CORPORATION FRANCHISE TAX

The Ohio corporation franchise tax has two alternative tax bases: a net worth base and a net income base. Corporations are required to compute their tax liability under each base and pay the higher of the two, except for financial institutions which compute their tax only on net worth.

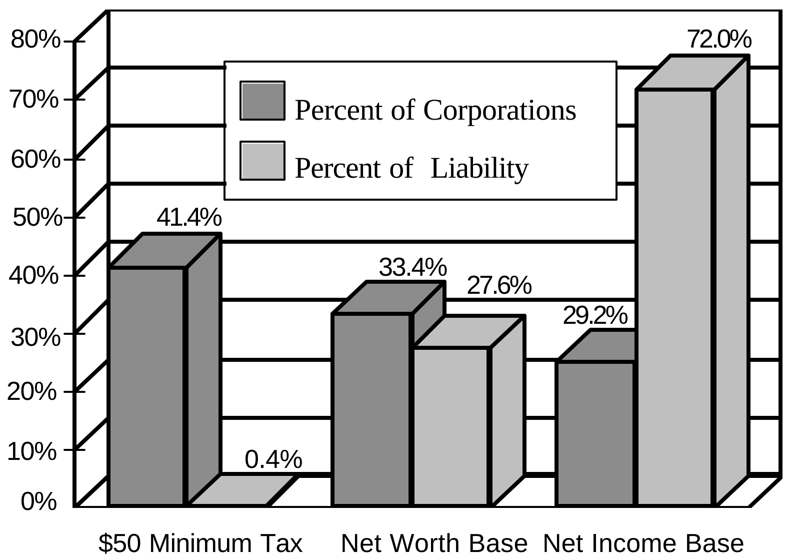
The tables in this section show data on the distribution of the corporation franchise tax among the alternative tax bases for various industrial classifications and tax liability classes. Net collections from the tax were $1,150.3 million in fiscal year 1999. However, the data for these tables were taken from the franchise tax reports filed for tax year 1998. Nearly all such reports were filed in the period between January and May of 1998. Therefore, taxes from these reports were primarily collected during fiscal year 1998.

Percentage of Corporations and Tax Liability by Tax Base, Tax Year 1998

Total Number of Corporations --112,001

Total Reported Tax Liability -- $913.1 Million

(Excludes financial institutions)



For all corporate franchise taxpayers except financial institutions, the reported liability before credits (not including Tier I and Tier II litter taxes) was $981.1 million, but tax credits reduced the net liability to $913.1 million. About 72 percent of the total tax liability before credits was based on net income compared to 28 percent based on net worth. The remainder of the tax was either collected from the minimum tax or the proper tax base was not reported. While about 72 percent of the tax liability was based on net income, only about 29 percent of the corporations paid the tax on net income. About 33 percent of the corporations paid the tax based on net worth and another 41 percent paid the minimum tax. These data exclude the reports of financial institutions, which are shown in the final table.

Financial institutions reported a total tax liability of $180.0 million for tax year 1998. Banks filed 55 percent of the returns and reported 79 percent of the total tax liability. Savings and loans filed 33 percent of these returns, but reported only 20 percent of the total tax liability. Other financial institutions accounted for the balance of the returns and tax liability.

TAX BASE (R.C. 5709.50, 5709.65, 5733.04, 5733.05, 5733.051 AND 5733.056):

The total value of the corporation’s issued and outstanding shares of stock (corporations doing business only in Ohio), or the portion of the value of its issued and outstanding shares of stock attributable to Ohio (corporations doing business both inside and outside of Ohio) form the base of the corporation franchise tax. Two alternative methods are provided for the measurement of this value:

1. ***Net Worth Base***
   This is determined by subtracting the net carrying value of the corporation's liabilities from the net book value of its assets, less any items excluded by statute (see **Exemptions and Exclusions** section). For calendar year corporations, net worth is determined as of the end of the preceding calendar year; for fiscal year corporations, net worth is determined as of the end of the fiscal year ending in the preceding calendar year. The net worth of interstate corporations is apportioned to Ohio according to the formula shown in **Exhibit 1 - Corporation Franchise Tax** (page28).

2. ***Net Income Base*** (does not apply to financial institutions). This is equal to the Ohio portion of federal taxable income with exclusions and additions required by state statute (see **Exemptions and Exclusions** section). For calendar year corporations, net income is computed for the preceding calendar year; for fiscal year corporations, net income is computed for the fiscal year ending in the preceding calendar year. For corporations operating only in Ohio, the total net income of the corporation is attributable to Ohio. For interstate corporations, income is allocated or apportioned to Ohio as follows:

   Allocable Income

   The following types of income are allocated within or outside of Ohio on the basis of location, commercial situs, at time of sale, or location of business activity:

   1) net rents and royalties from real and personal property;
   2) capital gains and losses from the sale or other disposition of real, tangible, and dividend producing intangible property;
   3) dividends;
   4) net patent and copyright royalties (not representing principal source of gross receipts);
   5) technical assistance fees

   Apportionable Income

   Income from all non-allocable sources is apportioned to Ohio according to a three-factor formula (unless Tax Commissioner approves or requires alternative method of apportionment). The formula and the three factors are shown in **Exhibit 2 -- Corporation Franchise Tax** (page 28).

