



TAX ADVISOR

VOLUME 3, ISSUE 2

FEBRUARY 1, 2006

Providing accurate, innovative and timely tax and business advice since 1986.

THE CAT TAX

In recognition of the single most significant change in Ohio tax law, this newsletter will be a discussion of the new CAT TAX and its affect on you and your clients:

HIGHLIGHTS:

- February 10th 2006, the initial filing and tax payment for the Ohio CAT tax is due.
- Gradual repeal of the personal property tax over 4 years.
- Gradual repeal of the corporate franchise tax over 5 years.
- Reduction in personal income taxes over 5 years.
- Phase in Commercial Activity Tax.
- Eliminate 10% real estate tax rollback for commercial and industrial property.

The **Commercial Activity Tax** is a tax imposed on the taxpayer's gross receipts for the privilege of doing business in Ohio. The Ohio Department of Taxation's position is that any out of state business with gross receipts of \$500,000.00 coming from Ohio customers is subject to the CAT. This goes far beyond the traditional nexus test for income taxes, and sales and use taxes.

Companies **shipping goods** into Ohio for further delivery to points outside Ohio, may properly exclude those sales from the CAT if, at the time the contract is executed, the subsequent non Ohio locations are known.

While the rate at first blush seems manageably low, [.26%] it is disguised by the **cumulative pyramiding** of the tax on sequential sales within Ohio. In other words, a Manufacturer whose product goes thru several stages from raw materials to finished product within Ohio may find the tax to be 350% to 400% of the original base tax. This tax may hand a competitive advantage to both integrated manufacturers filing on the consolidated basis and out of state competitors, because in both cases they can avoid or minimize the impact of the CAT. The tax cannot be separately imposed on customers.

Ohio businesses with affiliated entities should immediately determine on or before February 10th 2006 whether they should file either on a **consolidated** basis or on a **combined** basis. [Information Release CAT 2005-15] Taxpayers who fail to elect consolidated basis must count all intercompany transactions as taxable sales. Taxpayers who elect consolidated status may eliminate all intercompany transactions but are required to concede all business nexus issues. Failure to timely elect on or before February 10 2006 results in combined reporting for 2 years. It is also possible to file on both the combined basis and on the consolidated basis for parts of a business group.

Call Stephen L. Robison, Esq. for more information on how the CAT TAX may affect your clients and what planning you can do to minimize its effect.



Stephen L. Robison, J.D.,
LLM Tax and Business
Board Certified in Federal
Taxation Law since 2002.

Selected as Ohio Super Lawyer
In Federal Taxation Law
for the years 2003,2004 &
2005.

Providing tax and business
Advice to professional
advisors.

- Income Tax Planning
- Tax Audits & Appeals
- Partnership Agreements
- Corporate Tax Planning
- S Corporation Planning
- LLC's
- Like Kind Exchanges

For more information

Contact us at:

4500 Cooper Road, Ste. 305
Cincinnati, OH 45242
513-412-3483 (telephone)
513-412-3482 (facsimile)

Email-
steve@robisontaxlaw.com

Website-
www.robisontaxlaw.com