



# BLUEPRINT FOR A NEW OHIO

GOV. JOHN R. KASICH'S FISCAL YEARS 2016-2017 BUDGET

## TAX EXPENDITURE REPORT

THE STATE OF OHIO EXECUTIVE BUDGET  
FISCAL YEARS 2016-2017

GOVERNOR JOHN R. KASICH  
OFFICE OF BUDGET AND MANAGEMENT  
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It is my pleasure to present the Tax Expenditure Report, a responsibility assigned to the Tax Commissioner by the Ohio Revised Code (Sections 107.03 and 5703.48). This report makes possible an ongoing review of state tax expenditures. It is a companion piece to the Governor's Executive Budget.

This report includes 128 tax expenditures allowed in current law, entailing various exclusions, exemptions, deductions and credits. It proves the amount of state General Revenue Funds tax revenue estimated to be foregone from each expenditure during the current biennium (fiscal year 2014 and 2015) and upcoming biennium (fiscal years 2016 and 2107). The report does not address the merits of those exemptions. Nonetheless, it fosters a better understanding of the curent tax system and stands as an important resource for those making decisions about Ohio's tax policy.

Sincerely,

A handwritten signature in black ink, appearing to read "Joseph W. Testa".

Joseph W. Testa  
Tax Commissioner

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# Introduction

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## State of Ohio Tax Expenditure Report

Section 5703.48 of the Ohio Revised Code, enacted in 1987, requires the tax commissioner to produce a tax expenditure report. Section 107.03(F) of the Ohio Revised Code requires the Governor to submit the report to the Ohio General Assembly as an appendix to the biennial budget. The report provides a description of each tax expenditure, an estimate of the dollars unavailable (or “revenue foregone”) to the General Revenue Fund (GRF) because of the tax expenditure, and, in comparative form, the amount of revenues that were unavailable to the GRF in the immediately preceding biennium.

Both tax expenditures and direct budgetary expenditures result in a cost to the state. The tax expenditure concept considers tax laws to be a mechanism for both government revenues and spending. Tax expenditures take the form of tax benefits for certain taxpayers or activities. Unlike direct budgetary expenditures, unless there is a pre-existing termination date, tax expenditures may remain in law indefinitely.

An important purpose of this report is to inform the state budgetary process of revenues foregone to the GRF because of tax expenditures. This report provides an estimate of the dollar value of each tax expenditure, but it makes no recommendations on the appropriateness of these expenditures.

In this edition, estimated revenue foregone by the GRF is provided for the following two fiscal year (FY) biennial budget periods: FY 2014-2015 and FY 2016-2017. This edition includes 128 different tax expenditures and provides the legal citation, year of enactment, and a brief description for each tax expenditure.<sup>1</sup> In certain limited instances, tax expenditures affecting multiple taxes may be displayed under one tax.<sup>2</sup>

## The Tax Expenditure Concept

Since the tax expenditure concept was first articulated in 1967 by Stanley S. Surrey (assistant secretary for tax policy of the U.S. Department of the Treasury), the executive and legislative branches of the U.S. government, most state governments, and many foreign governments have issued their own versions of tax expenditure reports. In its broadest outline, the tax expenditure concept is uniform and constant: a tax expenditure represents a legislated variation from – more commonly, a reduction to – a standardized tax base. Beyond this broad conceptualization, however, varying ideas about what constitutes a tax expenditure have led to differing approaches for identifying tax expenditures. In a sense, tax expenditure reports are evolutionary in nature, changing as members of the tax policy community absorb, synthesize, and contribute new thinking on the subject.

At the federal level, the Joint Committee on Taxation (JCT) of the Congress is vested with the privilege of publishing a report on federal tax expenditures for the House Committee on Ways and Means and the Senate Committee on Finance.<sup>3</sup> According to JCT, “Tax expenditure analysis can help both policymakers and the public to understand the actual size of government, the uses to which government resources are put, and the tax and economic policy consequences that follow from the implicit or explicit choices made in fashioning legislation.”<sup>4</sup> The JCT consults with the Office of Tax Analysis in the U.S. Department of the Treasury to produce the report.<sup>5</sup> The JCT’s first report was prepared in 1972 covering FY 1967-1971, and subsequent reports cover every five-year period since FY 1977-1981.<sup>6</sup>

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<sup>1</sup> Expenditures having an estimated annual revenue impact below \$1 million are noted as minimal.

<sup>2</sup> Job creation and retention tax credits are shown in the commercial activity tax section, though these credits also may be taken against the petroleum activity tax, the insurance premium taxes, the financial institutions tax, and the individual income tax.

<sup>3</sup> The complete collection of JCT tax expenditure reports is available at <https://www.jct.gov/publications.html?func=select&id=5>. For an international perspective, the Organisation for Economic Co-operation and Development (OECD) has studied the use of tax expenditures internationally, including in the United States. Organisation for Economic Co-operation and Development, *Tax Expenditures in OECD Countries* (2010).

<sup>4</sup> Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2012-2017* (JCS-1-13), February 1, 2013.

<sup>5</sup> *Id.* at 1 n.2.

<sup>6</sup> *Id.* at 1.

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Forty-one states produce a tax expenditure report.<sup>7</sup> There is variation among the states on what are considered tax expenditures (and, by extension, implied “baseline” tax structures).<sup>8</sup> Ultimately, the variation stems from a fundamental ambiguity in tax expenditure analysis: the lack of a universally applicable and accepted definition of “tax expenditure” sufficiently robust in meaning for it to be used by all jurisdictions and for all taxes. As a result, each reporting agency has to apply an operating definition of tax expenditure with analytical utility for that agency and its administration, as well as legislative policymakers and the wider tax policy audience within that jurisdiction.<sup>9</sup>

## Tax Expenditures in this Report

Ohio uses what may be considered a mostly “reference law” concept for defining tax expenditures. However, it is necessarily informed by the “ideal base” (baseline) concept.<sup>10</sup> The primary determinant as to whether a tax provision may be considered a tax expenditure in this report is whether it exists as an exemption, credit, deduction, etc., in the Ohio Revised Code. This determination conforms to a reference law concept. Of this initial list of *potential* tax expenditures, certain provisions – those considered to be inherent to the tax base – are then excluded, reflecting elements of a “baseline” concept. A primary example of an item excluded from the report is the sales tax “resale” exemption (see discussion in the **Sales and Use Tax Section** of the report). Another example is the commercial activity tax exclusion for non-profit entities.

Listed below are the basic criteria used to determine whether a tax provision constitutes a tax expenditure in this report. All four characteristics must exist for the item to have been considered a tax expenditure in this report.

### **1. The item reduces, or has the potential to reduce, one of the state's General Revenue Fund taxes.**

By law, the tax expenditure report includes only taxes the revenues from which are distributed in whole or in part to the GRF. Therefore, locally-levied taxes are excluded from this report. Also excluded are certain state taxes the revenues from which are not distributed to the GRF. Such excluded taxes include the motor vehicle fuel tax, horse racing tax, and the severance tax.

### **2. The item would have been part of the defined tax base.**

For a provision to be a tax expenditure, it specifically must exempt from taxation a person or activity that otherwise would have been part of the tax base. There are some items specifically exempted by the Ohio Revised Code that are not considered to be part of the tax base. These items are not included as tax expenditures in this report.

### **3. The item is not subject to an alternative tax.**

Persons or activities subject to alternative taxes are not considered tax expenditures in this report. For example, insurance companies are excluded from the commercial activity tax under the Ohio Revised Code, but this exclusion is not considered a tax expenditure because insurance companies are taxed under the insurance premium taxes.

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<sup>7</sup>E.g., Jason Levitis, Nicholas Johnson & Jeremy Koulisch, *State Budget Accountability Through Tax Expenditure Reports*, State Tax Notes, May 25, 2009, at 641.

<sup>8</sup>*Id.* at 655.

<sup>9</sup> Some agencies work under a statutorily prescribed definition of “tax expenditure.” Even though these agencies comply with the statutory definition in good faith and to the maximum extent possible, there is no statutory definition with sufficient nuance and logic to guide all determinations. The agencies must develop an operating definition of tax expenditure and use reasonable judgment to determine the items that fit the definition.

<sup>10</sup> See, e.g., John L. Mikesell, *Tax Expenditure Budgets, Budget Policy, and Tax Policy: Confusion in the States*, 22 Public Budgeting and Finance 34, 43 (2002).

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## 4. The item is subject to change by state legislative action.

The item must take the form of an exemption, deduction, credit, etc., existing in the Ohio Revised Code. Anything that can be changed purely by a state constitutional amendment, a federal law change, or a federal constitutional amendment is not considered a tax expenditure in this report.

Tax expenditures are organized in this report by tax types. Several taxes that appeared in previous editions have been eliminated, and a new tax has been added to this edition. Am. Sub. House Bill 510 (129<sup>th</sup> General Assembly) repealed the corporate franchise tax (as well as the dealers in intangibles tax) beginning in 2014 and levied a new “financial institutions tax.” As a result, this report replaced the corporate franchise tax section with a financial institutions tax section. Am. Sub. House Bill 153 (129<sup>th</sup> General Assembly; FY 2012-2013 operating budget) repealed the Ohio estate tax effective with dates of death on or after January 1, 2013. Consequently, the Ohio estate tax section of this report was eliminated.

Although revenue from the natural gas distribution tax is distributed to the GRF, there are no tax expenditures related to this tax; therefore, the tax does not appear in this report. Some tax expenditures apply to more than one tax. In most of these instances, the effects are combined into one tax so as not to be repetitive.<sup>11</sup>

## Interpretation of Tax Expenditures

Tax policy experts have identified nuanced ways to evaluate tax expenditures.<sup>12</sup> On one hand, because tax expenditures provide an explicit accounting of deviations from a baseline tax structure, users of a tax expenditure report are able to identify deviations from a baseline, who benefits, and the relative fiscal magnitudes. The report may serve as a foundation for further analysis on whether, and to what degree, an expenditure violates principles of good tax policy (e.g., efficiency, fairness, simplicity, uniformity). To one degree or another, tax expenditures might reduce economic efficiency, heighten tax code complexity, or treat people with the same ability to pay in a disparate or inequitable manner.

Tax expenditures often are viewed as an appropriate mechanism for spending government resources. Under this viewpoint, the tax system can serve as an instrument for reallocating resources or otherwise addressing economic inefficiencies. Thus, the tax expenditure report identifies the specific circumstances under which policymakers have chosen to allocate state resources through the tax code, so as to fully or partially address a perceived societal need or want. According to this conceptualization, then, the question is whether the “spending” is appropriate and not necessarily whether it violates a tax policy principle.

## Quantifying Tax Expenditures

In accordance with section 5703.48 of the Ohio Revised Code, the FY 2016-2017 Biennial Tax Expenditure Report identifies the estimated revenue that is foregone, or “spent,” by the GRF as a result of the existence of a tax expenditure under current law. The estimates reflect the amount of financial benefit provided to those persons or activities by the tax expenditure, adjusted to reflect the GRF’s share of the tax expenditure. No further adjustments are made to the estimates, except where another tax expenditure is also available to the taxpayer for the same item or activity. The report reduces one, but not both, of the overlapping tax expenditures by the estimated amount of tax revenue associated with the “overlap.”

There are other methods to quantify tax expenditures including estimating revenues that would be gained if the tax expenditure were repealed. The tax expenditures in this report are not quantified using methods other than “revenue foregone.” Estimates produced under a “revenue gain from repeal” concept encompass an extensive array of (primarily downward) adjustments. For one thing, “revenue gain from repeal” estimates require assumptions by the

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<sup>11</sup> For instance, see the job retention tax credit in the **Commercial Activity Tax Section** (CAT tax expenditure number 4.12). This credit can be taken not only against the commercial activity tax, but the petroleum activity tax, financial institutions tax and the income tax. All of the estimates, though done separately, are combined in this tax expenditure so as not to be repetitive.

<sup>12</sup> E.g., Eric J. Toder, Address at National Tax Association Annual Conference (November 19, 2005), available at [http://www.urban.org/UploadedPDF/411371\\_tax\\_expenditures.pdf](http://www.urban.org/UploadedPDF/411371_tax_expenditures.pdf).

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agency about the tax expenditure repeal date. There may be important cash flow consequences associated with assumed repeal dates. Another potentially significant adjustment involves taxpayer behavioral responses to the repealed tax expenditure. Economic activity would likely be affected to some degree as tax is newly applied to the previously tax-exempt item or activity. Furthermore, one may expect at least some short-term taxpayer non-compliance with the newly-taxed activity.

While this report provides totals summing the expenditures, the totals do not represent the revenue that would be gained by the GRF from repealing all tax expenditures simultaneously.

To summarize, **the figures in this report do not represent the estimated revenue gain from repeal of the tax expenditure.** Instead, the figures reflect reasonable estimates of the tax benefits realized by recipients of the tax expenditures – what has been referred to as the “revenue foregone.”

