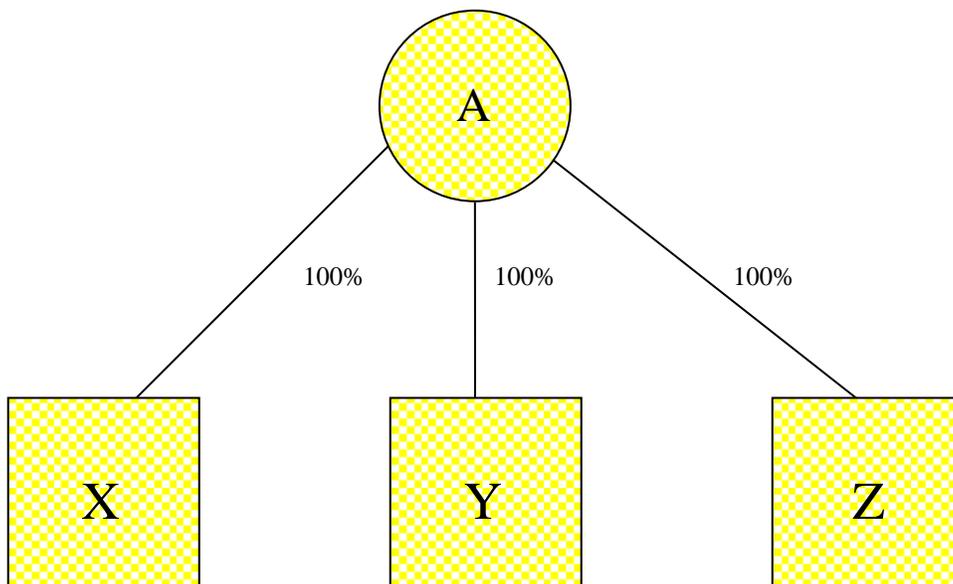


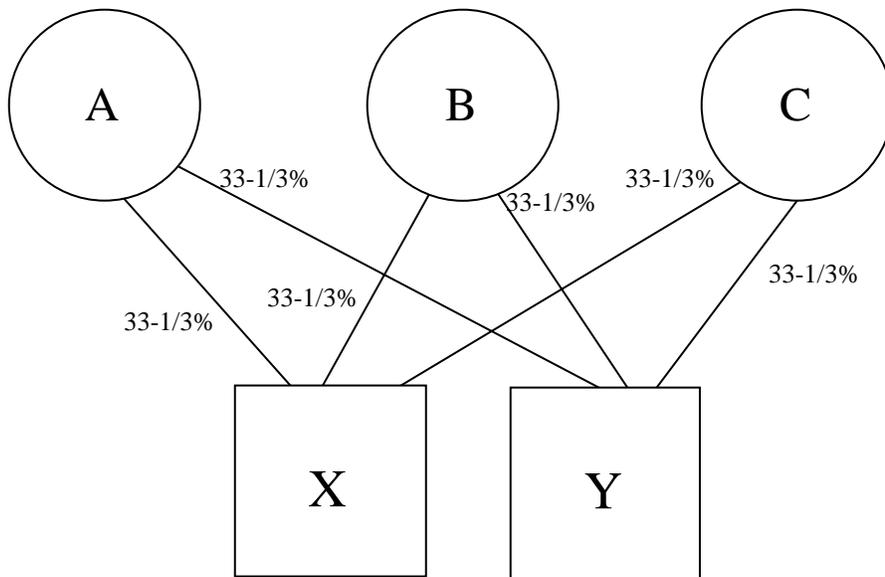
**Information Release – Commercial Activity Tax
Examples of “Common Owners” & Joint Ventures; Issued November, 2005;
Updated January 2006
CAT 2005-16**

This is version 2 of this release. The Ohio Department of Taxation (ODT) has issued Information Release CAT 2005-05 concerning the determination of common owners and joint ventures. This release provides examples in order to help clarify the concepts contained in Information Release CAT 2005-05. As used in these examples, the term “owns” means “owns and controls.”

Example 1. In determining common ownership, a vertical test applies. The following is an example of what is considered a vertical test. Individual A owns 100% of Corporation X, Corporation Y, and Corporation Z. Individual A is the common owner of Corporations X, Y, and Z. If this group decides to be a combined group and its receipts exceed \$150,000, it is required to register. If, however, the group elects to consolidate, it must register regardless of whether it has \$150,000 in taxable gross receipts.



