

---

# POLICY MATTERS OHIO

---

2912 EUCLID AVENUE ♦ CLEVELAND, OHIO, 44115 ♦ TEL: 216/931-9922 ♦ FAX: 216/931-9924  
[WWW.POLICYMATTERSOHIO.ORG](http://WWW.POLICYMATTERSOHIO.ORG)

## **Ohio's state and local taxes: The dwindling business share**

Compared to individuals, Ohio business is paying a much smaller share of state and local taxes than it did two decades or more ago. That finding was one of the conclusions reached three years ago in a study sponsored by the Ohio Manufacturers' Association by Prof. Edward W. Hill of Cleveland State University, and a previous study by a researcher at the Ohio Department of Taxation.<sup>1</sup> That finding remains true today, according to a new analysis by Policy Matters Ohio.

The relative shares are important in light of a proposal by Rep. Sally Conway Kilbane to overhaul two of the state's most significant business taxes, the corporate franchise tax and tangible personal property tax, which together contribute nearly \$2.6 billion a year to state, local and school budgets. Rep. Kilbane's proposal would eliminate these two taxes and replace them with a new tax on business activity. The tax would shift how much different businesses pay, but would not change the total amount.

Altogether, business accounted for 30.3 percent of the \$35 billion in state and local taxes collected in Ohio in 2002, according to the new Policy Matters analysis.<sup>2</sup> That compares with 39.6 percent of the total in 1976, according to Hill's earlier report. Individuals, by contrast, paid 67.8 percent of state and local taxes in 2002, compared to 58.2 percent in fiscal 1976. The remainder in each year consisted of motor vehicle license revenue, which is paid by both businesses and individuals (this accounting follows Hill's practice). Table 1 shows the amount collected for each state and local tax, and the share paid by businesses and individuals, respectively:

---

<sup>1</sup> Another study last year by the Federation for Community Planning, now the Center for Community Solutions, reached a similar conclusion. See *Equity and Relative Burden of Ohio's Tax Structure*, by Richard G. Sheridan, David A. Ellis and Richard Marountas, February 2003.

<sup>2</sup> This study uses Fiscal Year 2002 data for most taxes, and Calendar Year 2002 for other taxes, mostly those collected at the local level, for which fiscal year data are not available. Calendar Year 2001 data, the most recent available, were used for the lodging and admissions excise taxes. These two levies together accounted for only \$114 million that year, or well under 1 percent of the taxes collected.

**Table 1. Shares of Ohio State and Local Taxes by Businesses and Individuals,  
Fiscal Year 2002<sup>3</sup>**

<b>Tax</b>	<b>Percent Paid by Business</b>	<b>Percent Paid by Individuals</b>	<b>2002 Taxes Collected (in millions of dollars)</b>
Individual Income	10.0%	90.0%	\$8,157.2
Real Property -Tax Year 01	27.5%	72.5%	\$8,084.3
State sales and use	34.0%	66.0%	\$6,343.5
Municipal income CY02 (preliminary)	10.0%	90.0%	\$3,362.3
Tangible Personal Property CY02	100.0%	0.0%	\$1,768.3
Motor Vehicle Fuel	35.0%	65.0%	\$1,383.3
Local sales and use	34.0%	66.0%	\$1,348.1
Corporation Franchise	100.0%	0.0%	\$774.4
Public Utility Personal Property - Tax Year 01	100.0%	0.0%	\$715.3
Kilowatt Hour	68.4%	31.6%	\$569.2
Estate CY02	0.0%	100.0%	\$357.1
Public Utility Excise	43.1%	56.9%	\$300.0
Cigarette Excise	0.0%	100.0%	\$281.3
Foreign Insurance	45.1%	54.9%	\$230.2
School District Income	6.3%	93.7%	\$145.5
Domestic Insurance	45.1%	54.9%	\$132.5
Lodging CY01	55.3%	44.7%	\$92.70
Motor Fuel Use	100.0%	0.0%	\$69.4
Alcoholic Beverage Excise	0.0%	100.0%	\$56.4
Natural Gas Consumption	52.7%	47.3%	\$55.9
Manufactured Home CY02	0.0%	100.0%	\$25.3
Admissions Excise CY01	0.0%	100.0%	\$21.7
Dealers in Intangibles	100.0%	0.0%	\$18.5
Horse Racing	0.0%	100.0%	\$17.4
Severance	100.0%	0.0%	\$8.0
Replacement Tire Fee	35.0%	65.0%	\$6.3
Local Alcoholic Beverage	0.0%	100.0%	\$6.2
Local Cigarette Excise	0.0%	100.0%	\$4.9
Resort Area Excise	0.0%	100.0%	\$0.7
Grain Handling CY02	100.0%	0.0%	\$0.2
<b>Total not including Motor Vehicle License</b>	<b>30.9%</b>	<b>69.1%</b>	<b>\$34,336.1</b>
<b>Mixed Taxes (paid partly by business and partly by individuals)</b>			
Motor Vehicle License	Not available		\$670.2
<b>Grand Total<sup>4</sup></b>	<b>30.3%</b>	<b>67.8%</b>	<b>\$35,006.3</b>

<sup>3</sup> Fiscal Year 2002 unless otherwise noted

<sup>4</sup> Total shares do not add to 100% because motor vehicle license taxes were not broken down between individuals and consumers. These account for 1.9% of the total.