## Data Sources for Tax Expenditure Estimates

The accuracy of the estimates varies with the source of data and applicability of the data to the tax expenditure provision. In some instances, the Department of Taxation relies on external sources of data that may not be as reliable as those from the agency. A data reference code has been devised to identify the source for individual tax expenditures, as follows:

Data Source Code (A):	Data emanating from tax returns filed with the Department of Taxation, as well as other information generated by the Department of Taxation.
Data Source Code (B):	Data produced by government agencies other than the Department of Taxation, such as other State of Ohio agencies, the federal government (e.g., the Internal Revenue Service and the U.S. Census Bureau), other state governments, and Ohio’s local governments.
Data Source Code (C):	All other data, including (but not limited to) information from business information service providers, academic research, and non-profit research organizations.

**FY 2014 – 2017**  
**Tax Expenditure**  
**Summary of Revenue Foregone**  
**(in millions)**

Note: “Minimal” indicates that the amount of foregone revenue is under \$1 million.

		<b>General Revenue Fund Revenue Foregone</b>			
		FY 2014	FY 2015	FY 2016	FY 2017
<b><u>Sales &amp; Use Tax</u></b>					
<b>Exempt entities</b>					
1.01	Sales to churches and certain other types of non-profit organizations	\$544.9	\$594.7	\$642.0	\$693.0
1.02	Sales to the state, its subdivisions and certain other states	193.5	201.7	208.0	214.4
1.03	Sales by churches and certain types of non-profit organizations	35.0	38.0	40.9	44.0
<b>Exemption for property and services used or consumed to produce a product</b>					
1.04	Property used primarily in manufacturing	1,727.3	1,810.5	1,890.0	1,968.3
1.05	Packaging and packaging equipment	286.2	300.8	315.1	328.9
1.06	Tangible personal property (TPP) and services sold to electricity providers	342.7	353.7	357.4	367.7
1.07	TPP used in agriculture or mining	385.0	393.1	399.7	414.4
1.08	Agricultural land tile and portable grain bins	1.4	1.4	1.4	1.4
1.09	TPP used to produce printed materials	22.0	22.4	22.4	22.5
1.10	TPP used in storing, preparing and serving food	29.8	31.1	32.2	33.2
1.11	TPP used in preparing eggs for sale	2.7	2.8	2.9	3.0
<b>Exemption based on specified use of property or service</b>					
1.12	Building and construction materials used in certain structures	171.5	174.9	180.2	185.6
1.13	TPP used directly in providing public utility services	125.0	126.7	126.2	125.7
1.14	Property used to fulfill a warranty or service contract	49.5	50.3	50.6	50.9
1.15	Motor vehicles sold in Ohio for use outside the state	51.2	53.4	55.4	57.8
1.16	TPP used in research and development	26.2	27.7	28.9	30.2



**FY 2014 – 2017**  
**Tax Expenditure**  
**Summary of Revenue Foregone**  
(in millions)

		<b>General Revenue Fund Revenue Foregone</b>			
		FY 2014	FY 2015	FY 2016	FY 2017
<b><u>Sales &amp; Use Tax-continued</u></b>					
1.17	TPP and services sold to telecomm providers	\$116.9	\$123.3	\$128.6	\$134.1
1.18	Qualified TPP used in making retail sales	41.6	43.9	45.9	47.9
1.19	Property used in highway transportation for hire	41.6	42.6	45.2	47.8
1.20	Qualified call center exemption	30.3	33.2	36.5	40.1
1.21	Copyrighted motion pictures and films	8.8	9.1	9.3	9.5
1.22	Equipment used in distribution warehouses	2.9	3.2	3.3	3.6
1.23	Drugs distributed to physicians as free samples	18.9	19.5	20.0	20.5
1.24	Property used in air, noise, or water pollution control	27.2	27.2	27.2	27.2
1.25	Exemption for certain purchases by electronic publishers	6.1	6.2	6.4	6.5
<b>Exempt products and services</b>					
1.26	Prescription drugs and selected medical supplies	390.9	414.8	431.7	445.3
1.27	Transportation of persons and property	143.0	153.5	162.8	172.5
1.28	Newspapers	22.5	22.5	22.5	22.5
1.29	Artificial limbs, prostheses, and other medical equipment	25.4	26.8	28.0	29.2
1.30	Qualifying used manufactured and mobile homes	2.9	3.0	3.0	3.0
1.31	Aviation repair and maintenance services and parts	3.9	4.0	4.1	4.1
1.32	Flight simulators	3.1	3.1	3.1	3.1
<b>Miscellaneous</b>					
1.33	Value of motor vehicle trade-ins	167.8	180.1	188.0	194.1
1.34	Discount for vendors	60.9	65.3	68.2	71.0
1.35	Food sold to students on school premises	19.8	20.1	20.4	20.8
1.36	Value of watercraft trade-ins	1.9	2.1	2.3	2.4
1.37	Value of cable, video, and audio/visual works bought or sold by cable or video service providers	8.7	9.6	10.3	11.1
1.38	Ships and rail rolling stock used in interstate commerce	1.8	1.8	1.9	2.0

**FY 2014 – 2017**  
**Tax Expenditure**  
**Summary of Revenue Foregone**  
**(in millions)**

		<b>General Revenue Fund Revenue Foregone</b>			
		FY 2014	FY 2015	FY 2016	FY 2017
<b><u>Sales &amp; Use Tax-continued</u></b>					
<b>Tax expenditures with revenue impact below \$1 million</b>					
1.39	Sales of qualified property used in an eligible computer data center	minimal	minimal	minimal	minimal
1.40	Sales to veterans' headquarters	minimal	minimal	minimal	minimal
1.41	Sales to facilities financed with public hospital bonds	minimal	minimal	minimal	minimal
1.42	Sales of animals by non-profit animal shelters	minimal	minimal	minimal	minimal
1.43	Agricultural "use on use" property	minimal	minimal	minimal	minimal
1.44	TPP used or consumed in commercial fishing	minimal	minimal	minimal	minimal
1.45	TPP for use in a retail business outside Ohio	minimal	minimal	minimal	minimal
1.46	TPP used in energy or waste conversion facilities	minimal	minimal	minimal	minimal
1.47	Sales of computers and computer equipment to certified teachers	minimal	minimal	minimal	minimal
1.48	Sales of qualified TPP to motor racing teams	minimal	minimal	minimal	minimal
1.49	TPP/services to maintain/repair fractionally-owned aircraft	minimal	minimal	minimal	minimal
1.50	Bulk water for residential use	minimal	minimal	minimal	minimal
1.51	25 percent refund for TPP used by electronic information service providers	minimal	minimal	minimal	minimal
1.52	\$800 tax cap on qualified fractionally-owned aircraft	minimal	minimal	minimal	minimal
1.53	Emergency and fire protection vehicles and equipment	minimal	minimal	minimal	minimal

**FY 2014 – 2017**  
**Tax Expenditure**  
**Summary of Revenue Foregone**  
(in millions)

		<b>General Revenue Fund Revenue Foregone</b>			
		FY 2014	FY 2015	FY 2016	FY 2017
<b><u>Sales &amp; Use Tax-continued</u></b>					
1.54	Property and services used in constructing qualified convention center	minimal	minimal	minimal	minimal
1.55	Controlled circulation magazines	minimal	minimal	minimal	minimal
1.56	Sales to qualifying non-profit corporations	minimal	minimal	minimal	minimal
<b>Total Sales and Use Tax</b>		<b>\$5,140.8</b>	<b>\$5,398.1</b>	<b>\$5,622.0</b>	<b>\$5,859.3</b>
<b><u>Individual Income Tax</u></b>					
<b>Exemptions, exclusions and deductions</b>					
2.01	Personal, spousal, and dependent exemption	\$497.7	\$541.7	\$560.1	\$579.7
2.02	Social security and railroad retirement benefits	282.6	283.3	304.9	320.6
2.03	Deduction for taxpayers not eligible for employer-sponsored medical plan	27.8	28.7	34.6	37.3
2.04	Exemption for disability income	26.5	27.3	29.1	30.0
2.05	Exemption for active-duty military income	21.3	23.1	25.0	26.7
2.06	Deduction for excess medical expenses	52.0	55.7	60.9	65.6
2.07	Exemption for pre-1972 trusts	11.1	11.7	12.2	12.9
2.08	Deduction for long-term care insurance premiums	6.6	6.6	7.3	7.7
2.09	Deduction for contributions to college savings programs	10.3	10.4	10.2	10.4
2.10	Exemption for uniformed services retirement income	29.3	31.3	34.1	36.3
2.11	Deduction for health insurance coverage of qualifying adult children and other dependents	3.9	4.1	4.4	4.6
2.12	Ohio small business investor income deduction	279.8	413.8	302.9	327.2
<b>Non-business tax credits</b>					
2.13	Joint filer credit	211.8	214.2	228.5	235.2
2.14	\$20 personal exemption credit	64.2	64.7	67.1	67.2
2.15	Retirement income credit	143.6	148.7	153.7	156.3

**FY 2014 – 2017**  
**Tax Expenditure**  
**Summary of Revenue Foregone**  
(in millions)

		<b>General Revenue Fund Revenue Foregone</b>			
		FY 2014	FY 2015	FY 2016	FY 2017
<b><u>Individual Income Tax-continued</u></b>					
2.16	Resident credit for income taxed by another state	\$85.2	\$91.7	\$98.7	\$106.2
2.17	\$50 senior citizen credit	25.4	24.5	29.6	31.0
2.18	Credit for taxpayers whose income is below \$10,000	4.5	2.5	2.5	2.4
2.19	Dependent care credit	4.3	3.7	4.2	4.6
2.20	Campaign contribution credit	4.0	4.1	3.8	4.2
2.21	Lump sum retirement income credit	1.7	1.6	1.8	1.9
2.22	Credit for adoption related expenses	1.8	2.2	3.5	2.0
2.23	Ohio earned income tax credit	43.8	69.3	59.4	58.3
<b>Business tax credits</b>					
2.24	Historic structure rehabilitation credit	60.7	64.6	73.8	86.5
2.25	Motion picture tax credit	19.7	19.3	19.3	19.3
2.26	Pass-through entity share of financial institutions tax	N/A	4.4	4.4	4.4
<b>Tax expenditures with revenue impact below \$1 million</b>					
2.27	Lump sum distribution credit	minimal	minimal	minimal	minimal
2.28	Deduction for organ donation expenses	minimal	minimal	minimal	minimal
2.29	Enterprise zone day care/training credit	minimal	minimal	minimal	minimal
2.30	Enterprise zone employee credit	minimal	minimal	minimal	minimal
2.31	Grape production credit	minimal	minimal	minimal	minimal
2.32	Ethanol plant investment credit	minimal	minimal	minimal	minimal
2.33	Deduction for Pell grant or Ohio college opportunity grant proceeds	minimal	minimal	minimal	minimal
2.34	Displaced worker job training credit	minimal	minimal	minimal	minimal
2.35	Medical savings accounts	minimal	minimal	minimal	minimal
2.36	Small business investment credit	minimal	minimal	minimal	minimal
<b>Total Income Tax</b>		<b>\$1,919.6</b>	<b>\$2,153.2</b>	<b>\$2,136.0</b>	<b>\$2,238.5</b>
<b><u>Financial Institutions Tax</u></b>					
3.01	Deduction for Ohio qualified real estate investment trusts	N/A	\$4.8	\$3.6	\$2.4
3.02	Assessments paid to Division of Financial Institutions	N/A	6.5	6.5	6.5
3.03	New markets tax credit	N/A	1.0	2.2	5.7

**FY 2014 – 2017**  
**Tax Expenditure**  
**Summary of Revenue Foregone**  
**(in millions)**

	<b>General Revenue Fund Revenue Foregone</b>			
	FY 2014	FY 2015	FY 2016	FY 2017
<b><u>Financial Institutions Tax-continued</u></b>				
<b>Tax expenditures with revenue impact below \$1 million</b>				
3.04 Credit for venture capital loan loss	N/A	minimal	minimal	minimal
<b>Total Financial Institutions Tax</b>	<b>\$0.0</b>	<b>\$12.3</b>	<b>\$12.3</b>	<b>\$14.6</b>
<b><u>Commercial Activity Tax</u></b>				
<b>Exclusions</b>				
4.01 Exclusion of first \$1 million of taxable gross receipts	\$238.1	\$247.6	\$257.5	\$267.8
4.02 Qualified distribution center receipts	151.8	154.4	157.0	164.6
4.03 State and federal cigarette excise taxes	3.8	3.7	3.6	3.5
4.04 Exclusion of real estate brokerage fees	1.4	1.4	1.4	1.5
4.05 State and federal alcoholic beverage taxes	1.0	1.0	1.0	1.1
4.06 Exclusion for professional employer organizations	4.0	4.4	4.9	5.4
4.07 Motor vehicle transfer exclusion	1.8	1.9	1.9	2.0
4.08 Exclusion of certain services to financial institutions	1.7	1.8	1.8	1.9
4.09 Exclusion for grain handlers	10.3	12.3	13.7	14.0
<b>Tax credits</b>				
4.10 Credit for increased research and development	24.3	26.3	27.4	28.6
4.11 Job creation tax credit	82.7	83.8	85.5	88.1
4.12 Job retention tax credit	24.2	29.6	29.0	29.6
4.13 Credit for net operating losses	6.3	6.6	6.8	7.1
4.14 Research and development loan program credit	0.9	1.0	1.2	1.5

