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Information Release

ST 2005-05 – Sales and Use Tax Calculation and Rounding Change Effective 01/01/2006 - December, 2005

The purpose of this information release is to address the changes to the method of calculating Ohio's sales and use tax on and after January 1, 2006. Prior to this date, the law required vendors and out-of-state sellers to collect Ohio tax according to bracket schedules found in Ohio Revised Code section 5739.025(A) through (C) or by the calculation in R.C. 5739.025(D). These calculations were to ensure that no less than the statutory tax rate was collected on any sale.

As part of Ohio's active participation in the Streamlined Sales Tax Project*, Ohio has changed its method of calculating the tax on a sale to conform to the uniform rounding used by most other states and to conform to the requirements of the Streamlined Sales and Use Tax Agreement. The new rounding provision is found in R.C. 5739.025(E), which provides:

On and after January 1, 2006, a vendor shall compute the tax on each sale by multiplying the price by the aggregate rate of taxes in effect under sections 5739.02 and 5741.02, and sections 5739.021, 5739.023, 5739.026, 5741.021, 5741.022, and 5741.023 of the Revised Code. The computation shall be carried out to three decimal places. If the result is a fractional amount of a cent, the calculated tax shall be rounded to a whole cent using a method that rounds up to the next cent whenever the third decimal place is greater than four. A vendor may elect to compute the tax due on a transaction on an item or an invoice basis.

This change uses more traditional arithmetic rounding than the previous tax calculation method. Instead of always rounding up in any case where the tax calculation yielded any fractional amount over a whole cent, the new method will round the calculation either up or down to the nearest whole cent based on the third decimal place.

Examples:

1. Sale amount $12.95, the tax rate 6.25%. The tax calculation would be $0.809375. The third decimal place is greater than four so the tax would be rounded up to the next cent and would be $0.81.

2. Sale amount $14.35, the tax rate 6.5%. The tax calculation would be $0.93275. The third decimal place is less than four so the tax would be rounded to the nearest whole cent and would be $0.93.

3. Sale amount $14.38, the tax rate 6.5%. The tax calculation would be $0.9347. The third decimal place is four so the tax would be rounded to the nearest whole cent and would be $.93. (Note that the calculation is **not** to be rounded at the third decimal place, which in this case would have resulted in a calculation of $0.935 and a tax of $0.94.)

The last sentence of R.C. 5739.025(E) addresses a situation where multiple taxable items appear on a single invoice. For example, a customer may purchase from a hardware store a drill, a package of drill bits and a box of wood screws at one time. One vendor's tax collection system may apply the tax rate to the price of the drill, to the price of the bits and to the price of the screws, and then total the three tax amounts to arrive at the tax to be charged to the consumer. A different vendor may have a system that would total the prices of the drill, the bits, and the screws, and then apply the tax rate to the total price. Under the statute, either approach is acceptable.

The Sales and Use Tax Division has produced tax rate schedules to assist vendors and sellers in collecting the proper amount of tax. Rate schedule cards have been mailed to vendors with license numbers beginning 01- through 88- (as of December, 2005) and are also available from any Taxpayer Service Center. You may also obtain the schedules by going to the Sales and Use Tax section of the Ohio Department of Taxation website: tax.ohio.gov.

If you have any questions regarding this matter, please call 1-888-405-4039 (Ohio Relay Services for the Hearing or Speech Impaired: 1-800-750-0750).

*One of the goals of the project is that by the participating states having more uniform sales and use tax laws, out-of-state businesses not required to collect a participating state's tax will be more willing to collect the tax for all the participating states.