The sum of Ohio's allocable and apportionable income equals Ohio taxable net income to which the tax rate is applied.

RATES

1. ***General Rates (R.C.5733.06)*** for all corporations except financial institutions for the two alternative tax bases are:

   Net Worth--4.00 mills on the taxable value of the corporation with a $150,000 maximum liability; or

   Net Income--5.1 percent on the first $50,000 of Ohio taxable income plus 8.5 percent on Ohio taxable income in excess of $50,000.

   Corporations pay the greater of the two tax liabilities computed under the alternative tax bases (after deducting credits)—with a minimum tax liability of $50 for all corporations.

2. ***Litter Tax Rates (R.C. 5733.065 and 5733.066)***

   a. The tax rates for the two alternative tax bases for all corporations except "litter stream corporations" and financial institutions are:

      Net Worth -- 0.14 mill on the taxable value of the corporation; or

      Net Income -- 0.11 percent on the first $50,000 of Ohio taxable income plus 0.22 percent on Ohio taxable income in excess of $50,000.

      The additional tax charged any taxpayer or group of combined taxpayers under these rates is limited to a maximum of $5,000.

   b. The litter tax rates for the two alternative tax bases for corporations manufacturing or selling "litter stream products"* are:

      Net Worth -- 0.28 mill on the taxable value of the corporation; or

Net Income-- 0.11 percent on the first $50,000 of Ohio taxable income plus 0.44 percent on Ohio taxable income in excess of $50,000. The additional tax charged any taxpayer or group of combined taxpayers under these rates is limited to a maximum of $10,000.

*** *Litter stream products include general beverages, beverage containers and packaging, take-out food packaging, tobacco products, candy and gum.***

3. ***Financial Institutions Rate (R.C. 5733.06)***

Rate on net worth (net income base does not apply)—14 mills in tax year 1999; 13 mills in tax year 2000 and thereafter.

EXEMPTIONS AND EXCLUSIONS:

Entities not subject to tax (R.C. 1733.43, 5733.01, 5733.04, 5733.06, 5733.09, and 5733.10):

1. Nonprofit corporations (except certain agricultural and consumer cooperatives);
2. Municipal corporations;
3. Public utilities subject to public utility excise tax;
4. Credit unions;
5. Dealers in intangibles subject to intangibles tax imposed by R.C. 5707.03;
6. Corporations required to file annual reports with the superintendent of insurance;
7. "Real estate investment trust," "regulated investment companies," and "real estate mortgage investment conduits" as defined in the Internal Revenue Code;
8. Corporations electing treatment as “S” corporation under the Internal Revenue Code;
9. Limited liability companies, if treated as partnership for federal tax purposes;
10. Entities defined as a "qualified holding company" are exempt from tax on the net worth basis;
11. Corporations in Chapter 7 bankruptcy proceedings are not liable for franchise tax.

Assets excluded when computing the corporation’s net worth (R.C. 5709.25, 5709.35, 5709.50, 5709.65, 5915.29 and 6111.36):

1. Certified Ohio pollution control facilities;
2. Certain facilities designed to convert coal into other fuels or to desulfurize coal (assets excluded for 30 years);
3. Certified Ohio civil defense structures;
4. Certified Ohio energy conversion, thermal efficiency improvement, and solid waste energy conversion facilities;
5. Qualified improvements to property located in an enterprise zone

Exempt income and deductions from the net income base (R.C. 5709.35, 5733.04, 5733.054, 5733.055, and 5733.058):

1. Certain income from sources outside the United States;
2. Specified dividends from other corporations;
3. Dividends received from public utilities, insurance companies, and financial institutions in which the taxpayer has the ownership interests required by statute (receipts from these companies are eliminated in determining the sales factor for apportioning net income and net worth);
4. Gains from the sale of capital assets where such gains occurred prior to addition of income base (losses from such sales are added to income);
5. Income arising from facilities designed to convert coal into other fuels, to desulfurize coal, or as a coal research and development project (exempt for 30 years);
6. Interest on Ohio public and purchase obligations and gain from the sale of Ohio public obligations (losses from sales of Ohio public obligations are added to net income);
7. Amount of payroll excluded for the federal “work opportunity credit”;
8. Net interest income on obligations of the federal government;
9. Net operating loss carried forward from prior years. Losses incurred in taxable years ending after 1981 may be carried forward 15 consecutive taxable years. There is no carryback provision.

10. Amount contributed to an individual development account program;
11. Net income attributable to an "exempted investment" in a public utility (net loss from "exempted investment in a public utility is added to net income).