**FY 2014 – 2017**  
**Tax Expenditure**  
**Summary of Revenue Foregone**  
(in millions)

	<b>General Revenue Fund Revenue Foregone</b>			
	FY 2014	FY 2015	FY 2016	FY 2017
<b><u>Commercial Activity Tax-continued</u></b>				
<b>Tax expenditures with revenue impact below \$1 million</b>				
4.15 Exemption for pre-1972 trusts	minimal	minimal	minimal	minimal
4.16 Anti-neoplastic drug exclusion	minimal	minimal	minimal	minimal
4.17 Horse racing taxes and purse exclusion	minimal	minimal	minimal	minimal
4.18 Exclusion for uranium enrichment facilities	minimal	minimal	minimal	minimal
<b>Total Commercial Activity Tax</b>	<b>\$552.3</b>	<b>\$575.8</b>	<b>\$592.7</b>	<b>\$616.7</b>
<b><u>Public Utility Excise Tax</u></b>				
5.01 Exemption for municipal utilities and non-profit waterworks	\$69.9	\$69.7	\$68.5	\$68.5
5.02 Credit for certain natural gas companies	8.3	8.3	8.3	4.3
5.03 Sales to other public utilities for resale	1.5	1.5	1.5	1.5
<b>Tax expenditures with revenue impact below \$1 million</b>				
5.04 \$25,000 deduction from gross receipts	minimal	minimal	minimal	minimal
<b>Total Public Utility Excise Tax</b>	<b>\$79.7</b>	<b>\$79.5</b>	<b>\$78.3</b>	<b>\$74.3</b>
<b><u>Kilowatt Hour Tax</u></b>				
6.01 Exemption for qualified end-users	minimal	minimal	minimal	minimal
<b>Total Kilowatt Hour Tax</b>	<b>minimal</b>	<b>minimal</b>	<b>minimal</b>	<b>minimal</b>
<b><u>Insurance Premium Taxes</u></b>				
7.01 Deduction for premiums received from qualified small business alliances	\$29.2	\$29.2	\$29.2	\$29.2
7.02 Credit for small insurers	2.5	2.5	2.5	2.5
7.03 Ohio Life and Health Guaranty Association contribution credit	3.4	3.5	3.4	3.4
<b>Total Insurance Premium Taxes</b>	<b>\$35.1</b>	<b>\$35.2</b>	<b>\$35.1</b>	<b>\$35.1</b>

**FY 2014 – 2017**  
**Tax Expenditure**  
**Summary of Revenue Foregone**  
(in millions)

	<b>General Revenue Fund Revenue Foregone</b>			
	FY 2014	FY 2015	FY 2016	FY 2017
<b><u>Cigarette and Other Tobacco Products Taxes</u></b>				
8.01 Discount for cigarette tax stamps	\$13.3	\$12.9	\$12.5	\$12.1
8.02 Discount for timely payment of other tobacco products excise tax	1.4	1.5	1.6	1.7
<b>Total Cigarette and Other Tobacco Products Taxes</b>	<b>\$14.7</b>	<b>\$14.4</b>	<b>\$14.1</b>	<b>\$13.8</b>
<b><u>Alcoholic Beverage Tax</u></b>				
9.01 Advanced payment credit/discount	\$1.4	\$1.4	\$1.4	\$1.4
9.02 Small brewer's credit	3.0	3.0	3.0	3.0
<b>Tax expenditures with revenue impact below \$1 million</b>				
9.03 Sacramental wine exemption	minimal	minimal	minimal	minimal
9.04 Small wine producer's exemption	minimal	minimal	minimal	minimal
<b>Total Alcoholic Beverage Tax</b>	<b>\$4.4</b>	<b>\$4.4</b>	<b>\$4.4</b>	<b>\$4.4</b>
<b>GRAND TOTAL ALL TAXES</b>	<b>\$7,746.6</b>	<b>\$8,272.9</b>	<b>\$8,494.9</b>	<b>\$8,856.7</b>

# Sales and Use Tax

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## Sales and Use Tax

The sales and use tax became law in 1934 at a rate of 3 percent and began to be levied on January 27, 1935. In 1967, the rate was increased to 4 percent. After a temporary 5 percent sales tax rate was imposed during the period of January through June of 1981, a permanent 5 percent rate was adopted in November 1981. Until 1981, the sales and use tax was restricted to the sale or rental of tangible personal property. In November 1981, the tax base was extended to selected services. Since then, additional services have been made subject to sales and use tax. Authority to levy a permissive sales tax was given to counties in 1967 and transit authorities in 1974.

In 2003, legislation was enacted to impose a temporary increase in the state sales tax rate from 5 percent to 6 percent. This increase was in effect for the July 1, 2003 through June 30, 2005 period. Rather than allowing the rate to revert back to 5 percent once the temporary increase expired, Am. Sub. House Bill 66 (126<sup>th</sup> General Assembly; FY 2006-2007 operating budget) set the rate at 5.5 percent, effective July 1, 2005. Am. Sub. House Bill 59 (130<sup>th</sup> General Assembly; FY 2014-2015 operating budget) increased the state sales tax rate to 5.75 percent effective September 1, 2013. The estimates given in this report account for the two rates for FY 2014.

## Tax Base

The sale and rental of tangible personal property and statutorily enumerated services in Ohio (or of property and selected services purchased out-of-state but used in Ohio) constitute the Ohio sales and use tax base. The tax base reflects a complex amalgam of statutory and constitutional provisions, as well as the accumulation of administrative and case law interpretations.

Since its 1935 inception, the sales and use tax structure has reflected a variety of exceptions, exemptions, and credits. This report omits some of these exceptions, exemptions, and credits because they are considered to be baseline features of the sales and use tax. For instance, certain sales and use tax exceptions have been excluded that conform the sales and use tax more closely to the concept of a tax on final consumption. One feature that helps limit the sales and use tax to final consumption – thereby mitigating the economic distortions otherwise created by “pyramiding” (a phenomenon that occurs when the same activity or final product is taxed more than once as it moves through the economic production chain) – is the resale exception.<sup>13</sup> The resale exception applies to purchased items that are subsequently resold by the purchaser in the same form (typically to a final consumer). This exception is elemental to a sales and use tax such that it is not considered a tax preference and therefore does not appear as a tax expenditure in this report.

The report does not include a credit for sales tax paid to other states. When an item is purchased in another state and sales tax is paid to such state, Ohio law typically allows a credit for the tax paid to that state (although if the tax paid to the other state is lower than what the tax would be under Ohio law, the purchaser must pay the difference to Ohio).<sup>14</sup> Such a credit is a baseline feature of the sales and use tax, and therefore is not considered a tax expenditure.

Another item excluded from the report is the exemption for “casual sales.”<sup>15</sup> The report reflects the assumption that the sales tax was inherently designed not to tax the kinds of transactions subject to the casual sales exemption. Transactions covered by the casual sales exemption are those involving the sale of an item by a person that had originally acquired the item for the person’s own use, as long as the item had already been subject to a state sales or use tax.<sup>16</sup>

Other exceptions considered inherent to the sales and use tax – and therefore not appearing as tax expenditures in this report – are those sanctioned by the Ohio Constitution. One such exception pertains to food sold for human consumption.<sup>17</sup> The Ohio Constitution precludes the imposition of a sales tax on food (including prepared food)

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<sup>13</sup> Ohio Revised Code § 5739.01(E) (2014).

<sup>14</sup> Ohio Revised Code § 5741.02(C)(5) (2014).

<sup>15</sup> Ohio Revised Code § 5739.02(B)(8) (2014).

<sup>16</sup> Sales of motor vehicles and other specified types of vehicles are not subject to the casual sales exemption. Ohio Revised Code § 5739.02(B)(8) (2014).

<sup>17</sup> Ohio Revised Code § 5739.02(B)(2) (2014).



# Sales and Use Tax

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consumed off the premises where sold.<sup>18</sup> Another such exception is for sales of motor fuel. Sales of fuel used by motor vehicles operated on public highways are not subject to sales tax because the Ohio Constitution requires any revenue generated from an excise tax on this product to be used for highway-related purposes and not be deposited in the GRF.<sup>19</sup>

## Tax Rate

The tax is imposed by the State of Ohio at a 5.75 percent rate. In addition, a local permissive sales tax may be imposed by a county or transit authority at a rate between 0.25 percent and 1.5 percent (for each), with a maximum allowable combined permissive sales tax rate of 3 percent (the highest total permissive sales tax rate currently in effect is 2.25 percent, in Cuyahoga County). Local permissive sales taxes are *not* reflected in the figures provided in this report.

## Significant Changes Enacted by the 130<sup>th</sup> General Assembly

Three sales tax law changes were enacted during the last two years related to tax expenditures. Am. Sub. House Bill 59 (FY 2014-2015 operating budget) repealed the sales tax exemption for magazine subscriptions but maintained the exemption for controlled circulation magazines. This bill also created an exemption for sales to certain non-profit organizations and for sales of cable, video and audio/visual works bought or sold by cable or video service providers.

## Sales and Use Tax Expenditure Estimates

The estimates shown below reflect the estimated revenue foregone by the GRF from each tax expenditure. The text reflects the effect of “overlapping” provisions (i.e., another credit, exclusion, or exemption available to the taxpayer) that effectively reduce the revenue consequences associated with the tax expenditure. Figures are rounded to the nearest tenth.

These tax expenditure estimates rely mostly on secondary data sources rather than internal, Department of Taxation-originated data sources such as tax returns. Economic census data – generated by the U.S. Department of Commerce, Bureau of the Census – is the most extensively-used source of data for the estimates. However, various other types of data and information are used in the estimates, including those generated by other non-Census Bureau federal agencies, by industry trade groups, and by academic, public, and not-for-profit research organizations.

**NOTE: See page 4 for description of data source codes.**

## A. Exempt entities

### 1.01 Sales to churches and certain other non-profit organizations

*Ohio Revised Code 5739.02(B)(12); originally enacted 1935; revised 2013*

Sales to churches, non-profit entities organized under Internal Revenue Code section 501(c)(3), and certain other types of non-profit organizations are exempt from the sales and use tax.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 544.9	\$ 594.7	\$ 642.0	\$ 693.0

Data Source Code: (B), (C)

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<sup>18</sup> Ohio Constitution Art. 12, § 13.

<sup>19</sup> Ohio Constitution Art. 12, § 5a. The State of Ohio imposes a motor vehicle fuel excise tax of 28 cents per gallon whose revenue is earmarked for highway-related purposes (construction, repair and maintenance of roads, bridges, etc.). Ohio Revised Code § 5735.01 et seq.

# Sales and Use Tax

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## 1.02 Sales to the state, any of its political subdivisions, and to certain other states<sup>20</sup>

*Ohio Revised Code 5739.02(B)(1); originally enacted 1935, revised 1994*

Sales to the State of Ohio and any of its political subdivisions are exempt from the sales and use tax. Also exempt from the sales and use tax are sales to any other state (and its subdivisions) as long as such state provides an exemption for sales made to the State of Ohio (and its subdivisions).

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 193.5	\$ 201.7	\$ 208.0	\$ 214.4

Data Source Code: (B)

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## 1.03 Sales by churches and certain types of non-profit organizations

*Ohio Revised Code 5739.02(B)(9); originally enacted 1961*

Sales, other than motor vehicles, mobile homes, and manufactured homes, by churches, non-profit organizations organized under Internal Revenue Code section 501(c)(3), and certain other non-profit organizations are exempt from the sales and use tax, if the number of days on which sales are made does not exceed six in any calendar year, except the limitation on the number of days on which tax-exempt sales may be made does not apply to sales made by student clubs and other groups of students of a primary or secondary school, or a parent-teacher association, booster group, or similar organization that raises money to support or fund curricular or extracurricular activities of a primary or secondary school.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 35.0	\$ 38.0	\$ 40.9	\$ 44.0

Data Source Code: (B)

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## B. Exemptions for property used or consumed to produce a product

### 1.04 Tangible personal property used primarily in manufacturing tangible personal property

*Ohio Revised Code 5739.02(B)(42)(g); originally enacted 1935, revised 1990*

Sales of tangible personal property where the purpose of the purchaser is to use the property primarily in a manufacturing operation to produce tangible personal property for sale are exempt from the sales and use tax.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$1,727.3	\$1,810.5	\$1,890.0	\$1,968.3

Data Source Code: (B)

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### 1.05 Packaging and packaging equipment

*Ohio Revised Code 5739.02(B)(15); originally enacted 1961*

Packaging and packaging equipment, including materials, labels, and parts for packaging machinery, and equipment, sold to manufacturers and other qualified businesses are exempt from the sales and use tax.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 286.2	\$ 300.8	\$ 315.1	\$ 328.9

Data Source Code: (B)

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<sup>20</sup> The estimate excludes estimated purchases by the State of Ohio because such purchases do not entail an appreciable state fiscal cost. The reason is currently-foregone sales tax revenue is offset by decreased costs on its acquisitions. Viewed from another perspective, if the exemption were repealed, the State of Ohio would experience an increase in expenditures nearly commensurate with the sales tax revenue gain.

