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Office of Research and Drafting

Legislative Budget Office

S.B. 284
136th General Assembly

Fiscal Note & Local Impact Statement

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Version: As Introduced

Primary Sponsor: Sen. Schaffer

Local Impact Statement Procedure Required: No

Jorge Valdebenito, Economist

Highlights

- The bill prohibits the Tax Commissioner from imposing any penalty or interest, or taking any enforcement action, for taxpayers that do not owe any income, sales, or commercial activity taxes and do not file a tax return.
- The bill has a minimal fiscal effect on local governments or political subdivisions.

Detailed Analysis

Beginning in tax year (TY) 2026, the bill prohibits the Tax Commissioner from imposing any penalty or interest, or taking any enforcement action, for taxpayers that do not owe any income, sales, or commercial activity taxes and do not file a tax return.

Under continuing law, applicable taxpayers must file returns for sales and use tax, income tax, and the commercial activity tax (CAT) for each filing period, including some cases when no tax is due. Under current law, if no required return is filed, the taxpayer may be subject to a penalty. Current penalties for failure to file a return vary by tax type. For the CAT and sales and use taxes, the penalty equals the greater of $50 or 10% of the tax required to be paid for the tax period. For income tax, the penalty equals the greater of $50 per month, with a maximum of $500, or 5% per month, with a maximum of 50%, of the tax required to be shown on the return.

The bill also prohibits the Tax Commissioner from taking enforcement action based solely on the failure to file a return when no tax is due. The bill does not exclude school district income tax (SDIT) from its provision; therefore, if a taxpayer owes no income tax but does owe SDIT, then the bill does not apply, and the taxpayer must file a tax return to avoid fines.

Money collected from failure-to-file penalties is distributed in the same manner as income, sales, and CAT revenue. As a result, most revenue from this source is deposited into the GRF, while 1.75% is distributed to the Local Government Fund (LGF). The fiscal effect on local governments will therefore equal 1.75% of the penalty revenue that would otherwise have been collected from taxpayers who owe no tax and fail to file a return. The number of taxpayers in this situation is expected to be small, so the fiscal effect is expected to be minimal.

Data from the Department of Taxation indicates that over the past five tax years, the state has not collected any failure-to-file penalties for the income or sales taxes. Under the current system, taxpayers who miss a filing deadline receive a notice indicating the applicable penalty amount, which has proven effective in prompting them to resolve the issue and file the required return.

Income tax

The Ohio individual income tax applies to all full-year residents, part-year residents, and nonresidents with Ohio-sourced income, except for certain nonresidents covered by reciprocal agreements. Individuals must file an Ohio IT 1040 each year, even when no tax is owed. Taxpayers with Ohio taxable income below $26,050 fall into the 0% bracket and typically owe no income tax. A return is not required only when statutory filing exceptions apply, such as when the taxpayer’s Ohio adjusted gross income or tax base is less than or equal to zero, or when certain nonrefundable credits fully offset the tax and no school district income tax liability exists.

Residents of taxing school districts must file an SD 100 if they lived in the district, earned income, and have a resulting school district income tax obligation. Sports gaming winnings earned in Ohio are also subject to the income tax for both residents and nonresidents.

The bill’s fiscal impact on income tax revenue is expected to be minimal. Most taxpayers who owe no income tax already have limited filing requirements, and the number of individuals who fail to file when no tax is due, and who would otherwise incur penalties, is expected to be small. The bill may primarily affect seasonal workers or businesses that do not file during offseason periods.

Because the bill does not exclude the SDIT from its prohibitions, taxpayers who owe SDIT but no state income tax must still file a tax return to avoid penalties, further decreasing the number of affected taxpayers who may be subject to the bill’s provisions.

Sales and use tax

The Ohio sales tax applies to the retail sale, lease, and rental of tangible personal property. Tangible personal property includes physical items such as clothing, electronics, and furniture. The tax also applies to certain specified services under Ohio law.

The Ohio use tax applies when sales tax was due but not collected at the time of purchase. For example, if an item is purchased online or in another state without sales tax being charged, use tax may be owed when the item is brought into Ohio.

The provision of this bill would have minimal fiscal effects on sales and use tax revenue, since most vendors with sales tax obligations are already required to collect and remit the tax at the point of sale. Vendors with no taxable sales during a filing period generally have limited filing requirements, and larger vendors typically rely on designated accounting staff or automated systems to ensure compliance. As a result, the number of taxpayers who fail to file a return when no tax is due, and who would otherwise incur penalties is expected to be small. Therefore, the fiscal impact on this tax category is minimal.

The bill could benefit seasonal workers or businesses that fail to file a tax return for the corresponding offseason period. The bill will reduce revenue collected from failure-to-file fines assessed on these groups, but the amount collected is expected to be minimal.

Commercial activity tax

The CAT is an annual privilege tax imposed on businesses working in Ohio, based on their Ohio taxable gross receipts. Taxpayers subject to the CAT must register with the Department of Taxation, file quarterly returns, and remit the tax due. The CAT applies broadly across business types and structures, including entities located outside Ohio that have substantial ties with the state.

Prior to TY 2024, businesses with more than $150,000 in annual Ohio taxable gross receipts were subject to the CAT. For TY 2024, the threshold increased to $3.0 million, and beginning in TY 2025, the threshold increased to $6.0 million. Taxpayers with $3.0 million or less in taxable gross receipts in 2024, and $6.0 million or less in 2025 and thereafter, are not required to file a CAT return.[1]

The provision of this bill is expected to have minimal fiscal effects on CAT revenue. Businesses below the $6.0 million filing threshold are not required to file a return, and businesses above that threshold typically employ accounting staff or professional tax preparers to ensure compliance. As a result, the number of taxpayers who fail to file a return when no tax is due, and who would otherwise incur penalties are expected to be small. Therefore, the fiscal impact on this tax category is expected to be minimal.

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[1] More information on the CAT (PDF) can be found on the Department of Taxation's website at tax.ohio.gov.