CREDITS (R.C. 122.17, 5709.65, 5709.66, 5733.062, 5733.064, 5733.068, 5733.069, 5733.0610, 5733.0611, 5733.31, 5733.311, 5733.32-5733.38):

1. New manufacturing machinery and equipment purchased between January 1, 1995 and June 30, 1996 and located in Ohio may be eligible for a credit equal to 20 percent of its cost. The credit is available if the cost of the purchased machinery and equipment equals or exceeds 20 percent of the cost of the taxpayer's total tangible personal property located within the United States as of the end of the taxable year that precedes the 18 month eligible purchase period. The maximum credit allowed any taxpayer is $500,000. The credit may be carried forward for up to three tax years.

2. An "alternative" tax credit is available for new manufacturing machinery and equipment. It operates in the same manner as the "original" manufacturing tax credit described immediately above. However, the "alternative" credit differs in two important ways: (1) purchases must have been made between December 1, 1995 and June 30, 1996; and (2) the taxpayer's new Ohio investment must equal or exceed 20 percent of the aggregate cost of the taxpayer's total manufacturing machinery and equipment located in the U.S. during the prior taxable year. The latter requirement is easier to meet than the requirement contained in the "original" manufacturing tax credit.

3. Taxpayers may take a credit equal to 50 percent of cash donations for litter control made to municipalities, counties, and townships which qualify for grants from the litter control and recycling special account. This credit is limited to the lesser of cash donations or 50 percent of the additional tax liability from the litter tax rates.

4. A credit is available for qualified non-retail corporations locating in “enterprise zones” equal to:
   a. the amount reimbursed to specified employees for the cost of day care services up to a maximum of $300 per child;
   b. the amount reimbursed to specified employees for training costs up to a maximum of $1,000 per employee.

5. Savings and loans are allowed a credit equal to the difference between the assessment paid by a state-chartered savings and loan association to the Division of Savings and Loans and the amount paid in supervisory fees to the Federal Savings and Loan Insurance Corporation (FSLIC) or, in the case of an association not insured by the FSLIC, the amount it would have paid if so insured.

6. A credit is allowed that is equal to the taxpayer's proportionate share of the tax paid or due by a pass-through entity under RC section 5733.41.

7. Corporations with increasing export sales and increased Ohio payroll or property are allowed a credit against the franchise tax. The credit is available for tax years 1993 through 2005. The credit is equal to ten percent of the following product: (1) pre-tax profit from the incremental increase in export sales, multiplied by (2) the average of the property factor and payroll factor, multiplied by (3) an increase factor based on the taxpayer's additional Ohio payroll or Ohio property. The credit is calculated according to this formula for tax year 1993 through tax year 2000. For tax years 2001 through 2005, only unused amounts carried forward from prior years are allowed. The maximum credit allowed to the taxpayer and its related members in any one year is $250,000. The maximum aggregate credit allowed to the taxpayer and its related members for all eligible tax years may not exceed $3.25 million. Any credit in excess of the amount allowed for the tax year may be carried forward to a later tax year or years until tax year 2005.

8. A taxpayer may claim a refundable corporate franchise tax credit for new jobs created pursuant to an agreement with the Tax Credit Authority created under R.C. Section 122.17. The credit is equal to a designated percentage of the total amount of Ohio income tax withheld from new employees during the taxable year. The percentage, which may not exceed 100 percent, is established under the agreement between the taxpayer and the Tax Credit Authority. The credit is permitted for a period of up to ten years.

9. A taxpayer may claim a credit equal to ten percent of the cost of purchasing and installing or constructing qualifying property used to produce grapes in Ohio. Any credit amount in excess of the tax due for the taxable year in which the qualifying property is placed in operation may be carried forward for up to seven years.

10. Qualified corporations located in an eligible enterprise zone may take a maximum $1,000 tax credit for each new employee receiving benefits under the Aid for Families with Dependent Children program at the time of employment. Any credit in excess of the tax due may be carried forward for a maximum of three tax years.

11. A nonrefundable credit is available for investments made in small, Ohio-based companies doing research and development and technology transfer. The credit is equal to 25 percent of the qualified investment. The credit must be approved by the state Industrial Technology and Enterprise Board. The maximum cumulative value of credits granted to taxpayers cannot exceed $10 million.

12. Taxpayers may take a nonrefundable credit for costs incurred in completing a voluntary cleanup of a contaminated site, pursuant to an agreement with the state Development Director. The credit is aimed at restoring brownfield industrial sites. It is equal to the lesser of $500,000 or 10 percent of the eligible costs incurred in performing the voluntary cleanup action. If the action is undertaken in an "economically disadvantaged" area the credit is the lesser of $750,000 or 15 percent of the eligible costs. The maximum cumulative value of credits granted to taxpayers cannot exceed $30 million.