# Sales and Use Tax

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## 1.06 Sales of tangible personal property and services to electricity providers

*Ohio Revised Code 5739.02(B)(40); originally enacted 2000*

Tangible personal property and services used or consumed by a provider of electricity directly and primarily in generating, transmitting, or distributing electricity for use by others is exempt from the sales and use tax.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 342.7	\$ 353.7	\$ 357.4	\$ 367.7

Data Source Code: (A), (B)

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## 1.07 Tangible personal property used or consumed in agriculture or mining

*Ohio Revised Code 5739.02(B)(42)(a) and (n); originally enacted 1935, revised 2011*

Purchases of tangible personal property incorporated as a material or part, or used or consumed directly to produce a product for sale by mining (including minerals, oil, and natural gas), farming, agricultural, horticultural, or floricultural operations are exempt from the sales and use tax.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 385.0	\$ 393.1	\$ 399.7	\$ 414.4

Data Source Code: (B), (C)

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## 1.08 Agricultural land tile and portable grain bins

*Ohio Revised Code 5739.02(B)(30) and (31); originally enacted 1985*

Sales and installation of agricultural land tile and erection or installation of portable grain bins are exempt.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 1.4	\$ 1.4	\$ 1.4	\$ 1.4

Data Source Code: (A)

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## 1.09 Tangible personal property used to produce printed materials<sup>21</sup>

*Ohio Revised Code 5739.02(B)(42)(f); originally enacted 1973*

Machinery, equipment, and material used in the production for sale of printed, imprinted, overprinted, lithographic, multilithic, blueprinted, photostatic, or other graphic productions or re-productions are exempt from the sales and use tax.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 22.0	\$ 22.4	\$ 22.4	\$ 22.5

Data Source Code: (B), (C)

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<sup>21</sup> This estimate was reduced by an assumed 75 percent under the expectation that most of this property is also subject to the sales tax exemption for property used primarily in manufacturing (tax expenditure item 1.04). The estimate for tax expenditure item 1.04 was not adjusted for tangible personal property also subject to tax expenditure item 1.09. The exemption also applies to property used to produce magazines distributed as controlled circulation publications as reported in tax expenditure item 1.56.

# Sales and Use Tax

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**1.10 Tangible personal property used in storing, preparing and serving food<sup>22</sup>**  
*Ohio Revised Code 5739.02(B)(27); originally enacted 1981*

Tangible personal property used in storing, preparing and serving food in a commercial food establishment is exempt from the sales and use tax. Also exempt from the tax are items used to clean tangible personal property used to store, prepare or serve food for human consumption.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 29.8	\$ 31.1	\$ 32.2	\$ 33.2

Data Source Code: (B)

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**1.11 Tangible personal property used in preparing eggs for sale**  
*Ohio Revised Code 5739.02(B)(24); originally enacted 1974*

Equipment and supplies used for the cleaning, sanitizing, preserving, grading, sorting, classifying, packaging, and handling of eggs for sale are exempt from the sales and use tax.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 2.7	\$ 2.8	\$ 2.9	\$ 3.0

Data Source Code: (B)

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## C. Exemptions based on specified use of property or service

**1.12 Building and construction materials and services used in certain structures<sup>23</sup>**  
*Ohio Revised Code 5739.02(B)(13); originally enacted 1959, revised 1994*

A sales and use tax exemption is provided for building and construction materials and services sold to construction contractors for incorporation into certain types of structures. The exemption applies to structures built under a construction contract with the following entities: federal government; the State of Ohio and its political subdivisions; religious institutions and other organizations exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code; businesses engaged in horticultural and livestock purposes; and certain other types of entities specified in state law.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 171.5	\$ 174.9	\$ 180.2	\$ 185.6

Data Source Code: (B)

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<sup>22</sup> This estimate was reduced by an assumed 50 percent under the expectation that most of this property is also subject to the sales tax exemptions for property used primarily in manufacturing (tax expenditure item 1.04) and for packaging and packaging equipment (tax expenditure item 1.05).

<sup>23</sup> The estimate excludes estimated purchases attributable to building contracts with the State of Ohio. This reflects the assumption that currently-foregone revenue from the exemption is offset by decreased project costs for state projects. Because the tax exemption creates no appreciable fiscal cost to the State of Ohio on its projects, those projects have been excluded from the estimate.

# Sales and Use Tax

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## 1.13 Tangible personal property used directly in providing public utility services

*Ohio Revised Code 5739.02(B)(42)(a); originally enacted 1935*

Property (including fuel) used in production, transportation, or distribution of a public utility service, or used in the repair and maintenance of machinery and equipment used directly in providing a public utility service, is exempt from the sales and use tax.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 125.0	\$ 126.7	\$ 126.2	\$ 125.7

Data Source Code: (A), (B)

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## 1.14 Property used to fulfill a warranty or service contract

*Ohio Revised Code 5739.02(B)(42)(k); originally enacted 1986*

Parts and labor used to fulfill a warranty that is provided as part of the price of tangible personal property sold are exempt from the sales and use tax. In addition, parts and labor used to fulfill a warranty, maintenance, or service contract in which the vendor of such warranty or contract agrees to repair or maintain the consumer's tangible personal property, are exempt from the tax.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 49.5	\$ 50.3	\$ 50.6	\$ 50.9

Data Source Code: (A)

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## 1.15 Motor vehicles sold in Ohio for use outside the state

*Ohio Revised Code 5739.02(B)(23); originally enacted 1971, revised 2007 and 2008*

Motor vehicles sold in Ohio to non-residents, when the vehicles are immediately removed from Ohio and titled or registered in another state, are exempt from the sales and use tax. However, no exemption is permitted if the vehicle is titled or registered in a foreign nation (other than Canada), or in a U.S. state that applies its sales tax to an Ohioan purchasing a vehicle in that state.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 51.2	\$ 53.4	\$ 55.4	\$ 57.8

Data Source Code: (A), (B)

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## 1.16 Tangible personal property used in research and development

*Ohio Revised Code 5739.02(B)(42)(i); originally enacted 1993*

Qualified tangible personal property used in research and development is exempt from the sales and use tax.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 26.2	\$ 27.7	\$ 28.9	\$ 30.2

Data Source Code: (C)

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# Sales and Use Tax

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## 1.17 Tangible personal property and services used in providing telecommunications and satellite broadcasting services

*Ohio Revised Code 5739.02(B)(34); originally enacted 1987*

Tangible personal property and services used directly and primarily in providing a telecommunications, mobile telecommunications, or satellite broadcasting service are exempt from the sales and use tax.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 116.9	\$ 123.3	\$ 128.6	\$ 134.1

Data Source Code: (A)

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## 1.18 Qualified tangible personal property used in making retail sales

*Ohio Revised Code 5739.02(B)(35); originally enacted 1935*

Sales of advertising material or catalogs used or consumed in making retail sales that price and describe property offered for retail sale are exempt from the sales and use tax. Also exempt are purchases by direct marketing vendors of items that are used in printing advertising material. In addition, equipment primarily used to accept orders for direct marketing retail sales are exempt.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 41.6	\$ 43.9	\$ 45.9	\$ 47.9

Data Source Code: (B), (C)

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## 1.19 Property used in highway transportation for hire

*Ohio Revised Code 5739.02(B)(32); originally enacted 1985*

The sales and use tax exemption is allowed for the sale, lease, repair, and maintenance of motor vehicles primarily used in transporting personal property by a person engaged in highway transportation for hire. Parts and other items attached to/incorporated in the motor vehicle also qualify for the exemption.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 41.6	\$ 42.6	\$ 45.2	\$ 47.8

Data Source Code: (B), (C)

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## 1.20 Qualified call center exemption

*Ohio Revised Code 5739.02(B)(45); originally enacted 2003, revised 2012*

The sales of telecommunication services that are used directly and primarily to perform the functions of a qualified call center are exempt from the sales and use tax.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 30.3	\$ 33.2	\$ 36.5	\$ 40.1

Data Source Code: (B), (C)

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# Sales and Use Tax

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## 1.21 Copyrighted motion pictures and films

*Ohio Revised Code 5739.01(B)(8); originally enacted 1945*

Rental or sale of copyrighted motion pictures for exhibition purposes, unless solely used for advertising, is exempt from the sales and use tax. Rentals of videotaped motion pictures, DVDs, or similar items for private home use are taxable.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 8.8	\$ 9.1	\$ 9.3	\$ 9.5

Data Source Code: (B)

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## 1.22 Equipment used in private warehouses and distribution centers with inventory primarily shipped out of state

*Ohio Revised Code 5739.02(B)(42)(j) and (B)(48); originally enacted 1994, revised 2008*

A sales and use tax exemption is allowed for equipment used primarily in handling purchased sales inventory in a distribution facility when the inventory is primarily distributed outside this state to: (1) the retail stores of the person (or an affiliated entity) who owns or controls the distribution facility; or (2) customers if the facility is owned by a mail order business; or (3) independent salespersons operating as direct sellers if the facility is owned by a qualifying direct selling entity.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 2.9	\$ 3.2	\$ 3.3	\$ 3.6

Data Source Code: (B)

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## 1.23 Drugs distributed to physicians as free samples

*Ohio Revised Code 5741.02(C)(7); originally enacted 2001*

Drugs that are distributed free of charge to a physician licensed to prescribe, dispense, and administer drugs to a human being in the course of professional practice are exempt from the use tax.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 18.9	\$ 19.5	\$ 20.0	\$ 20.5

Data Source Code: (B), (C)

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## 1.24 Property used in air, noise, or water pollution control

*Ohio Revised Code 5709.25; originally enacted 1965*

Tangible personal property used in air, noise, or water pollution control by holders of pollution control certificates is exempt from the sales and use tax.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 27.2	\$ 27.2	\$ 27.2	\$ 27.2

Data Source Code: (A), (B)

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# Sales and Use Tax

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## 1.25 Tangible personal property used in electronic publishing

*Ohio Revised Code 5739.02(B)(42)(o); originally enacted 2007*

Tangible personal property used in acquiring, formatting, editing, storing, and disseminating data or information by electronic publishing is exempt from the sales and use tax. "Electronic publishing" is limited to electronic information and data access provided primarily to business customers.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 6.1	\$ 6.2	\$ 6.4	\$ 6.5

Data Source Code: (A)

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## D. Exempt products and services

### 1.26 Prescription drugs and selected medical items

*Ohio Revised Code 5739.02(B)(18); originally enacted 1961*

Drugs that may only be dispensed pursuant to a prescription; certain products used by diabetics; and other qualified items used by individuals for medical purposes are exempt from the sales and use tax.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 390.9	\$ 414.8	\$ 431.7	\$ 445.3

Data Source Code: (B)

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### 1.27 Transportation of persons and property

*Ohio Revised Code 5739.02(B)(11); originally enacted 1935*

Transportation of property and most transportation of persons is exempt from the sales and use tax.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 143.0	\$ 153.5	\$ 162.8	\$ 172.5

Data Source Code: (A), (B)

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### 1.28 Newspapers

*Ohio Revised Code 5739.02(B)(4); originally enacted 1935*

Newspapers purchased at places of business, vending machines, or through subscription and published at least bi-weekly are exempt from the sales and use tax.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 22.5	\$ 22.5	\$ 22.5	\$ 22.5

Data Source Code: (B)

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### 1.29 Artificial limbs, prostheses, wheelchairs, and other durable medical equipment

*Ohio Revised Code 5739.02(B)(19); originally enacted 1973, revised 1978, 2001 and 2003*

Sales of prosthetic devices, durable medical equipment for home use, or mobility-enhancing equipment are exempt from the sales and use tax. To qualify for the exemption, the property must be purchased pursuant to a prescription.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 25.4	\$ 26.8	\$ 28.0	\$ 29.2

Data Source Code: (B)

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# Sales and Use Tax

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## 1.30 Exemption for used mobile homes and reduced taxable price on new mobile homes

*Ohio Revised Code 5739.02(B)(39), 5739.0210; originally enacted 2000*

Sales of qualified used manufactured and mobile homes are exempt from the sales and use tax. In addition, for sales tax purposes, the dealers of new manufactured and mobile homes are considered consumers of homes they sell, so sales tax is paid based on dealer's cost rather than on the amount paid by the ultimate consumer.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 2.9	\$ 3.0	\$ 3.0	\$ 3.0

Data Source Code: (C)

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## 1.31 Sales of materials and services for maintenance and repair of aircraft

*Ohio Revised Code 5739.02(B)(49); originally enacted 2008*

Sales of materials, parts, equipment, and engines used in the repair or maintenance of aircraft or avionics systems, as well as sales of maintenance and repair services, are exempt from the sales and use tax.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 3.9	\$ 4.0	\$ 4.1	\$ 4.1

Data Source Code: (A), (C)

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## 1.32 Flight simulators

*Ohio Revised Code 5739.02(B)(50); originally enacted 2008*

The sales of full flight simulators that are used for pilot or flight-crew training are exempt from the sales and use tax. Also exempt are sales of repair or replacement parts or components of such flight simulators, as well as repair or maintenance services.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 3.1	\$ 3.1	\$ 3.1	\$ 3.1

Data Source Code: (C)

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## E. Miscellaneous provisions