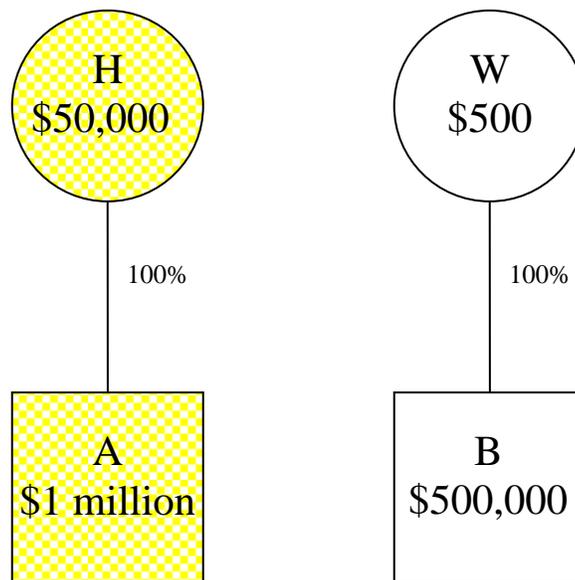
Example 2. In determining common ownership, a horizontal test does NOT apply. The following is an example of what is considered a horizontal test. Individuals A, B, and C each own 33.3% of Corporation X. The same individuals A, B, and C each own 33.3% of Corporation Y. Since no one owns 50% or more of Corporation X, there is no common owner of Corporation X. Since no one owns 50% or more of Corporation Y, there is no common owner of Corporation Y. Although the same group of individuals, A, B, and C own both Corporation X and Corporation Y, individuals A, B, and C are NOT the common owners of Corporation X and Corporation Y.



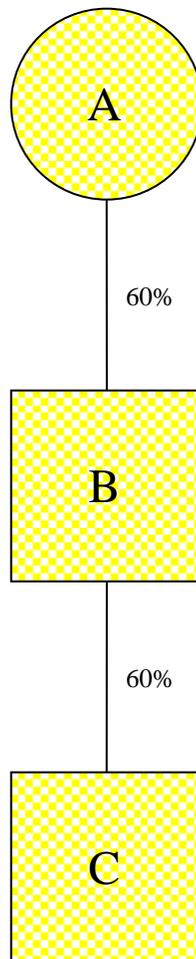
Example 3. Husband directly owns 100% of Corporation A and Wife directly owns 100% of Corporation B. Husband also is a sole proprietor and has taxable gross receipts of \$50,000 for the calendar year. Wife sells tools at the Ohio state fair, which generates \$500 of taxable gross receipts for the calendar year. Corporation A has \$1 million and Corporation B has \$500,000 of taxable gross receipts for the calendar year.

Since Husband has at least \$4,500 of taxable gross receipts for the calendar year and directly owns more than 50% of the value of the ownership interest of Corporation A, Husband must be in a combined taxpayer group with Corporation A unless Husband elects to be in a consolidated elected taxpayer group with Corporation A. Since Wife has less than \$4,500 in taxable gross receipts for the calendar year, Wife is not required to be in combined taxpayer group with Corporation B but may elect to be in a consolidated elected taxpayer group with Corporation B since Wife directly owns more than 50% of the value of the ownership interest of Corporation B. Without such an election, Corporation B is a separate taxpayer.

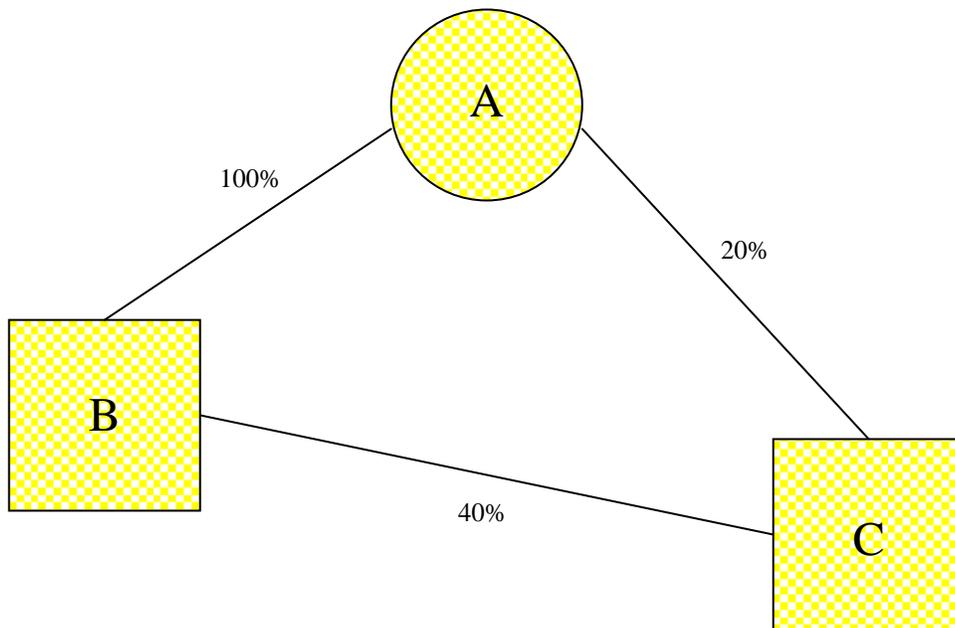
Corporation A and Corporation B are not part of the same group. The family attribution rules of the Internal Revenue Code do not apply. Accordingly, Husband does not own or control any of Corporation B constructively through related interests and Wife does not own any of Corporation A constructively through related interests.