13. New manufacturing machinery and equipment purchased between July 1, 1995 and December 31, 2000 for installation in Ohio may be eligible for an investment tax credit. The credit is based on the amount by which the costs of the taxpayer's manufacturing machinery and equipment investment in a specific county during the calendar year exceeds the cost of its average annual investment in machinery and equipment in the same county during three consecutive designated calendar years. The credit is equal to 7.5 percent of this amount. Investments in eligible areas (inner city areas, distressed areas, labor surplus areas, and situtational distress areas) have a tax credit rate of 13.5 percent instead of 7.5 percent. The full credit is divided by seven and the resulting amount may be taken in seven successive tax years. Any unused credit may be carried forward for a maximum of three tax years.

14. Three different tax credits are available in tax years 1999 through 2003 for costs associated with child day care. One of these credits equals 50 percent of the payments made by the taxpayer to support a qualified day care center that may be used by the taxpayer's employees. Another credit equals 50 percent of the start-up expenses of a day care center established on the taxpayer's site and used by the taxpayer's employees (up to $100,000). The final credit equals 50 percent of the reimbursements made by a taxpayer to its employees for day care expenses of dependents, with a maximum $750 annual credit per child.

SPECIAL PROVISIONS (R.C. 5733.04, 5733.056, 5733.57, 5733.06, 5747.40, 5747.453)

1. A corporation that dissolves or surrenders its license to conduct business in Ohio prior to January 1 of tax year is subject to an "exit tax" on its unreported Ohio net income. Any in-

come earned in the two calendar years prior to the tax year, to the extent that such income was not previously included on a franchise tax report, is subject to the exit tax. (This tax does not apply to financial institutions).

2. A corporation that claims the credit for its proportionate share of taxes paid by a qualifying pass-through entity must add to federal taxable income the amount claimed as a credit, to the extent such amount was deducted or excluded from the corporation's federal taxable income.

3. Qualifying pass-through entities (partnerships, S corporations, and limited liability companies treated as a partnership for federal income tax purposes) that are doing business in Ohio or otherwise have nexus with Ohio are required to pay tax on the qualifying investors' shares of the entity's Ohio profits. Among the investors excluded from the definition of "qualifying investors'" are individual investors that are Ohio residents; nonresident individuals on whose behalf the entity files Ohio form IT-4708; investment pass-through entities; and investors that submit a statement to the qualifying pass-through entity agreeing that the investor is subject to Ohio corporate franchise tax on its distributive share of income from the entity. The entity is subject to a five percent withholding tax on the sum of qualifying individual investors' distributive shares of the entity's Ohio income and gain. For qualifying investors that are not individuals, the entity is subject to an 8.5 percent tax on the sum of such investors' distributive shares of Ohio income and gain. No tax is due if Ohio income and gain do not exceed $1,000.

4. Companies defined as "financial institutions" under R.C. Section 5725.01 are subject to a net worth-based franchise tax that differs from the net worth tax on regular corporations. Beginning in tax year 1999, out-of-state banks that do business in or otherwise have nexus with Ohio but do not receive deposits at an Ohio office are taxed as financial institutions rather than as regular taxpayers.

5. Each taxpayer shall include in its adjusted qualifying amounts, allocable income or loss, apportionable income or loss, property, compensation, and sales, the taxpayer's proportionate or distributive share of such items for any pass-through entity in which the taxpayer has a direct or indirect ownership interest.

TAXPAYER (R.C. 5733.01):

Corporate franchise tax is imposed on all domestic corporations organized for profit under Ohio law, except corporations which are exempted by statute. The tax must also be paid by nonprofit agricultural and consumer cooperatives which are organized under Chapter 1729 of the Ohio Revised Code. All foreign corporations organized for profit which are doing business in Ohio, or authorized to do business in Ohio, must also pay the corporate franchise tax. Business trusts defined in section 1746.01 are also subject to corporate franchise tax. The tax is imposed for the privilege of doing business in Ohio during the year in which the tax is payable.

FILING AND PAYMENT DATES (R.C. 5703.47, 5733.02, 5733.021, 5733.13):

January 31--By this date, the corporation must file either the annual report and make full payment of the tax due, or an estimated report of its full tax liability and pay one-third of that estimated liability. If the estimated full tax liability is less than the maximum tax of $50, the corporation must make full payment of $50.

March 31--By this date, the corporation must file either the annual report and pay the difference between its full liability and first estimated payment, or it must file a timely extension request and pay another one-third of its estimated tax liability.

May 31--By this date, a corporation which received an extension of time for filing past March 31 must either file the annual report and pay the difference between its full liability and its estimated payments made earlier, or pay the remaining one-third of its estimated tax liability (if it is granted an extension for filing past May 31). A corporation receiving this extension must file its annual report and pay any remaining tax liability by the 15th day of the month following the final due date for filing its federal corporation income tax return.

The interest rate charged on any underpayment of estimated tax payments in a year is based on the average federal short term rate in effect in July of the previous year plus three percentage points. For calendar year 1999, the calculated rate was 8 percent.

DISPOSITION OF REVENUE (R.C. 4981.09, 5733.12, 5733.122):

The Local Government Fund receives 4.2 percent, the Local Government Revenue Assistance Fund receives 0.6 percent, and the General Revenue Fund receives 95.2 percent of collections.