### 1.33 Value of motor vehicle trade-ins

*Ohio Revised Code 5739.01(H)(2); originally enacted 1981*

The value of vehicles traded-in on the purchase of new motor vehicles is exempt from the sales and use tax and may be deducted from the taxable base of the new motor vehicle.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 167.8	\$ 180.1	\$ 188.0	\$ 194.1

Data Source Code: (B), (C)

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# Sales and Use Tax

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## 1.34 Discount for vendors

*Ohio Revised Code 5739.12, 5741.12; originally enacted 1981*

A 0.75 percent discount on sales tax collected by vendors, and on use tax collected by out-of-state registered sellers, is granted if the tax due is remitted by the due date of the tax return.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 60.9	\$ 65.3	\$ 68.2	\$ 71.0

Data Source Code: (A)

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## 1.35 Food sold to students on school premises

*Ohio Revised Code 5739.02(B)(3); originally enacted 1937*

Sales of food to students in a cafeteria, dormitory, fraternity, or sorority maintained in a public, private, or parochial school, college, or university are exempt from the sales and use tax.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 19.8	\$ 20.1	\$ 20.4	\$ 20.8

Data Source Code: (B), (C)

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## 1.36 Value of watercraft trade-ins

*Ohio Revised Code 5739.01(H)(3); originally enacted 1990*

The value of any watercraft, watercraft and trailer, or outboard motor traded-in on a new or used watercraft or outboard motor sold by a licensed watercraft dealer is exempt from the sales and use tax.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 1.9	\$ 2.1	\$ 2.3	\$ 2.4

Data Source Code: (B)

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## 1.37 Value of cable, video and audio/visual works bought or sold by cable or video service providers

*Ohio Revised Code 5739.02(B)(53); originally enacted 2013*

Sales to or by a cable service provider, video service provider, or radio or television broadcast station regulated by the federal government, of cable service or programming, video or audio service or programming, or electronically transferred digital audio/visual work are exempt from the sales and use tax.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 8.7	\$ 9.6	\$ 10.3	\$ 11.1

Data Source Code: (B), (C)

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## 1.38 Ships and rail rolling stock used in interstate or foreign commerce

*Ohio Revised Code 5739.02(B)(14); originally enacted 1938*

Sales of ships or rail rolling stock used principally in foreign or interstate commerce are exempt from the sales and use tax.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 1.8	\$ 1.8	\$ 1.9	\$ 2.0

Data Source Code: (A), (C)

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# Sales and Use Tax

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## F. Tax expenditures with annual revenue impact below \$1 million

- 1.39 Sales of qualified property used in an eligible computer data center**  
*Ohio Revised Code 122.175; originally enacted 2011; revised 2013*
- 1.40 Sales to veterans' headquarters**  
*Ohio Revised Code 5739.02(B)(33); originally enacted 1986*
- 1.41 Sales to facilities financed with public hospital bonds**  
*Ohio Revised Code 140.08; originally enacted 1971*
- 1.42 Sales of animals by non-profit animal shelters**  
*Ohio Revised Code 5739.02(B)(28); originally enacted 1981*
- 1.43 Agricultural "use on use" property**  
*Ohio Revised Code 5739.02(B)(17); originally enacted 1961*
- 1.44 Tangible personal property used or consumed in commercial fishing**  
*Ohio Revised Code 5739.02(B)(42)(d); originally enacted 1945*
- 1.45 Property for use in a retail business outside Ohio**  
*Ohio Revised Code 5739.02(B)(21); originally enacted 1968*
- 1.46 Property used in energy or waste conversion facilities**  
*Ohio Revised Code 5709.20, 5709.25; originally enacted 1978*
- 1.47 Sales of computers and computer equipment to certified teachers**  
*Ohio Revised Code 5739.02(B)(37); originally enacted 1997*
- 1.48 Sales of qualified tangible personal property to qualified motor racing team**  
*Ohio Revised Code 5739.02(B)(38); originally enacted 1997*
- 1.49 Sales of tangible personal property and services for maintenance and repair of qualified fractionally-owned aircraft<sup>24</sup>**  
*Ohio Revised Code 5739.02(B)(44); originally enacted 2003*
- 1.50 Bulk water for residential use**  
*Ohio Revised Code 5739.02(B)(25); originally enacted 1978*
- 1.51 25 percent refund for qualified tangible personal property used by electronic information service providers**  
*Ohio Revised Code 5739.071; originally enacted 1993*
- 1.52 \$800 tax cap on qualified fractionally-owned aircraft**  
*Ohio Revised Code 5739.025(G); originally enacted 2003*
- 1.53 Emergency and fire protection vehicles and equipment**  
*Ohio Revised Code 5739.02(B)(20); originally enacted 1965*
- 1.54 Property and services used in constructing a qualifying convention center**  
*Ohio Revised Code 5739.02(B)(13); originally enacted 2010*

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<sup>24</sup> This tax expenditure is shown as having a minimal revenue impact under the expectation that most of this property is also eligible for the sales tax exemption for materials and services used in the maintenance and repair of aircraft (tax expenditure item 1.31). In contrast, the estimate for tax expenditure item 1.31 was not reduced to reflect property and services subject to this tax expenditure.

## **Sales and Use Tax**

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**1.55 Controlled circulation magazines**

*Ohio Revised Code 5739.02(B)(4); originally enacted 1935, revised 2002 and 2013*

**1.56 Sales to qualifying non-profit corporations**

*Ohio Revised Code 5739.02(B)(52); originally enacted 2013*

# Individual Income Tax

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## Individual Income Tax

Ohio was first authorized to levy an income tax in 1912 by a constitutional amendment. However, 60 years elapsed before the first state individual income tax became effective in 1972. The income tax was designed to be closely based on federal law to facilitate compliance by the taxpayer and ease of administration by the state.

### Tax Base

The tax base for the Ohio individual income tax is the amount reported as federal adjusted gross income (FAGI) to the U.S. Internal Revenue Service plus or minus adjustments according to Ohio income tax law.

### Tax Rate

Ohio has a graduated income tax with nine rate classes. For taxable years (TY) beginning 2014 and thereafter, the tax rates range from 0.528 percent at the bottom income bracket to 5.333 percent at the top income bracket.

Annual indexing of the income tax brackets took effect in TY 2010. Ohio law requires annual adjustments to the individual income tax brackets based on the growth in the gross domestic product deflator during the preceding calendar year (although the calculated amounts are ultimately required to be rounded to the nearest \$50). For example, in TY 2012, the bottom tax bracket ends at \$5,050 of Ohio taxable income, compared to \$5,000 during TY 2011; in TY 2012, the top income tax bracket begins at \$201,800 of Ohio taxable income, compared to \$200,000 in TY 2011. The changes to the brackets are calculated in July of each year and apply to the taxable year during which the changes are calculated.<sup>25</sup> The indexing of these brackets was temporarily suspended under Am. Sub. House Bill 59 (130<sup>th</sup> General Assembly; FY 2014-2015 operating budget) for TY 2013-2015.

### Significant Changes Enacted by the 130<sup>th</sup> General Assembly

Am. Sub. House Bill 59 (FY 2014-2015 operating budget) made changes pertaining to several individual income tax expenditures effective for TY 2013 and thereafter. The bill repealed the deduction for gambling losses and the technology investment tax credit. In addition, the \$20 personal exemption credit was modified to allow it for only those with Ohio taxable income of less than \$30,000. The bill also extended the deduction for military retirement pay to the Commissioned Corps of the National Oceanographic and Atmospheric Administration and the Public Health Service by permitting all “uniformed services” to claim the deduction. There was also a slight modification to the historic preservation tax credit.

The bill also enacted two new expenditures. It created a nonrefundable state earned income tax credit equal to 5 percent of the taxpayer’s allowed federal earned income tax credit subject to statutorily enumerated limitations. A new deduction was made available for small business investor income equal to 50 percent of the business income included in a taxpayer’s federal adjusted gross income (FAGI) and to the extent apportioned to Ohio. The deduction is limited to \$125,000 per taxpayer per year, with the cap set at \$62,500 for each spouse if filing separately.

Am. Sub. House Bill 483 increased the personal exemption amounts available to income taxpayers whose Ohio adjusted gross income (OAGI) is \$80,000 or less, from \$1,700 to either \$2,200 or \$1,950, depending on the taxpayer’s income. It also increased the Ohio earned income tax credit percentage from 5 to 10 percent of taxpayer’s federal credit, subject to existing limitations. These changes are effective for TY 2014 and thereafter. The bill temporarily increased the deduction for the small business investor income from 50 to 75 percent for TY 2014 only.

Sub. Senate Bill 250 modified the tax credit for a taxpayer’s legal adoption of a minor child to be the greater of \$1,500 or the amount of expenses incurred for the adoption (not exceeding \$10,000). Excess adoption tax credit may be carried forward for five taxable years, up from two. The new provisions are effective for TY 2014 and thereafter.

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<sup>25</sup> Reductions in tax rates are not considered tax expenditures for purposes of this report. Similarly, alterations in tax brackets do not meet the operative definition of a tax expenditure, which is why the annual indexing of the individual income tax brackets is not included as an expenditure item in this report.

# Individual Income Tax

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## Individual Income Tax Expenditure Estimates

The estimates shown below reflect the estimated revenue foregone by the GRF from each tax expenditure. In addition, the text reflects the effects of possible “overlapping” provisions (i.e., other credits, exemptions or deductions available to the taxpayer) that would also dampen the potential revenue gain of the repealed tax expenditure.

Various data sources were used to derive the tax expenditure estimates. Most of the tax expenditure estimates were based on information taken from individual income tax returns filed with the Department of Taxation. However, some of the estimates were derived from secondary data sources, such as the Internal Revenue Service, other state agencies and published public finance research.

**NOTE: See page 4 for description of data source codes.**

### A. Exemptions, exclusions, and deductions

#### 2.01 Personal, spousal, and dependent exemption

*Ohio Revised Code 5747.025; originally enacted 1972, revised 2002 and 2013*

An exemption may be claimed for the taxpayer, taxpayer’s spouse, and each dependent. The exemption’s indexing provision was suspended for TY 2013-2015 and the amount remained at \$1,700 for those respective tax years. Beginning in TY 2014, the exemption became \$2,200 for those with OAGI of \$40,000 or less; \$1,950 for those with OAGI from \$40,000 to \$80,000 and remained at \$1,700 for taxpayers above \$80,000 OAGI. When indexing resumes in TY 2016, the exemption is expected to increase by \$50 for each level stated above.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 497.7	\$ 541.7	\$ 560.1	\$ 579.7

Data Source Code: (A)

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#### 2.02 Social security and railroad retirement benefits

*Ohio Revised Code 5747.01(A)(5); originally enacted 1972*

All social security and railroad retirement benefits included in FAGI may be excluded from the calculation of OAGI.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 282.6	\$ 283.3	\$ 304.9	\$ 320.6

Data Source Code: (A)

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#### 2.03 Deduction for taxpayers not eligible for an employer-sponsored medical plan

*Ohio Revised Code 5747.01(A)(11); originally enacted 1999*

Qualifying taxpayers who are not able to participate in an employer-sponsored medical plan may deduct any amounts paid for medical care insurance.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 27.8	\$ 28.7	\$ 34.6	\$ 37.3

Data Source Code: (A), (B)

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# Individual Income Tax

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## 2.04 Exemption for disability income

*Ohio Revised Code 5747.01(A)(4); originally enacted 1975*

Disability income included in FAGI is excluded from the calculation of OAGI.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 26.5	\$ 27.3	\$ 29.1	\$ 30.0

Data Source Code: (A), (B)

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## 2.05 Exemption for active-duty military income

*Ohio Revised Code 5747.01(A)(24); originally enacted 2006*

Military income included in FAGI may be excluded from the calculation of OAGI if the pay is received for active duty service in the military, military reserve, or National Guard outside the state.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 21.3	\$ 23.1	\$ 25.0	\$ 26.7

Data Source Code: (B)

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## 2.06 Deduction for excess medical expenses

*Ohio Revised Code 5747.01(A)(11); originally enacted 1999*

Qualifying taxpayers may claim a deduction for the amount of medical expenses that exceeds 7.5 percent of their FAGI.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 52.0	\$ 55.7	\$ 60.9	\$ 65.6

Data Source Code: (A), (B)

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## 2.07 Exemption for pre-1972 trusts

*Ohio Revised Code 5747.01(FF) and 5751.01(E)(7); originally enacted 2006*

Qualifying trusts created before 1972 that have elected to be subject to the commercial activity tax are exempt from the individual income tax.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 11.1	\$ 11.7	\$ 12.2	\$ 12.9

Data Source Code: (A)

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## 2.08 Deduction for long-term care insurance premiums

*Ohio Revised Code 5747.01(A)(11); originally enacted 1999*

A taxpayer may deduct the full amount of long-term health care premiums.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 6.6	\$ 6.6	\$ 7.3	\$ 7.7

Data Source Code: (C)

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# Individual Income Tax

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## 2.09 Deduction for contributions to college savings programs

*Ohio Revised Code 5747.01(A)(10) and 5747.70; originally enacted 1999*

A taxpayer may receive a deduction, limited to \$2,000 per beneficiary, for contributions to either the prepaid tuition or variable college savings programs.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 10.3	\$ 10.4	\$ 10.2	\$ 10.4

Data Source Code: (A)

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## 2.10 Deduction for uniformed services retirement income

*Ohio Revised Code 5747.01(A)(26); originally enacted 2008, revised 2013*

Uniformed services retirement income included in FAGI is excluded from the calculation of OAGI.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 29.3	\$ 31.3	\$ 34.1	\$ 36.3

Data Source Code: (A), (B)

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## 2.11 Deduction for health insurance coverage for qualifying adult children and other dependents

*Ohio Revised Code 5747.01(A)(11); originally enacted 2009*

To the extent included in FAGI, a deduction is allowed for amounts paid for health care insurance provided to a qualifying adult child or relative who, but for the fact such person does not meet the income and support limitations in Internal Revenue Code section 152(d)(1)(B) and (C), would be considered a dependent under federal tax law.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 3.9	\$ 4.1	\$ 4.4	\$ 4.6

Data Source Code: (B), (C)

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## 2.12 Ohio small business investor income deduction<sup>26</sup>

*Ohio Revised Code 5747.01(A)(31); originally enacted 2013, revised 2014*

Deduct one-half of the taxpayer's Ohio small business investor income, the deduction not to exceed \$62,500 for each spouse if spouses file separate returns or \$125,000 for all other taxpayers. No pass-through entity may claim a deduction under this division.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 279.8	\$ 413.8	\$ 302.9	\$ 327.2

Data Source Code: (A), (B)

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<sup>26</sup> Am. Sub. House Bill 483 (130<sup>th</sup> General Assembly) temporarily increased this deduction for TY 2014 to equal 75 percent of the taxpayer's small business investor income with the deduction not to exceed \$93,750 for each spouse if spouses file a separate return or \$187,500 for all other taxpayers.