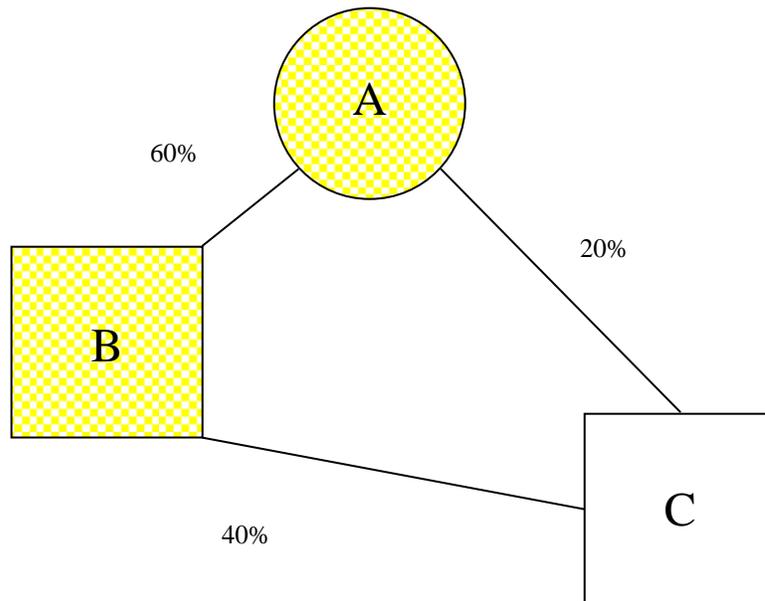
Example 4. Partnership A owns 60% of Corporation B, which in turn owns 60% of Corporation C. Partnership A, Corporation B, and Corporation C are all members of the same taxpayer group. It does not matter that Partnership A only owns 36% of Corporation C constructively through Corporation B since corporation B's 60% ownership of Corporation C continues the vertical chain to include Corporation C.



Example 5. Partnership A directly owns 100% of Corporation B, which in turn directly owns 40% of Corporation C. Partnership A also directly owns 20% of Corporation C. Partnership A, Corporation B, and Corporation C are all members of the same taxpayer group. Partnership A directly owns more than 50% of Corporation B. Although Corporation B directly owns only 40% of Corporation C, Partnership A's direct ownership of 20% of Corporation C and ownership of an additional 40% of Corporation C constructively through Corporation B is sufficient to continue the vertical chain to include Corporation C.



Example 6. Partnership A directly owns 60% of Corporation B, which in turn directly owns 40% of Corporation C. Partnership A also directly owns 20% of Corporation C. Partnership A and Corporation B are both members of the same taxpayer group, but Corporation C is not. Partnership A directly owns more than 50% of Corporation B. Corporation B directly owns only 40% of Corporation C, and Partnership A's direct ownership of 20% of Corporation C and ownership of an additional 24% of Corporation C constructively through Corporation B is insufficient to continue the vertical chain to include Corporation C.