This analysis, while generally following Hill's approach, relies heavily on work done by Michael Sobul of the Ohio Department of Taxation. Like his earlier analysis, it assigns each tax according to who directly feels it. As Sobul explained, it would be misleading to assign the cigarette tax to the wholesalers who pay the tax, since this cost is passed immediately on to the customers buying the product.<sup>5</sup> Ultimately, the corporate franchise tax may be passed on to consumers, workers or shareholders, in the form of higher prices, lower wages or lower dividends, respectively. But this analysis considers it as a business tax because the direct impact is felt by the companies that pay it.

Policy Matters uses a considerably higher figure than Hill did for the business share of sales taxes. Relying on a study by Prof. Raymond J. Ring Jr. of the University of South Dakota, it estimates that share at 34 percent, compared to 20 percent in the Hill study.<sup>6</sup> This accounts for more than the entire difference in the business share of state and local taxes between 1999, which Hill figured at 28.9 percent, and 2002, which this study puts at 30.3 percent. Using Hill's sales-tax estimate, the business share in 2002 was 27.2 percent.<sup>7</sup>

The two taxes that would be replaced by the proposed business activity tax have grown much more slowly than the state's major taxes on individual income, sales and real property. Revenue from the corporate franchise tax actually has fallen over the last two decades when adjusted for inflation.<sup>8</sup> While the personal income tax has increased by 2½ times, the tangible personal property tax has barely grown at all in real dollars. One reason for this is the major reduction in assessment rates since the late 1970s.<sup>9</sup>

The decline in the business share of state and local taxes leveled off more recently, in part because personal income taxes aren't growing as fast as they had been. But the business share is unquestionably far lower than it used to be.

---

<sup>5</sup> Ohio Department of Taxation Inter-Office Communication, Oct. 1, 1992, from Mike Sobul to Ronald A. Mucha.

<sup>6</sup> Consumers' Share and Producers' Share of the General Sales Tax, Raymond J. Ring Jr., *National Tax Journal*, March, 1999.

<sup>7</sup> Policy Matters Ohio Research Director Zach Schiller estimated the 2002 business share at 28 percent in testimony before the House Ways & Means Committee on May 19, 2004. However, upon further refinement, the figure was adjusted downward.

<sup>8</sup> See *Ohio's Vanishing Corporate Franchise Tax*, Zach Schiller, Policy Matters Ohio, October 2002. <http://www.policymattersohio.org/franchisetaxintro.htm>

<sup>9</sup> Total Ohio state and local business taxes have grown over the past quarter century in inflation-adjusted dollars. However, in 2000, they represented a slightly smaller amount in comparison with Gross State Product than they did in 1980. See *Equity and Relative Burden of Ohio's Tax Structure*, p. 11.

## METHODOLOGY

This study generally follows the methodology used by Dr. Edward W. (Ned) Hill in his 2001 study, *Ohio's Competitive Advantage: Manufacturing Productivity*, which was sponsored by the Ohio Manufacturers' Association.<sup>10</sup> Hill relied especially on a 1992 study by Michael Sobul of the Ohio Department of Taxation, who estimated the business share at 32.4 percent at that time. Sobul and Hill each also considered prior estimates by the Advisory Commission on Intergovernmental Relations and the consulting firm of Levin & Driscoll.

Policy Matters Ohio updated previous estimates where that was needed, or produced new ones in cases such as the kilowatt hour tax, which did not exist at the time of the earlier studies. Collections for fiscal 2002 were used for most taxes, primarily those collected at the state level, and data for calendar 2002 for most others. Total annual collections of \$35 billion mean that a 1 percent share amounts to \$350 million. Thus, while assumptions made in estimation and the availability of data mean the exact shares of business and individuals cannot be tallied to the dollar, the overall conclusions are accurate.