# Individual Income Tax

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## B. Non-business tax credits

### 2.13 Joint filer credit

*Ohio Revised Code 5747.05(G); originally enacted 1973*

Taxpayers using married filing joint status may claim a joint filing credit if each spouse has at least \$500 in earned income. The maximum credit allowed in any year is \$650.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 211.8	\$ 214.2	\$ 228.5	\$ 235.2

Data Source Code: (A)

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### 2.14 \$20 personal exemption credit

*Ohio Revised Code 5747.022; originally enacted 1983, revised 2013*

Taxpayers with Ohio taxable income of less than \$30,000 may claim a \$20 credit for each personal exemption claimed.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 64.2	\$ 64.7	\$ 67.1	\$ 67.2

Data Source Code: (A)

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### 2.15 Retirement income credit

*Ohio Revised Code 5747.055(B); originally enacted 1983*

Taxpayers with qualified retirement income included in OAGI receive a tax credit up to \$200.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 143.6	\$ 148.7	\$ 153.7	\$ 156.3

Data Source Code: (A)

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### 2.16 Resident credit for income taxed by another state

*Ohio Revised Code 5747.05(B); originally enacted 1972*

Ohio residents may claim a credit for taxes paid to another state. The credit is the lesser of the amount of the tax levied by the other state or the amount of Ohio income tax that would otherwise have been levied on such income.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 85.2	\$ 91.7	\$ 98.7	\$ 106.2

Data Source Code: (A)

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### 2.17 \$50 credit for taxpayers aged 65 years or older

*Ohio Revised Code 5747.05(C); originally enacted 1972*

Taxpayers aged 65 or older receive a \$50 tax credit per return.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 25.4	\$ 24.5	\$ 29.6	\$ 31.0

Data Source Code: (A)

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# Individual Income Tax

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## 2.18 Credit for taxpayers with income below \$10,000

*Ohio Revised Code 5747.056; originally enacted 2005, revised 2006 and 2009*

Taxpayers having Ohio taxable income of \$10,000 or less receive a credit that eliminates their tax liability.  
(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 4.5	\$ 2.5	\$ 2.5	\$ 2.4

Data Source Code: (A)

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## 2.19 Dependent care credit

*Ohio Revised Code 5747.054; originally enacted 1988, revised 1993 and 1997*

Taxpayers with qualifying child and dependent care expenses and income below \$40,000 can claim a credit based on the federal dependent care credit.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 4.3	\$ 3.7	\$ 4.2	\$ 4.6

Data Source Code: (A)

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## 2.20 Campaign contribution credit

*Ohio Revised Code 5747.29; originally enacted 1995*

Taxpayers may receive a credit of up to \$50 (\$100 for a joint return) for campaign contributions to candidates running for statewide office, state representative, or state senator.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 4.0	\$ 4.1	\$ 3.8	\$ 4.2

Data Source Code: (A)

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## 2.21 Lump sum retirement income credit

*Ohio Revised Code 5747.055(C) through (E); originally enacted 1972*

Lump sum distributions received on account of retirement from a qualified retirement plan may be given special tax treatment. The entire balance in the account must be received during one year.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 1.7	\$ 1.6	\$ 1.8	\$ 1.9

Data Source Code: (A)

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## 2.22 Credit for adoption related expenses

*Ohio Revised Code 5747.37; originally enacted 1999, revised 2007 and 2014*

Taxpayers participating in a legal adoption can receive a tax credit of \$1,500 per child. Beginning in TY 2014, the credit is modified to be the greater of \$1,500 or the amount of expenses incurred for the adoption (not to exceed \$10,000) and extends the time period in which excess credit may be taken from two years to five years.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 1.8	\$ 2.2	\$ 3.5	\$ 2.0

Data Source Code: (A), (C)

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# Individual Income Tax

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## 2.23 Ohio earned income tax credit

*Ohio Revised Code 5747.71; originally enacted 2013, revised 2014*

Qualifying taxpayers may claim a nonrefundable state earned income tax credit equal to up to 10 percent (5 percent in TY 2013) of the taxpayer's allowed federal earned income tax credit.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 43.8	\$ 69.3	\$ 59.4	\$ 58.3

Data Source Code: (A), (B)

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## C. Business tax credits

### 2.24 Historic structure rehabilitation credit<sup>27</sup>

*Ohio Revised Code 149.311, 5725.34, 5726.52, 5729.17, 5747.76; originally enacted 2007, revised 2008, 2011, 2012 and 2014*

A tax credit equal to 25 percent of qualified rehabilitation expenditures, but not to exceed \$5 million in a given taxable year, is available to owners of historic structures.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 60.7	\$ 64.6	\$ 73.8	\$ 86.5

Data Source Code: (B)

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### 2.25 Motion picture tax credit<sup>28</sup>

*Ohio Revised Code 122.85, 5726.55, 5747.66, 5751.54; originally enacted 2009, revised 2012*

A refundable tax credit may be claimed for Ohio production expenditures by eligible motion picture productions. The credit equals 35 percent of the wages of resident cast and crew, and 25 percent of all other eligible expenditures. The credit is based on the lesser of initially-budgeted production expenditures or actual production expenditures. No production may receive more than \$5 million in tax credits, and the total amount of issued credits may not exceed \$40 million per fiscal biennium and may not exceed \$20 million in the first year of a biennium.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 19.7	\$ 19.3	\$ 19.3	\$ 19.3

Data Source Code: (B)

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### 2.26 Credit for pass-through entity investor's share of financial institutions tax

*Ohio Revised Code 5747.65; originally enacted 2012*

Individual owners of pass-through entities that are required to file and pay the FIT may receive a refundable income tax credit for their share of FIT paid.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	N/A	\$ 4.4	\$ 4.4	\$ 4.4

Data Source Code: (C)

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<sup>27</sup> The credit is also available to qualifying insurance taxpayers and FIT taxpayers.

<sup>28</sup> This credit is also available to qualifying FIT and commercial activity tax taxpayers.

# Individual Income Tax

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## D. Tax expenditures with revenue impact below \$1 million

- 2.27 Lump sum distribution credit**  
*Ohio Revised Code 5747.05(D); originally enacted 1972*
- 2.28 Deduction for organ donation expenses**  
*Ohio Revised Code 5747.01(A)(25); originally enacted 2007*
- 2.29 Enterprise zone day care/training credit**  
*Ohio Revised Code 5709.65; originally enacted 1982*
- 2.30 Enterprise zone employee credit**  
*Ohio Revised Code 5709.66; originally enacted 1994*
- 2.31 Grape production credit**  
*Ohio Revised Code 5747.28; originally enacted 1995*
- 2.32 Ethanol plant investment credit**  
*Ohio Revised Code 901.13, 5747.75; originally enacted 2002*
- 2.33 Deduction for Pell grant or Ohio college opportunity grant proceeds**  
*Ohio Revised Code 5747.01(A)(30); originally enacted 2011*
- 2.34 Displaced worker job training credit**  
*Ohio Revised Code 5747.27; originally enacted 1994*
- 2.35 Deduction for contributions to medical savings accounts**  
*Ohio Revised Code 5747.01(A)(14); originally enacted 1996*
- 2.36 Small business investment credit**  
*Ohio Revised Code 122.86, 5747.81; originally enacted 2011*

# Financial Institutions Tax

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## Financial Institutions Tax

The financial institutions tax (FIT) was enacted in 2012 by Am. Sub. House Bill 510 (129<sup>th</sup> General Assembly). This new tax replaces the corporate franchise tax and dealers in intangibles tax. It became effective in TY 2014 (based on activity occurring in TY 2013).

### Tax Base and Tax Rate

The tax base is “total Ohio equity capital” of financial institutions. Total equity capital is comprised of all forms of equity, such as common stock, surplus, and retained earnings. (However, the equity of non-controlling minority interests in consolidated subsidiaries that are not financial institutions is not included.) An apportionment ratio is applied to total equity capital to derive total Ohio equity capital. The ratio reflects the proportion of taxpayer gross receipts that can be apportioned to Ohio.

The tax has a three-tier rate structure, as follows:

0.8 percent on the first \$200 million of total Ohio equity capital;

0.4 percent on the next \$1.1 billion of total Ohio equity capital (between \$200 million and \$1.3 billion); and

0.25 percent on the remaining total Ohio equity capital (above \$1.3 billion).

FIT taxpayers are subject to a minimum tax of \$1,000.

### Financial Institutions Tax Expenditure Estimates

The estimates shown below reflect the estimated revenue foregone by the GRF from each tax expenditure. As mentioned in the **Introduction** section, many of the credits are included in other sections.<sup>29</sup>

**NOTE: See page 4 for description of data source codes.**

## A. Deductions

### 3.01 Deduction for qualified Ohio real estate investment trusts<sup>30</sup>

*Ohio Revised Code 5726.041; originally enacted 2013*

For the purposes of computing the total Ohio equity capital, a deduction is allowed for a financial institution’s investments in an Ohio qualified real estate investment trust.

(Dollar Amounts in Millions)

<i>Estimates</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	N/A	\$ 4.8	\$ 3.6	\$ 2.4

Data Source: (A)

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<sup>29</sup> Job creation tax credit and job retention tax credit are included in the commercial activity tax expenditure items 4.11 and 4.12, respectively.

<sup>30</sup> This deduction is phased out over five years and is completely phased out by tax year 2017.

# Financial Institutions Tax

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## B. Tax credits

### 3.02 Credit for assessments paid to Division of Financial Institutions

*Ohio Revised Code 5726.51; originally enacted 2013*

A credit is allowed for amounts required to be paid to the Ohio Department of Commerce, Division of Financial Institutions under Title XI of the Ohio Revised Code.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	N/A	\$ 6.5	\$ 6.5	\$ 6.5

Data Source Code: (A), (B)

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### 3.03 New markets tax credit<sup>31</sup>

*Ohio Revised Code 5725.33, 5726.54, 5729.16; originally enacted 2009*

Taxpayers with an equity investment in a qualified community development entity may claim a nonrefundable tax credit equal to a designated percentage of the adjusted purchase price of qualified low-income community investments. The credit percentage is zero percent in the first two years of the investment, 7 percent in the third year of the investment, and 8 percent in each of the four following years (for a total credit of 39 percent).

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	N/A	\$ 1.0	\$ 2.2	\$ 5.7

Data Source Code: (A), (B), (C)

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## C. Tax expenditures with revenue impact below \$1 million

### 3.04 Credit for venture capital loan loss<sup>32</sup>

*Ohio Revised Code 150.07, 5725.19, 5726.53, 5727.241, 5729.08 and 5747.80; originally enacted 1975*

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<sup>31</sup> This credit is also available under the domestic and foreign insurance premium taxes.

<sup>32</sup> This credit is also available under the domestic and foreign insurance premium taxes, public utility excise tax, and the individual income tax.

# Commercial Activity Tax

## Commercial Activity Tax

Established by Am. Sub. House Bill 66 (126<sup>th</sup> General Assembly; FY 2006-2007 operating budget) and made effective on July 1, 2005, the commercial activity tax (CAT) is a business privilege tax measured by gross receipts on business activities in this state. The tax was a central element in the tax reform package enacted by House Bill 66. The CAT now serves as Ohio's primary business tax, replacing both the tangible personal property tax and the corporate franchise tax.