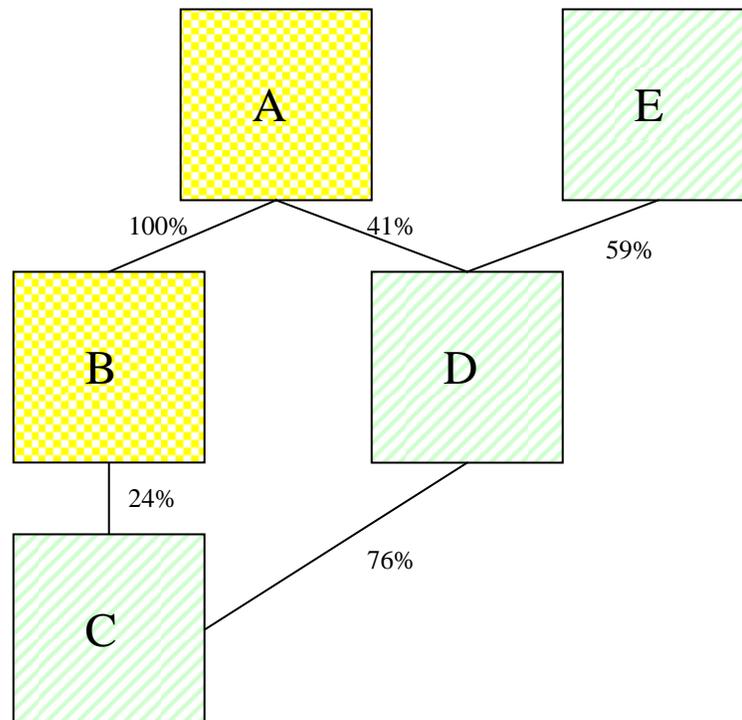


Example 7. Corporation A directly owns 100% of Corporation B and 41% of Corporation D. The remaining 59% of Corporation D is directly owned by Corporation E. Corporation B directly owns 24% of Corporation C; the remaining 76% of Corporation C is directly owned by Corporation D.

Since Corporation A directly owns 100% of Corporation B, Corporation A may elect to consolidate with Corporation B using either a 50% ownership test or an 80% ownership test, or will be forced into a combination. Corporation A only owns 41% of Corporation D, and therefore does not satisfy the ownership test required to be in either a combined or a consolidated elected group. Likewise, Corporation B only owns 24% of Corporation C.

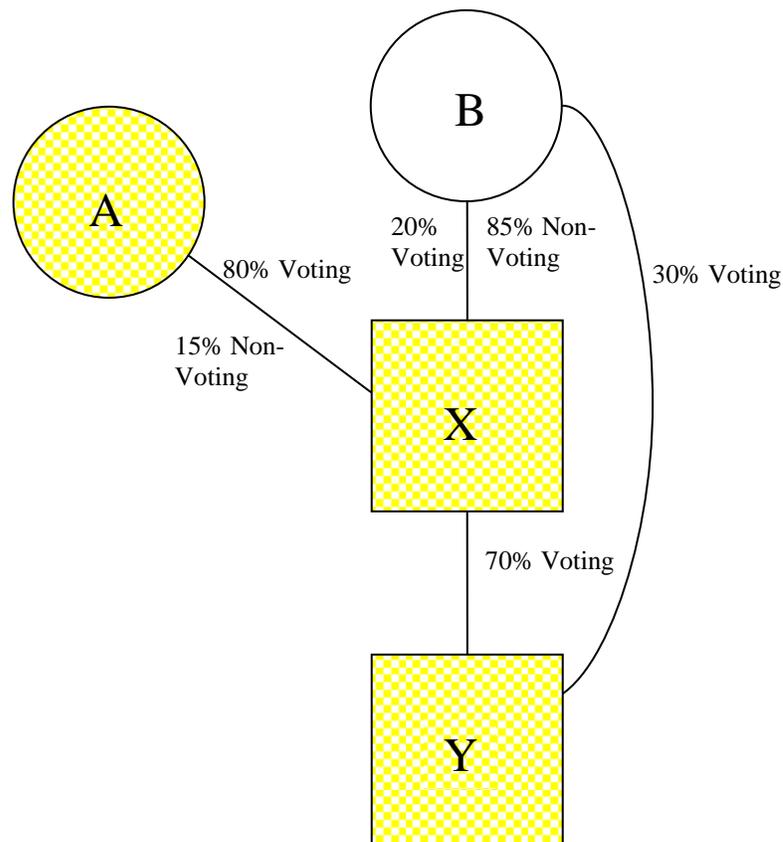
Corporation A indirectly owns 55% of Corporation C through its ownership interest in Corporations B and D: 24% through its interest in Corporation B and 31% through its interest in Corporation D. However, its minority interest in both of its directly-owned corporations does not give Corporation A the ability to control the business operations of Corporation C. Corporation D has the voting rights to control Corporation C. Therefore, Corporation C will not be required to be included in the A-B combined group, nor will it be able to elect to consolidate with Corporations A or B.

For this example, there will be two separate groups: (1) Corporations A and B may either elect to consolidate or will be forced to combine; and (2) Corporations C, D, and E may also either elect to consolidate or will be forced to combine.

