Taxation in Ohio

History of Major Changes

1792 The first taxes in what is now Ohio were enacted in 1792 by a territorial government that consisted of a governor and three judges, all appointed by Congress.

- Tax dollars were to be collected based on what territorial officials determined would be the cost of running the government.
- On the same date the territorial government enacted laws requiring that some businesses be licensed. Frontier businesses required to have licenses included sellers of whiskey and other spirits, merchants, taverns, auctioneers, ferry operators, and traders and peddlers of foreign merchandise (either made or grown outside the US.)
- Auctioneers, in addition to being required to have licenses, also had to collect and remit taxes on their sales, which may have been the first example of sales tax in Ohio

1803 Ohio gains statehood. New General Assembly continues territorial practice of taxing land (but not improvements) based on whether the fertility of the land is "first rate," "second rate" or "third rate."

1821 The end of Indian wars in Ohio. The General Assembly authorized the voluntary use of property tax to support schools in 1821.

- The next year, however, the General assembly mandated that a portion of the property tax revenues pay for schools.

1825 General Assembly abolishes land classification system, replacing it with an ad valorem tax on land, improvements and select forms of personal property.

1846 General Assembly enacts "Kelley Law," which requires that "all property, whether real or personal… unless exempted, shall be subject to taxation." Previously, the legislature had exempted from taxation many forms of personal property, such as tools and machinery.

1851 Five years later, this uniformity principle is enshrined in the new state constitution approved by voters on June 17, 1851 by a popular vote.

- The Ohio Constitution of 1851 includes an entire section entitles, "Finance and Taxation."

1886 The General Assembly enacts the Dow Law, a $200 annual tax on the traffic of liquor and $100 annual tax on the traffic of "malt or vinous" alcohol. Generally, the tax applies to saloons.

1893 General Assembly enacts several forms of taxes for the first time, including:

- Ohio's first tax on inheritances, a forerunner of the modern estate tax.
- A tax on cigarette dealers, a prelude to the modern cigarette tax

1894 General Assembly enacts excise taxes of 2% on the gross receipts of express companies and 1% on the gross receipts of sleeping car companies. Two years later, a tax of 0.5% is applied to the gross receipts of most other public utilities. This tax is now known as the public utility excise tax.

1902 General Assembly enacts the "Willis Law" – named for future governor Frank Willis– which levies a 1 mill tax on the value of capital stock in Ohio. This is Ohio's first corporation franchise tax.

1910 For the first time, many of Ohio's tax administration responsibilities are centralized in a new three member Ohio Tax Commission. The commission is responsible for equalization – meaning, ensuring that property is being appraised for tax purposes accurately and fairly from throughout Ohio. The new commission also becomes responsible for the administration of Ohio's key business taxes, including the corporation franchise and public utility excise taxes. Previously, these taxes had been handled by a patchwork of commissions and agencies across state government. The new Ohio Tax Commission begins to take a more active role in recommending changes to tax policy.

1912 Voters approve an amendment to the Ohio Constitution that explicitly permits graduated taxes on income, estates or inheritances.

1920 Prohibition begins, putting an end to the Dow Tax on liquor traffic.

1925 Ohio's first tax on motor fuel is enacted at a rate of 2 cents per gallon.

1931 A 1929 amendment to the Ohio constitution takes effect, limiting the principle of property taxation by uniform rule to real property rather than all forms property. This touches off legislative action on several other major tax changes, including:

- The abolition of property taxes on tangible property owned by individuals. Instead, such taxes are limited to tangible personal property used in business.
- The reform of taxes in intangible property such as stocks, bonds and other investments. Instead of rates that vary according to local levies, a single state tax applies.

The legislature also enacts a separate tax on dealers in intangibles and a 2 cent per pack cigarette tax (which replaces an earlier tax on cigarette dealers)

1932 For the first time in more than a century, no state tax is levied on real property.

1933 Prohibition ends; the modern taxation of alcohol begins. Beer and malt beverages are taxed at $1 per barrel. Wine is taxed at 10% of retail price. Also, a tax on horse racing is enacted.

1934 Faced with a severe budget crisis, the General Assembly enacts a 3% state sales tax effective Jan. 1, 1935. A companion use tax is enacted a year later.

1939 The Tax Commission of Ohio is replaced by the Department of Taxation, led by the Ohio Tax Commissioner, and a Board of Tax Appeals, which will also supervise real property tax administration.

1962 The use of sales tax stamps is discontinued.

1971 General Assembly enacts an individual income tax and adds a net income (profits) component to the corporation franchise tax. Up until this point, the franchise tax had only been based on the net worth of corporations.

1976 House Bill 920 creates the Department of Tax Equalization to supervise real property tax administration, a role previously performed by the Board of Tax Appeals. (Today, H.B. 920 is better known for creating a system of tax reduction factors designed to limit the impact of inflation on property tax bills.)

1983 The General Assembly abolishes the state tax on intangible property, effective 1986. The legislature also merges the Department of Tax Equalization into the Department of Taxation, where it becomes a separate division.

1992 Tax of 17% imposed on "other tobacco products;" previously, only cigarettes had been subject to taxation in Ohio.

1998 The Department of Taxation offers TeleFile, a touchtone alternative to filing state income tax returns on paper. The option is first available for 1997 returns.

2003 The Department of Taxation offers I□File, its first Web□based income tax filing option.

2005 General Assembly enacts House Bill 66, which contains an ambitious series of tax reforms. Among them: The corporation franchise tax and tangible personal property tax will be gradually eliminated in favor of a new commercial activity tax (CAT), which is measured by gross receipts.

2011 income tax cut marks final step in historic tax reform plan. A multiyear plan that has reduced income tax rates four other times and phased out Ohio's two largest business taxes.