Some taxes have been assigned entirely to business or individuals. The following explains the methodology followed in those taxes that have been allocated in part to both:

**Public Utility Excise Tax** – This tax is divided between business and individuals based on usage. In tax year 2002, 98.9 percent of taxes levied came from natural gas or local telephone companies (Phone companies will no longer be covered by this tax after the 2004 tax year, but were as of years covered by this study). The Public Utilities Commission of Ohio provided figures on natural gas consumption for 2003. Business accounted for 52.7 percent of usage. According to the 2002/2003 Edition of the Federal Communications Commission's *Statistics of Communications Common Carriers*, 31.9 percent of the telephone access lines sold by incumbent carriers were used by businesses. Based on 45.8 percent and 53.1 percent shares of this tax levied in Tax Year 2002 on telephone and natural gas companies, respectively, this resulted in 43.1 percent of the overall tax being allocated to business.

**Insurance Taxes** – This is a gross premium tax built into the price of the premiums. Thus, these taxes are allocated based on who pays the premium. According to the Insurance Information Institute 2004 fact book, 52.4 percent of the net property and casualty insurance premiums written in 2002 were for commercial lines designed for business. Some \$16.9 billion in direct premiums were written in Ohio. The American Council of Life Insurers *Life Insurers Fact Book 2003* reports Ohio premium receipts in 2002 of nearly \$21.2 billion. Based on the breakdown of life-insurance policies in force that year between groups and individuals, business accounted for 39.35 percent of the total (credit insurance, which may be purchased by either individuals or groups, is excluded, but accounted for just 1 percent of the total in force in Ohio). The overall share allocated to business amounts to 45.1 percent.

---

<sup>10</sup>See <http://urban.csuohio.edu/research/ohiomanufacturing.htm>.

**Individual Income Tax** – A share of personal income tax is paid on business income from S Corporations, sole proprietorships, limited liability companies and other “pass-through” entities. Sobul estimates the business share at about 10 percent.

**Motor Vehicle Fuel Tax** – The Ohio Department of Taxation reports that 22 percent of taxable gallons in fiscal 2002 and 2003 were “special fuels,” 99 percent of which was diesel fuel used largely by trucks. Separately, Automotive News reported that new vehicles registered by fleet customers accounted for 15.9 percent of the total in the first three months of 2002 and 18.6 percent in the same period of 2003. Applying this average of 17 percent to the remaining 78 percent, business is assigned an additional 13 percent of this tax. In total, business accounts for 35 percent of this tax.

**State and Local Sales and Use Taxes** – Hill used a 20 percent estimate for his study, based on previous reports. However, Raymond J. Ring Jr., a professor at the University of South Dakota, estimated the share of Ohio sales taxes paid by business at 34 percent in a 1999 study. The business share in his analysis also includes government and nonprofit organizations. Though Ring’s data are from 1989, others cite his estimates and we have used his higher figure for the business share of these taxes.

**School District Income Tax** – Sobul used a 6.3 percent figure.

**Replacement Tire Fee** – The same methodology was used as with the motor vehicle fuel tax.

**Kilowatt Hour Tax** – The allocation of this tax is based on usage. The PUCO provided figures covering the first 11 months of 2003, when commercial and industrial customers accounted for 68.4 percent of the total electricity sales (excluding street and highway lighting, which accounted for 0.5 percent of the total). Larger users pay this tax at a lower rate, so this somewhat overstates business’s contribution.

**Natural Gas Consumption Tax** – The allocation of this tax is based on usage. PUCO data for all of calendar 2003 indicate that commercial and industrial users accounted for 52.7 percent of total natural gas sales. This overstates the business share, because natural gas tax rates decline based on usage.

**Municipal Income Tax** – Sobul estimated the business share of this tax at 10 percent in 1992, and believes this remains a reasonable estimate. Data for calendar 2002 collections are based on preliminary figures from the Ohio Department of Taxation, covering communities that contributed more than 99 percent of the total the previous year.

**Real Property Tax** – The share of taxes paid by business is based on commercial, industrial, mineral and public utility real property taxes, deducting the 10 percent reduction under state law. The amount is for Tax Year 2001, collected in 2002, so that it is comparable to the other taxes in this analysis (for the same reason, Tax Year 2001 data were used for public utility personal property tax).

**Lodging Tax** – Based on travel expenditure information from D.K. Shifflet & Associates Ltd. available from the American Hotel & Lodging Association, business accounted for 55.3 percent of hotel room expenditures in 2002. The most recent data available on lodging tax revenues are for calendar year 2001 (The same is true of the Admissions Excise Tax. However, these two taxes together accounted for just \$114 million that year, or a tiny fraction of the total collected. Collections of both declined in 2001 from the year before).

**Motor Vehicle License Tax** – Following Hill’s study, this one does not allocate the Motor Vehicle License tax between business and individuals. Though some data are available, calculating a breakdown for this tax was beyond the scope of this report.