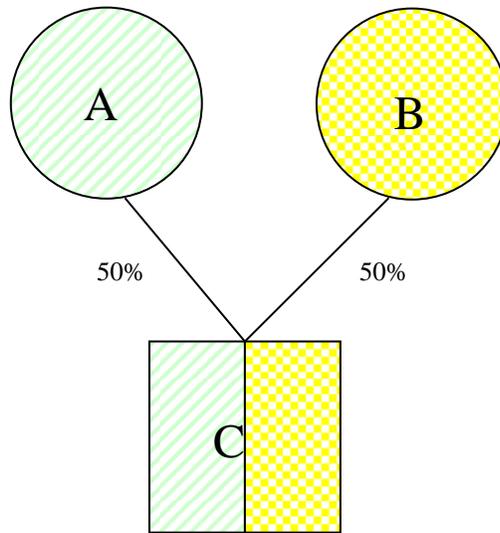


Example 8. A owns 80% of the voting stock and 15% of the non-voting stock of Corporation X. B owns 20% of the voting stock and 85% of the non-voting stock and of Corporation X. Corporation X owns 70% of the voting stock of Corporation Y, and B owns the remaining 30% of the voting stock in Corporation Y.

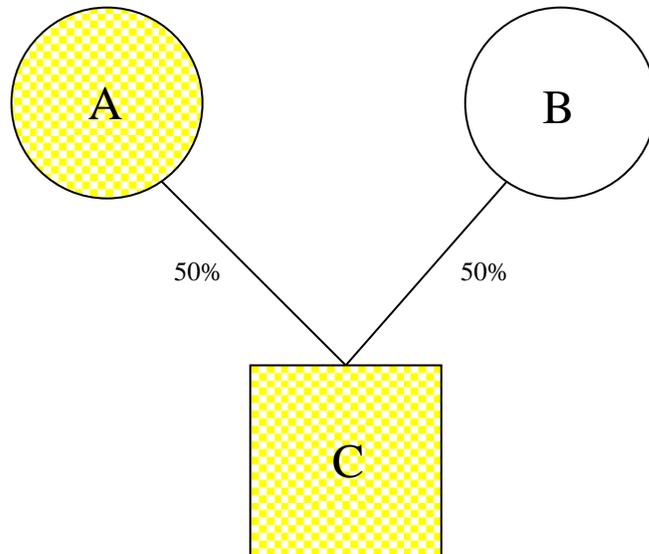
Since A owns 80% of the voting stock of Corporation X, A and Corporation X are in the same taxpayer group, and since X owns 70% of the voting interest of Corporation Y, Corporation Y is also in that group. However, since B owns only 20% of the voting stock of Corporation X and only 44% of the voting stock of Corporation Y, 30% directly and 14% indirectly, B does not meet the ownership requirements to be part of the taxpayer group.



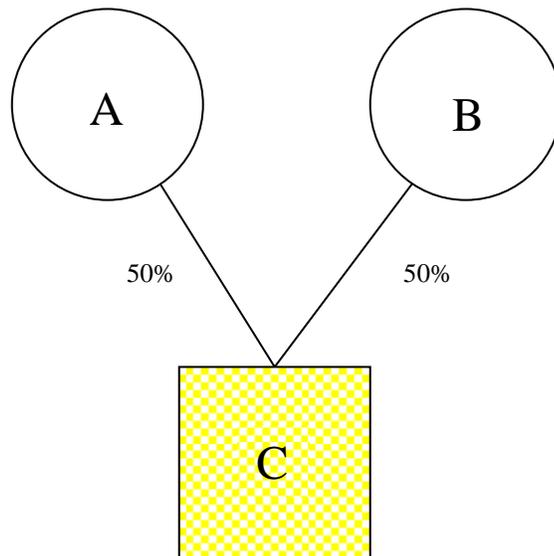
Example 9. A and B enter into a 50-50 joint venture in C. A is part of a 50% consolidated elected group and B is a part of a different 50% consolidated elected group. A will include 50% of C's taxable gross receipts with A's consolidated group, and B will include the other 50% of C's taxable gross receipts with B's consolidated group.