The amount appropriated annually for administration of the "litter" tax is credited to the litter control tax administration fund. In addition, $5 million is credited to the recycling and litter prevention fund for each six-month period.
Upon certification by the Tax Commissioner by the last day of each March and August, fifty percent of the corporate franchise tax paid by railroads into the General Revenue Fund is transferred by the Office of Budget and Management from the General Revenue Fund to the Rail Development Fund. (This requirement expired after the March 1999 certification.)

OHIO REVISED CODE CITATIONS:

Chapter 122, 1733, 4981, 5703, 5709, 5733, and 5915.

ADMINISTRATION (R.C. 5733.02, 5733.052, 5733.11):

1. Shared Administration:

Although tax payments and annual reports of corporations are filed with the Treasurer of State, the Tax Commissioner is principal administrator of the tax, with the Treasurer acting as collector of the tax. All corporate franchise reports received by the Treasurer are transmitted to the Commissioner showing the amount of tax remitted with the report and the date it was received. If a corporation required to file a report fails to do so within the prescribed time, files an incorrect report or fails to remit the full amount of the tax due, the Commissioner may make an assessment against the corporation for the tax due.

2. Combined Report:

When more than half of the capital stock with voting rights of a corporation is owned or controlled by another corporation, the Tax Commissioner is authorized to permit or require the combining of net income for purposes of calculating the tax base. Two or more corporations subject to the tax which meet the above ownership requirements may elect to file a combined report if the combination sets forth the information required by the Commissioner and each of the corporations has nondividend income from sources within Ohio. Once made, this election may not be changed by the taxpayer without the Commissioner's consent (See **Tax Commissioner Rule 5703-5-06**).

RECENT LEGISLATION:

House Bill 283, effective July 1, 1999.

R.C. 5733.05 **-** The value of land devoted exclusively to agriculture is excluded from the taxpayer's computation of net worth.

R.C. 5733.33 **-** Extends the period for making qualifying purchases for purposes of the manufacturing investment tax credit, from January 1, 2001 through December 31, 2005. Allows the credit to be taken when the property is sold or otherwise removed from Ohio before the end of the seven years, if such property has been fully depreciated for federal income tax purposes. Requires that the calculation of thresholds and investment increases is to include all related members.

R.C. 5733.351 **-** Taxpayers are granted a nonrefundable tax credit equal to 7 percent of the excess of qualified research expenses incurred during the taxable year over the taxpayer's average annual qualified research expenses incurred in the state for the three preceeding taxable years.

***R.C. 5733.39* -** A nonrefundable tax credit is provided to railroad companies for the costs of maintaining active grade crossing warning devices in Ohio. The credit is equal to the lesser of $200 or 10 percent of the annual maintenance cost of each device.

***R.C. 5733.42* -** Taxpayers are allowed a nonrefundable tax credit for one-half of the direct instructional costs of training employees that exceed the taxpayer's average annual training costs for the three preceding years. The credit cannot exceed $500 per each trained employee, and may not exceed the lesser of $100,000 or 1/2 of the taxpayer's liability.

***Temporary Law Section 177* -** Provides a refundable tax credit in tax year 2000 equal to the amount of additional tax paid in tax year 1999 as a result of not excluding land devoted exclusively to agriculture from the taxpayer's net worth.

***Temporary Law Section 178* -** Allows taxpayers with related member to elect to compute the credit for investment prior to January 1, 2001 as if all related members were a consolidated, single taxpayer.

House Bill 770, Effective June 17, 1998.
R.C. 5733.058 - A taxpayer must adjust its net income (or loss), apportionment factors, and credits to the extent that net income (or loss), apportionment factors, and credits include the taxpayer's proportionate share of such amounts attributable to the taxpayer's direct or indirect ownership interest in an "exempted investment". An exempted investment is the taxpayer's investment in a pass-through entity or "disregarded entity" which is a public utility.

House Bill 426, Effective July 22, 1998.
***R.C. 5733.33* -** Under certain limited circumstances, the purchaser of a "large manufacturing facility" may claim the unused manufacturing investment tax credits (7.5% - 13.5% credit) of the seller of the manufacturing equipment located at the manufacturing facility.

Senate Bill 3, Effective October 6, 1999.
***R.C. 5733.09* -** Subjects electric utilities to the corporate franchise tax effective January 1, 2002.

RECENT SIGNIFICANT COURT DECISIONS:

Burger Iron Co. v. Tracy (1998), 83 Ohio St. 3d 102.
The Supreme Court held that the value of the stock of second and third tier subsidiaries may not be sitused under R.C. 5733.05(A), as that section only provides for the situsing of first tier subsidiaries.

Goodyear Tire and Rubber Co. v. Tracy (1999), 85 Ohio St. 3d 615. Supreme Court held that a pension surplus fund carried on the books of an Ohio corporation as an asset was property includable in the numerator of the property factor, because under R.C. 5709.02 and 5709.03 such intangibles are sitused at the residence of the owner.