### Taxpayers

The CAT applies to business entities with taxable gross receipts of more than \$150,000 per calendar year. The tax applies to most businesses above the \$150,000 threshold, regardless of organizational form; sole proprietorships, partnerships, LLCs, and corporations are subject to the tax. Although the tax applies to most kinds of business entities, there are some notable exemptions. Non-profit entities are exempt from the tax. A limited number of other businesses, such as certain types of public utilities, insurance companies, financial institutions, and the affiliates of insurance companies and financial institutions, are also exempt from the tax since they are subject to an alternative tax. The CAT applies whether the business is based in this state or is located outside of this state as long as that business has "substantial nexus" with this state.

The tax is paid on an annual or quarterly basis. An annual minimum tax is due by May 10 of each year. The tiers for the minimum tax are shown in the table below. In addition, taxpayers with receipts above \$1 million report and pay the tax on a quarterly basis, with the return and payment due by the 10<sup>th</sup> day of the second month following the end of the calendar quarter (e.g., taxes for the third quarter of 2014 were required to be paid by November 10, 2014).

Taxable Gross Receipts	Annual Minimum Tax
\$1 million or less	\$ 150
Greater than \$1 million but less than or equal to \$2 million	\$ 800
More than \$2 million but less than or equal to \$4 million	\$2,100
More than \$4 million	\$2,600

### Tax Base

The CAT is measured by taxable gross receipts on business activities within the state, 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. Certain types of receipts are excluded from the definition of taxable gross receipts, including (but not limited to) cash discounts, certain types of interest, dividend, and capital gains income, income in the form of repayment principal of a loan, gifts or charitable contributions, and gross receipts relating to motor fuel.

### Tax Rate

The CAT is levied at a rate of 0.26 percent on annual taxable gross receipts in excess of \$1 million. Each taxpayer pays an annual minimum tax based upon its amount of taxable gross receipts as shown in the table above.

### Definition of Commercial Activity Tax Expenditures

The following characteristics are designated as meeting the definition of a CAT tax expenditure: (1) any exclusion, deduction or credit *not* contained in Ohio Revised Code sections 5751.01 or 5751.011; or (2) any gross receipts exclusion or deduction contained in Ohio Revised Code sections 5751.01 or 5751.011 that benefits a specific class of taxpayers. In all cases, the exclusion, deduction, or credit must produce tax savings for taxpayers and an associated loss in GRF tax revenue in order to be considered a tax expenditure.

### Significant Changes Enacted by the 130<sup>th</sup> General Assembly

Am. Sub. House Bill 59 (FY 2014-2015 operating budget) contained items that affected CAT tax expenditures. It created an exclusion from the definition of gross receipts for gross receipts derived from grain handling. The exclusion of receipts relating to motor fuel is not contained here as a CAT tax expenditure, as these receipts have

# Commercial Activity Tax

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become subject to the petroleum activity tax.<sup>33</sup> However, this change in taxation of the receipts relating to motor fuel did eliminate the CAT exclusion for exchanges of petroleum not involving monetary compensation.

## Commercial Activity Tax Expenditure Estimates

This report reflects the estimated revenue foregone by the GRF from each tax expenditure. The estimates of these tax expenditures are based on various data sources. Some of the estimates use data reported to the Department of Taxation while other estimates were generated using secondary data sources, such as economic data reported by the U.S. Bureau of the Census.

**NOTE: See page 4 for description of data source codes.**

### A. Exclusions and deductions

#### 4.01 Exclusion of first \$1 million of taxable gross receipts

*Ohio Revised Code 5751.03; originally enacted 2005*

The first \$1 million of each taxpayer's annual taxable gross receipts are not subject to the commercial activity tax rate. Instead, each taxpayer pays an annual minimum tax.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 238.1	\$ 247.6	\$ 257.5	\$ 267.8

Data Source Code: (A)

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#### 4.02 Qualified distribution center receipts exclusion

*Ohio Revised Code 5751.01(F)(2)(z); originally enacted 2006, revised 2012*

Purchases made by a qualifying Ohio distribution center, and destined for a location outside Ohio, are excluded from the supplier's taxable gross receipts. A qualifying distribution center is a facility in which the center's total sales exceed \$500 million and more than 50 percent of the center's total sales are shipped to a location outside Ohio.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 151.8	\$ 154.4	\$ 157.0	\$ 164.6

Data Source Code: (A)

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#### 4.03 State and federal cigarette excise tax exclusion

*Ohio Revised Code 5751.01(F)(2)(q); originally enacted 2005*

An amount equal to federal and state excise taxes paid for cigarette or other tobacco products is excluded from the taxable gross receipts from the sale of such cigarette or other tobacco products by a wholesale dealer, retail dealer, distributor, manufacturer or seller.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 3.8	\$ 3.7	\$ 3.6	\$ 3.5

Data Source Code: (A), (B)

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<sup>33</sup> The Supreme Court of Ohio held that the (former) allocation under R.C. 5751.20 of CAT revenues derived from the gross receipts of the sale of motor fuel used to propel vehicles on public highways and waterways to non-highway purposes violated the Ohio Constitution, Article XII, Section 5a. *Beaver Excavating Company et al. v. Testa*, 134 Ohio St.3d 565 (2012).



# Commercial Activity Tax

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## 4.04 Exclusion of real estate brokerage gross receipts that are not retained

*Ohio Revised Code 5751.01(F)(3); originally enacted 2005*

In the case of a taxpayer when acting as a real estate broker, any fees not retained by the broker are not included in the broker's taxable gross receipts.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 1.4	\$ 1.4	\$ 1.4	\$ 1.5

Data Source Code: (C)

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## 4.05 State and federal alcoholic beverage excise tax exclusion

*Ohio Revised Code 5751.01(F)(2)(s); originally enacted 2005*

An amount equal to federal and state excise taxes paid for beer or intoxicating liquor is excluded from the taxable gross receipts from the sale of such beer or intoxicating liquor.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 1.0	\$ 1.0	\$ 1.0	\$ 1.1

Data Source Code: (A), (B)

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## 4.06 Professional employer organization exclusion

*Ohio Revised Code 5751.01(F)(2)(x); originally enacted 2005*

Property, money, and other amounts received by a professional employer organization from a client employer, in excess of the administrative fee charged by the professional employer organization to the client employer, is excluded from the taxable gross receipts of the professional employer organization.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 4.0	\$ 4.4	\$ 4.9	\$ 5.4

Data Source Code: (B)

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## 4.07 Motor vehicle transfer exclusion

*Ohio Revised Code 5751.01(F)(2)(t); originally enacted 2005*

Receipts realized by a new or used motor vehicle dealer from the sale or transfer of a motor vehicle to another dealer when the sole purpose of the sale or transfer is to meet a specific customer's preference for a motor vehicle are excluded from taxable gross receipts of motor vehicle dealers.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 1.8	\$ 1.9	\$ 1.9	\$ 2.0

Data Source Code: (C)

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# Commercial Activity Tax

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## 4.08 Exclusion of certain services to financial institutions *Ohio Revised Code 5751.01(F)(2)(u); originally enacted 2005*

Receipts from a financial institution for certain services provided to the financial institution are excluded from taxable gross receipts of the service provider, as long as the financial institution and the entity providing those services share common ownership.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 1.7	\$ 1.8	\$ 1.8	\$ 1.9

Data Source Code: (A)

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## 4.09 Exclusion of receipts from sale of agricultural commodities by an agricultural commodity handler *Ohio Revised Code 5751.01(F)(2)(ii); originally enacted 2013*

Receipts from the sale of agricultural commodities are excluded from taxable gross receipts of licensed agricultural commodity handlers.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 10.3	\$ 12.3	\$ 13.7	\$ 14.0

Data Source Code: (A), (B)

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## B. Tax credits

### 4.10 Credit for increased qualified research and development expenses<sup>34</sup> *Ohio Revised Code 5726.56 and 5751.51; originally enacted 2001, revised 2005 and 2013*

Taxpayers may take a nonrefundable credit equal to 7 percent of the increased qualified research expenses incurred in Ohio.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 24.3	\$ 26.3	\$ 27.4	\$ 28.6

Data Source Code: (A), (B)

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### 4.11 Job creation tax credit<sup>35</sup> *Ohio Revised Code 122.17, 5725.32, 5726.50, 5729.032, 5736.50, 5747.058(A), and 5751.50(A); originally enacted 1993, revised 2013*

A qualifying business may be granted a refundable tax credit through an agreement with the Ohio Tax Credit Authority. The credit is a designated percentage of the amount of a company's "excess income tax revenue," defined as the amount by which the actual Ohio individual income tax withholding on its employees' wages exceeds baseline income tax withholding.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 82.7	\$ 83.8	\$ 85.5	\$ 88.1

Data Source Code: (B)

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<sup>34</sup> This credit is also available against the FIT.

<sup>35</sup> This credit is also available against the insurance taxes, the petroleum activity tax, the FIT and the individual income tax (as long as the sole proprietor or pass-through entity is not claiming the credit against the CAT). This estimate includes the estimated credit amount attributable to those taxes.

# Commercial Activity Tax

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## 4.12 Job retention tax credit<sup>36</sup>

*Ohio Revised Code 122.171, 5726.50, 5725.98, 5729.98, 5736.50, 5747.058(B), and 5751.50(B); originally enacted 2003, revised 2013*

An eligible business may be granted a nonrefundable tax credit through an agreement with the Ohio Tax Credit Authority. The credit is equal to a designated percentage of the employees' Ohio individual income withholding tax (not to exceed 75 percent) over a period of up to 15 years.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 24.2	\$ 29.6	\$ 29.0	\$ 29.6

Data Source Code: (A), (B)

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## 4.13 Credit for net operating loss carry-forwards and other deferred tax assets

*Ohio Revised Code 5751.53; originally enacted 2005*

Beginning in calendar year 2010, qualifying taxpayers may claim a nonrefundable tax credit equal to 8 percent of the taxpayer's Ohio corporate franchise tax net operating loss carry-forwards and other deferred tax items. The credit allowed to be claimed in any given year equals 10 percent of the total generated credit and any credit carried forward from a previous year, but may not exceed 50 percent of the taxpayer's commercial activity tax liability for that year.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 6.3	\$ 6.6	\$ 6.8	\$ 7.1

Data Source Code: (A)

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## 4.14 Research and development loan program credit

*Ohio Revised Code 5751.52; originally enacted 2003*

Borrowers in the Research and Development Loan Fund Program are eligible for nonrefundable and limited transferable credits for qualified payments made on loans issued from the fund by the Director of the Ohio Development Services Agency (formerly the Ohio Department of Development).

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 0.9	\$ 1.0	\$ 1.2	\$ 1.5

Data Source Code: (A)

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## C. Tax expenditures with revenue impact below \$1 million

### 4.15 Exemption for pre-1972 trusts

*Ohio Revised Code 5751.01(E)(7); originally enacted 2005*

### 4.16 Anti-neoplastic drug exclusion

*Ohio Revised Code 5751.01(F)(2)(v); originally enacted 2005*

### 4.17 Horse racing taxes and purse exclusion

*Ohio Revised Code 5751.01(F)(2)(y); originally enacted 2005*

### 4.18 Receipts from sale of uranium from qualifying uranium enrichment zone

*Ohio Revised Code 5751.01(F)(2)(gg); originally enacted 2011*

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<sup>36</sup> The credit is also allowed to be taken against the petroleum activity tax, the FIT, and the individual income tax.

# Public Utility Excise Tax

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## Public Utility Excise Tax

The public utility excise tax is levied on companies classified by statute as public utilities. Originally enacted in 1894, the present tax structure was established in 1911. Historically, electric, natural gas, and local telephone companies have accounted for the bulk of total public utility excise tax revenue collections. However, in 2001, electric and rural electric companies became subject to the kilowatt hour tax and electric companies also became subject to the corporate franchise tax (Am. Sub. Senate Bill 3, 123<sup>rd</sup> General Assembly), and these entities were no longer subject to the public utility excise tax. In 2005, telephone companies became subject to the corporate franchise tax, their services became subject to the sales and use tax, and they became exempt from the public utility excise tax through Am. Sub. House Bill 95 (125<sup>th</sup> General Assembly; FY 2004-2005 operating budget).

### Tax Base

The public utility excise tax is applied to the gross receipts for natural gas, pipeline, heating, water transportation, and water works companies.<sup>37</sup> There is a minimum tax of \$50 for each tax year.

### Tax Rate

The tax rate for the public utility excise tax is 4.75 percent, except pipeline companies pay 6.75 percent.

### Public Utility Excise Tax Expenditure Estimates

The estimates shown below reflect the estimated revenue foregone by the GRF from each tax expenditure. The report reflects the effect of a possible “overlapping” provision (i.e., another credit, exclusion, or exemption available to the taxpayer) that effectively reduces the revenue consequences associated with the tax expenditure.

Data used to estimate the expenditures are primarily from public utility excise tax returns filed with the Department of Taxation and other sources within the department. Data from the U.S. Census Bureau was also used to form a basis of some estimates.

