POLICY MATTERS OHIO

CLEVELAND: 3631 PERKINS AVENUE SUITE 4C - EAST • CLEVELAND, OHIO, 44114 • TEL: 216/361-9801 • FAX: 216/361-9810
COLUMBUS: 300 EAST BROAD STREET, SUITE 490 • COLUMBUS, OHIO, 43215 • TEL: 614/ 221-4505 • FAX: 614/ 224-8132
HTTP://WWW.POLICYMATTERSOHIO.ORG

FOR IMMEDIATE RELEASE
Friday, August 28, 2009
Contact: Zach Schiller, 216-361-9801
Read the report: http://www.policymattersohio.org/NotFatCAT2009.htm

Commercial Activity Tax wobbles its way into full effect
Report finds weak CAT revenues are socking Ohio's state budget

Ohio's broad state tax on business – the Commercial Activity Tax (CAT) – has now gone into full effect. A report issued today Policy Matters Ohio finds that like Ohio's other major state taxes, the CAT is producing less revenue than was anticipated earlier. This is a source of problems for the state budget, even if the Supreme Court upholds the constitutionality of the tax in a case to be heard Tuesday. The CAT:

- Fell $94.9 million or 7.4 percent in Fiscal Year 2009 below projections from earlier this year.
- Is now expected to generate $1.4 billion in revenue in the current fiscal year, $200 million below what was anticipated as recently as February.
- Is now expected to fall $476 million short over the FY2010-2011 biennium of generating enough to reimburse schools and localities. Revenue from the tax is currently used to reimburse school districts and local governments for the taxes they no longer receive because of the phase-out of a local business property tax.

The report concluded that the CAT is not holding up in the poor economy. In addition to the shortfalls in other major state taxes and tax cuts mandated by the General Assembly in 2005, this was a significant contributor to the spending reductions in the state budget approved in July. "The General Assembly should take action to bolster business taxes and the CAT in particular," said Zach Schiller, report author and Policy Matters research director. "One obvious place to start is by reinstating the self-adjusting trigger on the CAT that existed originally."

Because of the uncertainty over the revenue the CAT would generate when it was created, the General Assembly established a plan to adjust the CAT tax rate if it brought in 10 percent more or less than what was expected. However, in 2007, the General Assembly changed the law and eliminated the upward trigger. The report noted that if the original trigger mechanism were in effect, it likely would raise the CAT tax rate two years from now.

The Commercial Activity Tax replaced two other long-standing Ohio taxes as part of a major overhaul of the tax system in 2005:   The corporate franchise tax on non-financial businesses, which had been the state's corporate income tax, and the tangible personal property tax (TPPT), a local tax on machinery, equipment, inventories, furniture and fixtures used in business in Ohio.

The CAT had been expected to bring in $1.6 billion this fiscal year, or nearly as much as the TPPT would have were it still in effect. Now, though, the CAT is proving to be an inadequate replacement for the tangible personal property tax alone, much less the franchise tax. This means that other revenue sources are being tapped to reimburse school districts and local governments, straining the state budget. The shortfall in CAT revenue in FY09, which just ended, has not been tallied exactly, but the state probably had to dip into the General Revenue Fund to pay as much as $95 million of such reimbursements. CAT collections due earlier this month for the first time reflect the full rate of the tax.

Policy Matters Ohio is a nonprofit, nonpartisan research institute with offices in Cleveland and Columbus.