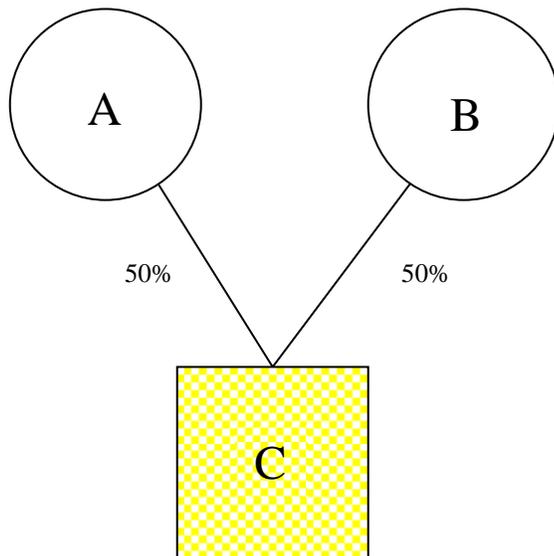
Example 10. A and B enter into a 50-50 joint venture in C. A elects to be part of a 50% consolidated elected group, but B does not elect to be part of a consolidated group. 100% of C's taxable gross receipts will be included in A's consolidated group.



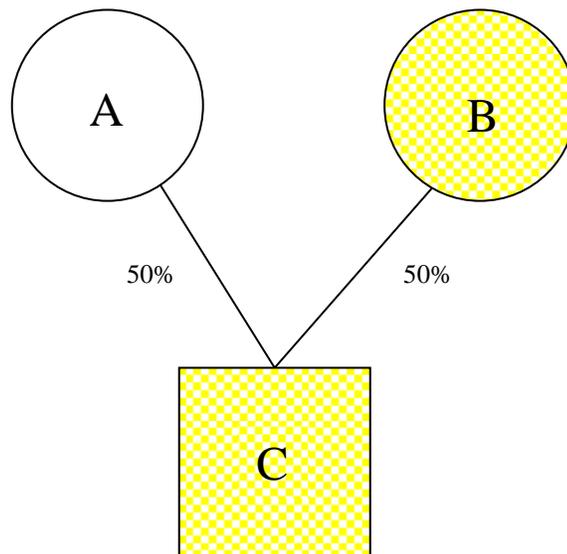
Example 11. A and B enter into a 50-50 joint venture in C. Neither A nor B elect to be part of a consolidated elected group. C is a stand-alone taxpayer and will report 100% of its taxable gross receipts.



Example 12. A and B enter into a 50-50 joint venture in C. A elects to consolidate at 80% and B does not elect to consolidate. C is a stand-alone taxpayer and will report 100% of its taxable gross receipts.

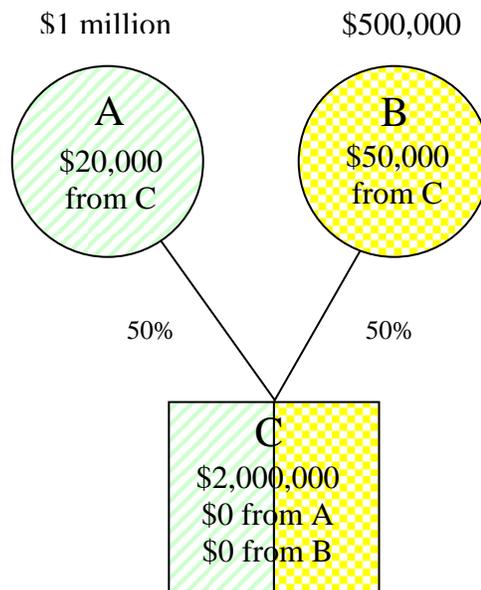


Example 13. A and B enter into a 50-50 joint venture in C. A elects to consolidate at 80% and B elects to consolidate at 50%. 100% of C's taxable gross receipts will be included with B's group.



Example 14. A and B enter into a 50-50 joint venture in C. A is part of a 50% consolidated elected taxpayer group and B is a part of a different 50% consolidated elected taxpayer group. Before receiving their proportionate share of C's taxable gross receipts, A's consolidated group has \$1 million of taxable gross receipts, of which \$20,000 was received by A for services provided to C, and B's consolidated group has taxable gross receipts of \$500,000, of which \$50,000 was received by B for services provided to C. C has no taxable gross receipts from A or B.

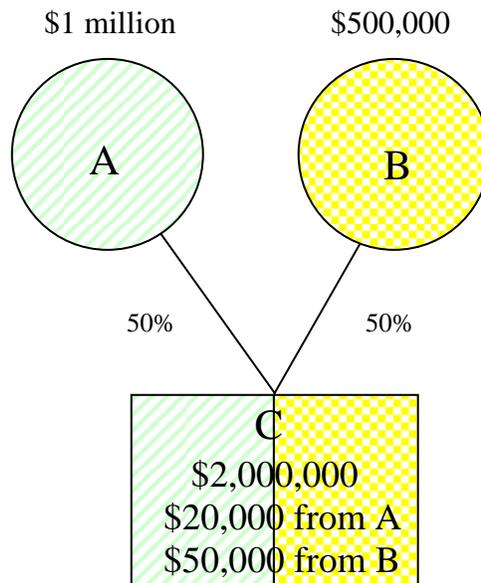
A's consolidated group is entitled to exclude the \$20,000 of taxable gross receipts A received for services provided to C and B's consolidate group is entitled to exclude the \$50,000 of taxable gross receipts B received for services provided to C. After taking these exclusions, C's taxable gross receipts are split evenly between the two consolidated elected groups and are added to the group's total taxable gross receipts.