**NOTE: See page 4 for description of data source codes.**

## A. Exemptions, credits, and deductions

### 5.01 Exemption for municipal utilities and non-profit waterworks

*Ohio Revised Code 5727.05; originally enacted 1896*

Municipal utilities and non-profit corporations that are engaged exclusively in the treatment, distribution, and sale of water to consumers are exempt from the public utility excise tax.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 69.9	\$ 69.7	\$ 68.5	\$ 68.5

Data Source Code: (B)

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<sup>37</sup> In 2001, natural gas companies began to pay their public utility excise tax on a different schedule (Am. Sub. Senate Bill 215, 123<sup>rd</sup> General Assembly). These companies became subject to the natural gas consumption tax to mitigate the impact of a reduction in their tangible personal property tax (Am. Sub. Senate Bill 287, 123<sup>rd</sup> General Assembly).

# Public Utility Excise Tax

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## 5.02 Credit for certain natural gas companies

*Ohio Revised Code 5727.29; originally enacted 2000*

Natural gas companies that pay the public utility excise tax on a current-quarter system are granted a tax credit for the transition costs from the previous tax schedule. Note: The last of this credit will be taken on returns filed in November 2016.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 8.3	\$ 8.3	\$ 8.3	\$ 4.3

Data Source Code: (A)

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## 5.03 Sales to other public utilities for resale

*Ohio Revised Code 5727.33(B)(4); originally enacted 1961, revised 2004*

Sales to other public utilities when the services are to be resold by that public utility are excluded.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 1.5	\$ 1.5	\$ 1.5	\$ 1.5

Data Source Code: (A)

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## B. Tax expenditures with revenue impact below \$1 million

### 5.04 \$25,000 exemption from gross receipts for each public utility company

*Ohio Revised Code 5727.33(E) and (F); originally enacted 1934, revised 2004*

# Kilowatt Hour Tax

## Kilowatt Hour Tax

Am. Sub. Senate Bill 3 (123<sup>rd</sup> General Assembly) restructured the electric industry in Ohio. Prior to this bill, electric companies had been subject to the public utility excise tax. They also were subject to higher assessment rates on their tangible personal property than general business taxpayers. Among other changes, the enactment removed electric companies from the public utility excise tax and instead levied the corporate franchise tax on these entities (which has since been repealed). The legislation also lowered the assessment rate on much of these entities' tangible personal property. To replace the lost revenue, this enactment created the kilowatt hour tax. This tax is levied on electric distribution companies and is measured by the end user's consumption of kilowatt hours of electricity. Qualifying large consumers of electricity may elect to self-assess the tax based on the amount of kilowatt hours of electricity consumed and a tax rate structure specific to only self-assessors. The kilowatt hour tax became effective in May 2001.

### Tax Base

The tax base for the kilowatt hour tax is the amount of kilowatt hours distributed to the end consumer.

The tax base for the self-assessor option is the amount of kilowatt hours consumed.

### Tax Rate

#### *Kilowatt Hour Tax:*

<b>Kilowatt Hours Distributed to the End User per Month</b>	<b>Rate per Kilowatt Hour</b>
0 – 2,000 kilowatts	\$0.00465
2,001 – 15,000 kilowatts	\$0.00419
Over 15,000 kilowatts	\$0.00363

**Self-Assessor Option Tax:** The sum of 0.257 cents per kilowatt hour (kWh) on the first 500 million kWh consumed per year, and 0.1832 cents per kWh for each remaining kWh consumed.

### Kilowatt Hour Tax Expenditure Estimate

The figures provided below reflect the estimated revenue foregone by the GRF. The portion of the tax attributable to the School District Property Tax Replacement Fund, Local Government Property Tax Replacement Fund, Local Government Fund, and Public Library Fund is not included in the estimates.

Data used to estimate the expenditure was primarily from tax return filings with the Department of Taxation and industries affected by the tax expenditure, and secondarily from the U.S. Energy Information Administration.

**NOTE:** See page 4 for description of data source codes.

## A. Tax expenditures with revenue impact below \$1 million

### 6.01 Exemption for qualified end-users

*Ohio Revised Code 5727.81(D); originally enacted 1999*

# Insurance Premium Taxes

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## Insurance Premium Taxes

The domestic insurance tax was created in 1830 with a 4 percent property tax on dividends paid by insurance companies. In 1933, the tax was changed to tax the lesser of 0.2 percent on capital and surplus or 1.67 percent of gross premiums. The franchise tax rate on gross premiums increased to 2.5 percent in 1971. The tax rate on capital and surplus increased to 0.6 percent in 1981.

The foreign insurance tax was created in 1830, with a 4 percent property tax on profits from premiums. In 1852, the value of gross premiums (rather than profits from premiums) was subject to the tax. In 1888, a supplemental tax was levied on gross premiums, and when added to the property tax, it produced an effective tax rate of 2.5 percent on gross premiums. A direct 2.5 percent gross premiums tax was created in 1902.

Am. Sub. House Bill 215 (122<sup>nd</sup> General Assembly) made numerous changes to the domestic and foreign insurance taxes, including changes to the rates and bases of the two taxes. These changes were fully phased in by TY 2003, at which time the two taxes shared the same gross premium tax base and tax rate (1.4 percent). The bill also established a small insurers tax credit, along with a minimum tax of \$250.

### Tax Base

The tax base for domestic and foreign insurers is the gross amount of premiums covering risks in Ohio, less specified deductions.

### Tax Rate

Domestic and foreign insurers are taxed at 1.4 percent of gross premiums. Foreign insurers are also subject to retaliatory provisions. Fire insurance is subject to an additional 0.75 percent tax on gross premiums. Instead of the 1.4 percent tax rate, a 1 percent tax rate is applied to health insurance corporations.

### Insurance Premium Tax Expenditure Estimates

The estimates shown below reflect the estimated revenue foregone by the GRF from each tax expenditure. Data for these tax expenditures are obtained from the Ohio Department of Insurance and the Ohio Life and Health Guaranty Association. Assistance was also provided by these organizations regarding the projected growth of these tax expenditures.

**NOTE: See page 4 for description of data source codes.**

## A. Credits and deductions

### 7.01 Deduction for premiums received from qualified small business alliances

*Ohio Revised Code 1731.07; originally enacted 1993*

An insurer may deduct amounts received from underwriting a health care plan under the qualified small employer health care alliance program. The deduction is allowed on premiums or other charges received from, or on behalf of, an enrolled small employer and eligible employees and retirees covered by the health benefit plan.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 29.2	\$ 29.2	\$ 29.2	\$ 29.2

Data Source Code: (B)

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# Insurance Premium Taxes

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**7.02 Credit for small insurers**

*Ohio Revised Code 5729.031; originally enacted 1999*

A foreign or domestic insurance company or insurance company group, with less than \$75 million in premiums sold in all states by the company or group, may take a tax credit of up to a maximum of \$200,000 against its foreign or domestic insurance premium tax liability. The credit is based on the ratio derived by dividing the company's or group's premiums sold in all states by \$75 million. This ratio is multiplied by \$200,000 to yield the tax credit amount.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 2.5	\$ 2.5	\$ 2.5	\$ 2.5

Data Source Code: (B)

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**7.03 Ohio Life and Health Guaranty Association contribution credit**

*Ohio Revised Code 3956.20; originally enacted 1989*

Members of the Ohio Life and Health and Guaranty Association make contributions to a fund used to pay Ohioans with insurance policies held by bankrupt companies. Members are able to use their contribution as a credit on the state franchise or premium tax return. Each year's credit equals 20 percent of the contributed amount. The contribution credit may be claimed over five years. Therefore, by the end of the five-year period, the total cumulative credit received by the taxpayer equals the full amount it had contributed to the fund.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 3.4	\$ 3.5	\$ 3.4	\$ 3.4

Data Source Code: (B)

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# Cigarette and Other Tobacco Products Taxes

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## Cigarette and Other Tobacco Products Taxes

The excise tax on cigarettes was first levied in 1931. The tax rate ranged from its original 2 cents per pack to 15 cents in 1971. The rate was reduced to 14 cents per pack in 1981 and cigarette sales became subject to the sales and use tax. The rate was increased to 24 cents per pack in January, 1993. It was increased to 55 cents per pack on July 1, 2002. The current rate of \$1.25 per pack became effective July 1, 2005.

The excise tax on other tobacco products was levied beginning in February of 1993. The current rate is 17 percent of the wholesale price, except for little cigars. Am. Sub. House Bill 59 (130<sup>th</sup> General Assembly; FY 2014-2015 operating budget) increased the tax rate for little cigars to 37 percent effective October 1, 2013.

### Tax Base

The cigarette tax applies to the sale, use, consumption, or storage of cigarettes in Ohio. The excise tax on other tobacco products applies to the receipt or import of other tobacco products for resale. Other tobacco products include cigars, chewing tobacco, rolling tobacco, smoking tobacco, snuff, little cigars, and other tobacco products.

### Tax Rate

The cigarette tax rate is 6.25 cents per cigarette (\$1.25 per pack of 20 cigarettes). The other tobacco products tax rate is 17 percent on the wholesale price of other tobacco products, except for little cigars which are taxed at 37 percent.

## Cigarette and Other Tobacco Products Tax Expenditure Estimates

The estimates shown below reflect the estimated revenue foregone by the GRF from each tax expenditure and are based primarily on data from tax returns filed with the Department of Taxation.

**NOTE: See page 4 for description of data source codes.**

## A. Credits

### 8.01 Discount for cigarette tax stamps

*Ohio Revised Code 5743.05; originally enacted 1934, revised 2006*

Cigarette excise taxpayers are eligible to receive a discount when purchasing cigarette excise tax stamps or meter impressions as a commission for affixing and canceling the stamps or meter impressions. The value of this discount shall not be less than 1.8 percent or more than 10 percent of the face value of the tax stamps and meter impressions, with the exact rate set by rule. Under the current rule, the rate of this discount is 1.8 percent. Cigarette excise taxpayers shall not receive this tax stamp discount on payments made when filing a monthly or semi-monthly return.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 13.3	\$ 12.9	\$ 12.5	\$ 12.1

Data Source Code: (A)

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### 8.02 Discount for timely payment of other tobacco products excise tax

*Ohio Revised Code 5743.52; originally enacted 1993*

Wholesalers and retailers of other tobacco products are eligible for a 2.5 percent discount for the timely payment of their other tobacco product excise tax liability.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 1.4	\$ 1.5	\$ 1.6	\$ 1.7

Data Source Code: (A)

# Alcoholic Beverage Tax

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## Alcoholic Beverage Tax

In 1933, the year prohibition was repealed, the Department of Liquor Control was created and the General Assembly enacted tax levies on beer, wine, and other non-spirituous beverages. A liquor gallonage tax was added a year later. As of July 1, 1997, the Department of Liquor Control was changed to a division and was transferred to the Department of Commerce. The Division of Liquor Control administers the liquor gallonage tax. The Department of Taxation administers the tax on all other alcoholic beverages.

### Tax Base

Sales by volume of the following non-spirituous beverages: beer, wine, mixed beverages, and cider.

### Tax Rates

Beer	
Barrel (31 gallons)	\$5.58
Containers over 12 ounces	0.84 cents per six ounces
Containers 12 ounces or less	0.14 cents per ounce
Wine	
Less than 14% alcohol by volume	32 cents per gallon
14% to 21% alcohol by volume	\$1.00 per gallon
Vermouth	\$1.10 per gallon
Sparkling wine, champagne	\$1.50 per gallon
Other	
Mixed beverages	\$1.20 per gallon
Cider	24 cents per gallon

### Alcoholic Beverage Tax Expenditure Estimates

The estimates shown below reflect the estimated revenue foregone by the GRF from each tax expenditure. Various data sources were used to derive the tax expenditure estimates. Most of the tax expenditure estimates were based on information taken from returns filed with the Department of Taxation.

**NOTE: See page 4 for description of data source codes.**

## A. Credits

### 9.01 Advanced payment credit/discount *Ohio Revised Code 4303.33; originally enacted 1963*

Beer permit holders are eligible to receive a 3 percent credit on advance payments made on or before the 18th of the month for which the tax is paid. In addition, a discount is offered on the balance of the tax due (after the advanced payment) if received by the 10th day of the following month. This additional discount is the lesser of 0.3 percent of the advanced payment or 3 percent of the net amount of tax due after deduction of the advanced payment. Wine and mixed beverage permit holders are eligible to receive a 3 percent credit on payments made on or before the 18th day of the month for the previous month's tax liability.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 1.4	\$ 1.4	\$ 1.4	\$ 1.4

Data Source Code: (A)

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# Alcoholic Beverage Tax

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**9.02 Small brewer's credit**

*Ohio Revised Code 4303.022, 4303.332; originally enacted 1981*

Licensed Ohio beer manufacturers whose total production of beer is less than 31 million gallons per year, regardless of production location, are eligible for a credit against the alcoholic beverage tax. The credit is equal to the excise tax paid on beer/malt beverages distributed in Ohio with a maximum credit up to the tax on 9.3 million gallons.

(Dollar Amounts in Millions)

<i>Estimates:</i>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	\$ 3.0	\$ 3.0	\$ 3.0	\$ 3.0

Data Source Code: (A)

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## **Tax expenditures with revenue impact below \$1 million**

**9.03 Sacramental wine exemption**

*Ohio Revised Code 4301.23; originally enacted 1937*

**9.04 Small wine producer's exemption**

*Ohio Revised Code 4303.333, 4303.23, 4303.071; originally enacted 1981, revised 2008*