Harsco Corp. v. Tracy (1999), 85 Ohio St. 3d 382. The sale by a taxpayer of one of its divisions generated a capital gain that included recaptured depreciation. The Supreme Court held this gain to be allocable income, rather than apportionable income, for purposes of determining the net income basis.

Global Industries Technologies v. Tracy (June 1999), BTA No. 97-1072. A Delaware corporation with a principal place of business in Texas, which was a 50% partner in a partnership which did business in Ohio, was not required to include the value of its partnership interest in the numerator of the business done fraction of the net worth calculation. The BTA found that the situsing provision of R.C. 5709.02 and 5709.03 do not address partnership interests, and that an analogy to situsing interests in corporations did not support situsing the partnership interest in Ohio.

Keycorp, Successor to Society Corp. v. Tracy (July 10, 1998), B.T.A. No. 96-954. The Board held that the Eurodollars and repurchase agreements owned by the taxpayer and booked as liabilities by the taxpayer's subsibiary bank were includable in the calculation of the taxpayer's net worth base. They were not excluded from the net worth calculation by R.C. 5733.05(A)(5)(c) as the taxpayer contended. The taxpayer was found to be a quiescent holding company because it had no employees and conducted no business other than its investment activities.

Marathon Oil Co. v. Tracy (Nov. 6, 1998), BTA 96-1396. The board held that interest received on a loan made to a subsidiary to help it meet its day-to-day obligations did not constitute a business activity and therefore should not be included in the business done factor.

Shell Oil Co. v. Tracy (Nov. 6, 1998), BTA No. 96-1396. BTA ordered that the first-tier subsidiaries of a net worth taxpayer should be sitused for purposes of the property factor in accordance with Burger Iron Company v. Tracy (1998), 83 Ohio St. 3d 102. That case held that where the first tier subsidiaries own no physical assets, no "look-through" to the assets of lower level subsidiaries is permitted.

USX Corporation v. Tracy (Jan. 22, 1999), BTA No. 92-1479. On reconsideration, the BTA held that the taxpayer had properly included in its calculation of net worth, or book value, the reserve for deferred income taxes and that the debit balance in the reserve appropriately reduced net worth.

Exhibit 1 -- Corporation Franchise Tax

Net Worth Tax Base Formula

$$\text{Taxable Value} = \text{Net Value of Stock*} \times ((\text{Property factor} \times .2) + (\text{Payroll factor} \times .2) + (\text{Sales factor} \times .6))$$

* *Excludes value of pollution control, coal conversion, and energy conversion facilities property, and qualified property in an enterprise zone.*

See Exhibit 2 for explanation of factors.

Exhibit 2 -- Corporation Franchise Tax

Net Income Tax Base

(Does not apply to financial institutions)

1. Allocable income (such as dividends and capital gains) is not subject to the net income apportionment formula but is added to apportioned income, which is described in the following steps.

2. Net Income Apportionment Formula:

$$\text{Ohio Apportioned Net Income} = \text{Apportionable Income} \times ((\text{Property Factor X } .2) + (\text{Payroll Factor X } .2) + (\text{Sales Factor X } .6))$$

* *Reduced by number of factors with a denominator of zero.*

3. The factors are computed as follows:

$$\text{Property Factor*} = \frac{\text{Average cost of owned or rented real and tangible personal property used in business in Ohio}}{\text{Average cost of such property used everywhere}}$$

$$\text{Payroll Factor**} = \frac{\text{Total compensation paid in Ohio}}{\text{Total compensation paid everywhere}}$$

$$\text{Sales Factor***} = \frac{\text{Sales in Ohio}}{\text{Sales everywhere}}$$

* *The cost of pollution control, coal conversion, solid waste energy conversion, thermal efficiency improvement, and energy conversion facilities; property that generates rental income; and property used exclusively for qualified research in Ohio is excluded from the numerator and denominator. The cost of qualifying improvements to property in an enterprise zone is excluded from the numerator only.*

** *Excludes compensation to certain employees at a qualified facility in an enterprise zone, and compensation to employees engaged in qualified research in Ohio.*

*** *For sales of tangible personal property, sales inside and outside of Ohio are determined by the final destination of the property sold; other sales are sitused according to where the income-producing activity takes place. Sales derived from allocable income are not included in this factor.*

Table 16
Corporate Franchise Tax Collections, Fiscal Years 1995 - 1999

Fiscal Year	Gross Tax Collections	Refunds	Net Tax Collections
1995	$1,194,742,023	$83,042,777	$1,111,699,246
1996	1,290,906,046	109,221,702	1,181,339,338
1997	1,324,627,586	104,326,355	1,220,301,231
1998	1,405,245,382	136,579,106	1,268,666,276
1999	1,333,022,664	182,696,830	1,150,325,834

Source: Ohio Office of Budget and Management.