	TGR of J.V.	Less Excludable J.V. Receipts	TGR of J.V. After Excluding Receipts	Each Group's Portion of J.V.'s TGR	Each Group's Individual TGR	Each Group's Total TGR (including J.V.)
A	\$2,000,000	\$70,000	\$1,930,000	\$965,000	\$1,000,000	\$1,965,000
B				\$965,000	\$500,000	\$1,465,000

Example 15. A and B enter into a 50-50 joint venture in C. A is part of a 50% consolidated elected taxpayer group and B is a part of a different 50% consolidated elected taxpayer group. C has total taxable gross receipts of \$2,000,000, of which \$20,000 are from A and \$50,000 are from B.

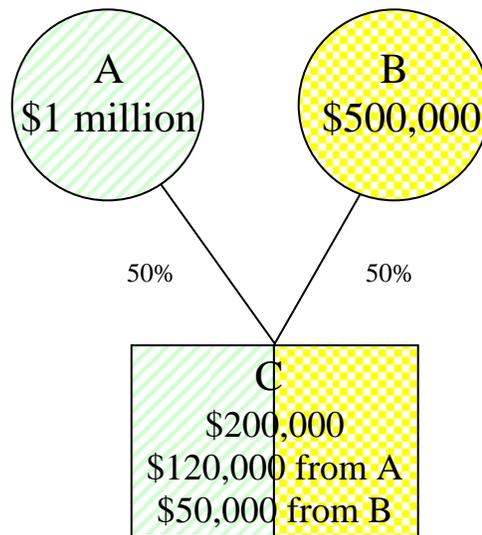
Before splitting its taxable gross receipts evenly between both A and B, C is entitled to exclude the \$20,000 of taxable gross receipts it received for services provided to A and the \$50,000 of taxable gross receipts it received for services provided to B. After taking these exclusions, C's taxable gross receipts are split evenly between the two consolidated elected groups and are added to the group's total taxable gross receipts.



	TGR of J.V.	Less Excludable J.V. Receipts	TGR of J.V. After Excluding Receipts	Each Group's Portion of J.V.'s TGR	Each Group's Individual TGR	Each Group's Total TGR (including J.V.)
A	\$2,000,000	\$70,000	\$1,930,000	\$965,000	\$1,000,000	\$1,965,000
B				\$965,000		\$500,000

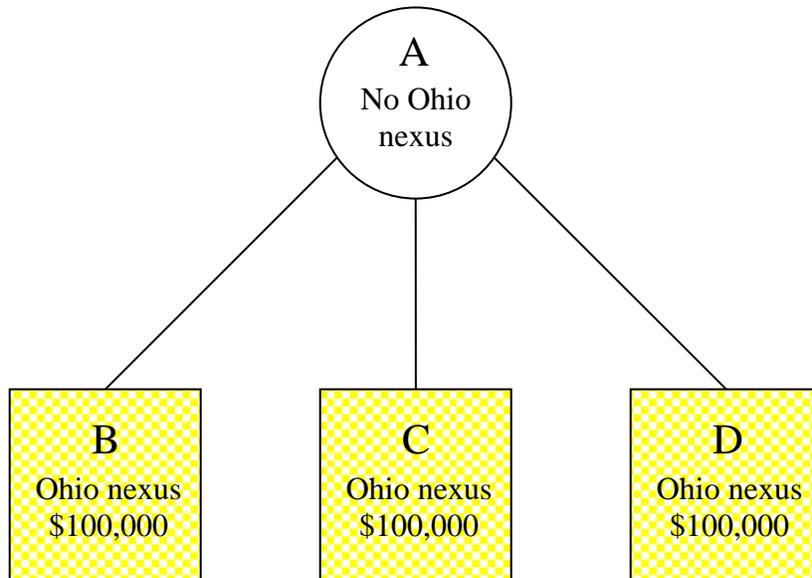
Example 16. A and B enter into a 50-50 joint venture in C. A is part of a 50% consolidated elected taxpayer group and B is a part of a different 50% consolidated elected taxpayer group. A has \$1 million of taxable gross receipts and B has \$500,000 of taxable gross receipts. C has total taxable gross receipts of \$200,000, of which \$120,000 are from A and \$50,000 are from B.

