

POLICY SOLUTIONS FOR THE PANDEMIC

POLICY MEMO: SUSPENDING THE
CAT WILL HELP OHIO'S ECONOMY
MAY 28, 2020

The Buckeye Institute's Recommendation

Ohio should suspend collecting the commercial activities tax (CAT) for the next year to aid the state's economic recovery. The CAT subjects businesses to tax liability even if they are unprofitable and will make it harder for them to recover from the pandemic's economic disruption.

Background

The CAT taxes a business' **gross receipts** or total sales, not its profit, which means that the CAT taxes productivity. Fledgling businesses and those that serve a large customer base but turn a small profit suffer the most under this kind of tax, making it economically inefficient and disfavored. In fact, Ohio is one of only a few states that still imposes a CAT on its businesses.

The CAT adds cost to every layer of production and those compounding costs ultimately hit consumers at the checkout counter. To sell a simple loaf of bread, for example, the state adds a gross receipts tax when the farmer sells wheat to the mill, then again when the miller sells flour to the baker, and when the baker sells bread to the grocer, and yet again when the grocer finally sells the bread to the consumer. Each tax layer makes it more expensive for businesses along the way, and only makes it more difficult for them to make a profit.

The economic shutdown to combat COVID-19 has forced many Ohio businesses to close for weeks. The temporary closures will eat into profit margins and may ultimately force companies out of business. Collecting the state's CAT in this perilous economic environment will only make it harder for companies to survive. And as companies close, Ohioans lose their jobs. To help businesses weather this economic storm and minimize unemployment, Ohio should suspend CAT payments for the next year and allow businesses to focus their limited resources on meeting the needs their customers and employees.

In the long run, Ohio's tax code should treat high- and low-profit businesses the same by replacing its gross receipts tax with a consumption-based tax.

Conclusion

Ohio's commercial activities tax makes it harder for struggling businesses to survive and grow—especially in the aftermath of state-mandated closures and business restrictions. Without tax relief, many Ohio businesses may close for good. To help ensure their survival, the state should suspend collecting the CAT in the short-term, and consider replacing it with a broader, fairer consumption-based tax in the long-term.