Table 17
Number of Corporations, By Tax Base and Industry, Tax Year 1998

Industry	Number of Corporations by Tax Base			
	Minimum	Net Worth	Net Income	Total
Agriculture & Forestry	507	598	438	1,543
Mining	375	450	195	1,020
Construction	3,777	3,428	3,075	10,280
Manufacturing	4,198	5,865	5,038	15,101
Communications & Transportation	2,014	1,526	1,300	4,840
Wholesale Trade	2,644	3,545	3,478	9,162
Retail Trade	4,973	5,627	3,478	14,078
Finance	6,094	4,606	2,924	13,624
Services	14,402	9,719	7,211	31,332
Unknown*	7,395	2,007	1,619	11,021
TOTAL	46,379	37,371	28,251	112,001

*Industry classification was not indicated by taxpayer.

Table 18
Number of Corporations, By Tax Base and Tax Liability Class, Tax Year 1998

	Number of Corporations by Tax Base			
Tax Liability Class	Minimum	Net Worth	Net Income	Total
Minimum	46,379	—	—	46,379
$51 - $1,000	—	22,192	10,821	33,013
1,001 - 2,000	—	5,397	4,323	9,720
2,001 - 3,000	—	2,578	2,515	5,093
3,001 - 4,000	—	1,489	1,214	2,703
4,001 - 5,000	—	999	1,060	2,059
5,001 - 10,000	—	2,006	2,683	4,689
10,001 - 15,000	—	744	1,172	1,916
15,001 - 20,000	—	273	751	1,172
20,001 - 25,000	—	186	487	760
25,001 - 30,000	—	123	351	537
30,001 - 35,000	—	123	291	414
35,001 - 50,000	—	246	596	842
50,001 - 100,000	—	344	853	1,197
100,001 - 200,000	—	196	528	724
200,001 - 500,000	—	125	407	432
500,001 - 1,000,000	—	34	113	147
Over $ 1,000,000	—	18	86	104
TOTAL	46,379	37,371	28,251	112,001

Table 19
Corporation Franchise Tax -- Reported Tax Liability By Tax Base and Industry, Tax Year 1998

Industry	Tax Liability Before Litter Tax and Credits by Tax Base				Tier 1 Litter Tax[a]	Tier 2 Litter Tax[a]	Nonrefundable Tax Credits	Liability After Nonrefundable Credits & Litter Tax
	Minimum	Net Worth	Net Income	Total				
Agriculture & Forestry	$25,850	$1,381,092	$2,564,086	$3,971,028	$73,570	$1,231	$76,861	$3,968,968
Mining	27,470	5,309,312	9,256,226	14,593,008	218,379	13,961	1,199,876	13,625,472
Construction	215,556	7,261,139	26,529,846	34,006,541	708,803	5,787	263,951	34,457,180
Manufacturing	341,846	91,138,432	370,555,609	462,035,887	5,192,547	218,831	50,204,794	417,242,471
Transport, Communication, Utility	211,339	28,067,748	43,657,819	71,936,906	596,989	8,610	1,317,039	71,225,466
Wholesale Trade	191,722	18,060,588	67,075,895	85,328,205	1,382,656	79,434	2,614,544	84,175,751
Retail Trade	451,298	26,562,508	56,009,099	83,022,905	1,169,237	96,399	1,078,438	83,210,103
Finance, Insurance, Real Estate	687,787	39,854,205	37,210,789	77,752,781	1,131,143	27,508	3,699,972	75,211,460
Services	993,003	30,185,771	68,517,735	99,696,509	1,740,665	70,451	1,033,987	100,473,638
Unknown (b)	525,555	19,698,922	15,383,121	35,607,598	350,762	16,062	6,508,056	29,466,366
TOTAL	$3,671,426	$267,519,717	$696,760,225	$967,951,368	$12,564,751	$538,274	$67,997,518	$913,056,875

(a) Tier One of litter tax is paid by all corporations. Tier Two of litter tax is paid only by “litter stream” corporations.
(b) Industry classification was not indicated by taxpayer.

Table 20
Corporation Franchise Tax--Reported Tax Liability By Tax Base and Tax Liability Class, Tax Year 1998

