	82,265	WAYNE	9,261,370	695,351
JEFFERSON	3,041,720	180,543	WILLIAMS	3,579,120	235,887
KNOX	3,119,035	196,008	WOOD	7,876,295	643,196
LAKE	17,627,965	1,568,575	WYANDOT	1,822,085	91,316
LAWRENCE	1,706,050	63,068			
LICKING	7,855,440	480,037	TOTAL	\$688,176,991	\$55,288,320

* Beginning in fiscal year 2004, the reimbursement from the state to localities for the revenue foregone as a result of the \$10,000 exemption is being phased out. The phase-out will be fully implemented in fiscal year 2010. The total reimbursement in FY 2006 was \$61.2 million. In addition, beginning in tax year 2004 taxpayers with less than \$10,000 in assessed valuation (before the \$10,000 exemption) no longer have to file a tax return. As a result, the amount of reported reduced value and taxes foregone due to the \$10,000 exemption is smaller than what was reported prior to tax year 2004.

Source: Abstracts filed by county auditors with the Department of Taxation and records of the department.

RULE REVIEW

Section 121.24 (D) of the Ohio Revised Code requires the Department of Taxation to create a plan for periodic review of its administrative rules at least once every five years. The department's Rule Review schedule is as follows:

Tax	Year
Tangible personal property tax	2007
Administration and Division of Tax Equalization	2008
Excise taxes	2008
Franchise, income, and municipal taxes	2009
Estate tax and commercial activity tax	2010
Sales/use tax	2011

Section 121.24 (E) of the Ohio Revised Code requires the Department of Taxation to designate an individual or office that is responsible for providing information on its administrative rules. The Office of Chief Counsel is the department's designated office. Rules are reviewed to determine if they are still necessary, are to be amended, or are to be rescinded in Ohio Administrative Code Chapter 5703.

RULES REVIEWED IN FY 2006

The following is a summary of the department's review of its sales and use tax rules in 2006:

5703-9-01	Vendor's license requirements. Needs to be amended.	5703-9-09	Return by vendor operating more than one place of business. Necessary.
5703-9-02	Maintenance of records. Needs to be amended.	5703-9-10	Motor vehicles, off-highway motorcycles, and all-purpose vehicles; tax payment or exemption claim required for certificate of title; remittance of tax by clerk of courts. Needs to be amended.
5703-9-03	Sales and use tax; exemption certificate forms. Needs to be amended.	5703-9-11	Returned merchandise and rejected services. Needs to be amended.
5703-9-04	Use tax; taxable use of tangible personal property manufactured for sale or purchased for resale. Necessary.	5703-9-12	Exchanged merchandise. Necessary.
5703-9-05	Transactions where tangible personal property is or is to be stored. Necessary.	5703-9-13	Sales and use tax; reporting periods. Necessary.
5703-9-06	Imposition of tax on transportation services. Necessary.	5703-9-14	Sales and use tax; construction contracts; exemption certificates. Necessary.
5703-9-07	Application for refund of sales and use taxes. Necessary.	5703-9-15	Sales and use tax; coupons, coupon books, and gift certificates. Necessary.
5703-9-08	Sales and use tax; authority to prepay (pre-determine) or prearrange sales tax. Necessary.	5703-9-16	Affiliated group. Necessary.
		5703-9-17	Conditional sales. Necessary.
		5703-9-18	Definition of subscriber for satellite broadcasting service. Necessary.
		5703-9-19	Installment and credit sales. Necessary.
		5703-9-20	Sales and use tax; production or fabrication of tangible personal property. Needs to be amended.
		5703-9-21	Sales and use tax; manufacturing. Necessary.
		5703-9-22	Personalty used or consumed directly in mining. Necessary.
		5703-9-23	Personalty used or consumed in farming, agriculture, horticulture, or floriculture. Needs to be amended.
		5703-9-24	Household goods movers engaged in highway transportation for hire. Necessary.

5703-9-25	Watercraft, outboard motors, and personal watercraft; tax payment or exemption claim required for certificate of title; remittance of tax by clerk of courts. Necessary.	5703-9-42	Installation or sale of septic tanks. Necessary.
5703-9-26	Telecommunications service; sourcing for private communications services. Necessary.	5703-9-43	Books, manuals, bulletins, lists, or similar materials. Necessary.
5703-9-27	Sale of food to students by public, private and parochial schools, colleges, and universities. Necessary.	5703-9-44	Bad debts. Necessary.
5703-9-28	Sales and use tax; newspapers and magazines. Necessary.	5703-9-45	Sales; alleged exempt sales; submission of additional evidence. Necessary.
5703-9-29	Outdoor advertising concerns. Necessary.	5703-9-46	Sales and use taxes; automatic data processing, computer services, and electronic information services. Necessary.
5703-9-30	Auctions and auctioneers. Necessary.	5703-9-47	Cash register adjustment reimbursement. Necessary.
5703-9-31	Florists. Necessary.	5703-9-48	Sales tax; purchases made with food stamp coupons. Needs to be amended.
5703-9-32	Sales and use tax; morticians. Necessary.	5703-9-49	Corporate officer liability. Necessary.
5703-9-33	Photographers. Necessary.	5703-9-50	Registration using central registration system. Needs to be amended.
5703-9-34	Sign manufacturers, sign painters, and sales agents. Necessary.	5703-9-51	County and transit authority rates and boundary database. Necessary.
5703-9-35	Purchases, as a liquidator of closed institutions, by superintendents of insurance, banks, and building and loan associations. Necessary.	5703-9-52	Delivery charges. Necessary.
5703-9-37	Sales and use tax; tire retreading and repairs. Necessary.	5703-9-53	Rate changes; application of effective date to services. Necessary.
5703-9-38	Photostats and blue prints. Necessary.	5703-9-54	Taxability matrix. Necessary.
5703-9-39	Interstate commerce. Necessary.		
5703-9-40	Sales of personalty belonging to another. Necessary.		
5703-9-41	Person engaged in advertising field. Necessary.		

INDEX OF CHARTS AND TABLES

This index provides a by-chapter listing of the charts and tables contained in the Annual Report, organized by the major section in which the chapter is found. Chapters which do not contain charts or tables are omitted.

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The background of the page is a faded, grayscale photograph. It shows a large, multi-story building with a prominent flagpole in the foreground. The flagpole is surrounded by several trees, and the building has a classical architectural style with columns and a balcony. The overall scene is bright and somewhat washed out, serving as a backdrop for the text.

OUR MISSION:
TO PROVIDE QUALITY SERVICE
TO OHIO
TAXPAYERS BY
HELPING THEM COMPLY WITH THEIR
TAX RESPONSIBILITIES AND
BY FAIRLY APPLYING
THE TAX LAW.