Before splitting its taxable gross receipts evenly between both A and B, C is entitled to exclude the \$120,000 of taxable gross receipts it received for services provided to A and the \$50,000 of taxable gross receipts it received for services provided to B. After taking these exclusions, C's taxable gross receipts are split evenly between the two consolidated elected groups and are added to the group's total taxable gross receipts.

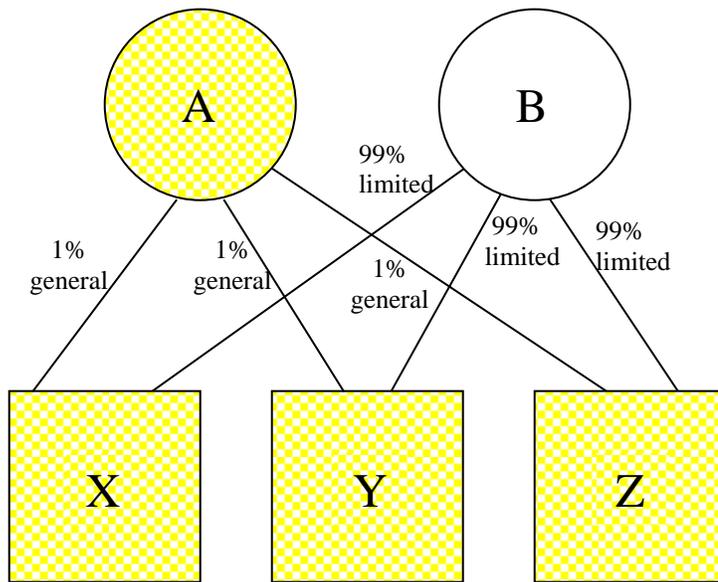


	TGR of J.V.	Less Excludable J.V. Receipts	TGR of J.V. After Excluding Receipts	Each Group's Portion of J.V.'s TGR	Each Group's Individual TGR	Each Group's Total TGR (including J.V.)
A	\$200,000	\$170,000	\$30,000	\$15,000	\$1,000,000	\$1,015,000
B				\$15,000	\$500,000	\$515,000

Example 17. A is a non-Ohio corporation with no nexus with this state. B, C, and D are wholly-owned subsidiaries of A, each have nexus with Ohio and each have \$100,000 in taxable gross receipts. B, C, and D will be in a combined group unless A elects to consolidate. As the common owner, A will be jointly and severally liable for any tax; however A will not be required to register and will not have any taxable gross receipts to include in the combined group's filing since A does not have nexus with Ohio.



Example 18. A is the sole general partner in three partnerships, X, Y, and Z with a 1% interest in each partnership. Corporation B is a limited partner with the remaining 99% interest in each partnership. A's general partnership interest makes A the common owner of X, Y, and Z. A may either elect to consolidate with X, Y, and Z or, if no election is made, X, Y, and Z will be in a combined taxpayer group; the combined group will also include A if A has at least \$4,500 in taxable gross receipts.



Example 19. A and B enter into a 50-50 joint venture in C. C is the 100% owner of Corporation X, and has a 50% interest in Corporation Y. The remaining 50% interest in Corporation Y is owned by Corporation Z. A is part of a 50% consolidated elected taxpayer group and B is a part of a different 50% consolidated elected taxpayer group. Z does not elect to make a 50% consolidated election. C's taxable gross receipts total \$200,000, and X and Y's taxable gross receipts total \$300,000 and \$100,000, respectively. Z's taxable gross receipts total \$400,000.

A and B will each report 50% of C's total taxable gross receipts. Since Z does not elect to consolidate with Y, 100% of Y's taxable gross receipts will be reported by C, which, in turn, will be split equally between Corporations A and B. X's taxable gross receipts will also be split equally between A and B. Therefore, A and B will each report a total of \$300,000 in taxable gross receipts as its share from C: \$100,000 of C's taxable gross receipts, \$150,000 of X's taxable gross receipts, and \$50,000 of Y's taxable gross receipts. Z will report its taxable gross receipts as a stand-alone taxpayer.

If, however, A and B do not elect to consolidate, C will be considered the common owner of X and will be required to file as a combined group unless C elects to consolidate with X and Y. Additionally, although not depicted in the illustration below, if Z does elect to make a 50% consolidated election with Y, 50% of Y's taxable gross receipts will be reported by C, while the remaining 50% of Y's taxable gross receipts will be reported by Z.