Tax Liability Class	Tax Liability Before Litter Tax and Credits by Tax Base: Minimum	Net Worth	Net Income	Total	Tier 1 Litter Tax*	Tier 2 Litter Tax*	Nonrefundable Tax Credits	Liability After Nonrefundable Tax Credits and Litter Tax
Minimum	$3,671,426	—	—	$3,671,426	$3,342	$677	$1,356,495	$2,318,950
$51 - $1,000	—	$20,958,377	$13,014,982	33,973,359	614,308	23,231	22,695,502	11,915,396
1,001 - 2,000	—	8,411,127	6,260,265	14,671,392	331,871	7,594	984,655	14,026,202
2,001 - 3,000	—	6,318,924	6,187,366	12,506,290	281,490	11,915	367,543	12,432,152
3,001 - 4,000	—	5,082,295	4,699,705	9,782,000	221,950	6,828	640,465	9,370,313
4,001 - 5,000	—	4,490,526	4,984,352	9,474,878	225,180	6,129	461,467	9,244,720
5,001 - 10,000	—	14,005,118	18,894,010	32,899,128	777,008	42,111	672,759	33,045,488
10,001 - 15,000	—	9,009,942	14,284,217	23,294,159	537,813	21,377	420,339	23,433,010
15,001 - 20,000	—	7,627,006	12,867,171	20,494,177	482,173	12,161	688,237	20,300,274
20,001 - 25,000	—	6,278,575	10,781,985	17,060,560	402,334	11,649	530,630	16,943,913
25,001 - 30,000	—	5,148,548	9,527,449	14,675,997	334,481	13,818	285,515	14,738,781
30,001 - 35,000	—	4,435,152	9,562,032	13,997,184	317,158	8,073	865,808	13,456,607
35,001 - 50,000	—	11,002,853	24,623,645	35,626,498	805,699	18,120	1,156,747	35,293,570
50,001 - 100,000	—	26,333,032	59,298,817	85,631,849	1,874,253	78,303	3,441,812	84,142,593
100,001 - 200,000	—	28,790,280	73,978,224	102,768,504	2,139,165	70,507	4,254,391	100,723,785
200,001 - 500,000	—	42,065,675	125,709,640	167,775,315	2,175,973	127,859	8,343,340	161,735,807
500,001 - 1,000,000	—	26,585,501	80,523,085	107,108,586	605,125	48,498	6,757,541	101,004,668
Over $1,000,000	—	40,976,786	221,563,280	262,540,066	435,428	29,424	14,074,272	248,930,646
TOTAL	$3,671,426	$267,519,717	$696,760,225	$967,951,368	$12,564,751	$538,274	$67,997,518	$913,056,875

*Tier One of litter tax is paid by all corporations. Tier Two of litter tax is paid only by “litter stream” corporations.

Table 21
Number of Manufacturing Corporations, By Tax Base and Industry, Tax Year 1998

Industry	Number of Corporations by Tax Base: Minimum	Net Worth	Net Income	Total
Food	233	335	218	786
Tobacco Manufacturers	9	4	8	21
Textile Mill Products	39	50	34	123
Apparel and Other Textile	92	100	52	244
Lumber and Wood Products	99	163	142	404
Furniture and Fixtures	76	98	69	243
Paper	132	173	157	462
Printing and Publishing	367	425	395	1,187
Chemicals	301	442	361	1,104
Petroleum and Coal	42	54	33	129
Rubber and Plastics	332	348	340	1,020
Leather Products	12	20	6	38
Stone, Clay & Glass Products	174	255	218	647
Primary Metal	116	186	131	433
Fabricated Metal	716	1,305	1,217	3,238
Machinery (non-electrical)	419	644	557	1,620
Electrical Machinery	389	431	366	1,186
Transportation Equipment	145	183	157	485
Instruments and Related Prod.	164	216	167	547
Miscellaneous Manufacturing	341	433	410	1,184
TOTAL	4,198	5,865	5,038	15,101

Table 22
Number of Manufacturing Corporations, By Tax Base and Tax Liability Class, Tax Year 1998

Tax Liability Class	Number of Corporations by Tax Base: Minimum	Net Worth	Net Income	Total
Minimum	4,198	—	—	4,198
$51 - $1,000	—	2,483	1,168	3,651
1,001 - 2,000	—	872	530	1,402
2,001 - 3,000	—	499	358	857
3,001 - 4,000	—	317	197	514
4,001 - 5,000	—	216	192	408
5,001 - 10,000	—	542	559	1,101
10,001 - 15,000	—	214	308	522
15,001 - 20,000	—	132	223	355
20,001 - 25,000	—	102	153	255
25,001 - 30,000	—	70	110	180
30,001 - 35,000	—	45	98	143
35,001 - 50,000	—	93	227	320
50,001 - 100,000	—	140	323	463
100,001 - 200,000	—	73	256	329
200,001 - 500,000	—	51	210	261
500,001 - 1,000,000	—	13	67	80
Over $1,000,000	—	3	59	62
TOTAL	4,198	5,865	5,038	15,101

Table 23
Corporation Franchise Tax -- Reported Tax Liability for Manufacturing Corporations, By Tax Base and Industry Classification Tax Year 1998

Industry	Tax Liability Before Litter Tax and Credits by Tax Base				Tier 1 Litter Tax*	Tier 2 Litter Tax*	Nonrefundable Tax Credits	Liability After Nonrefundable Tax Credits & Litter Tax
	Minimum	Net Worth	Net Income	Total				
Food	$40,400	$5,078,202	$33,507,354	$38,625,956	$316,478	$70,290	$1,951,389	$37,061,335
Tobacco Manufacturers	450	11,590	7,601,954	7,613,994	22,610	10,059	0	7,646,663
Textile Mill Products	2,100	528,720	664,917	1,195,737	26,599	0	18,219	1,204,117
Apparel and Other Textiles	5,800	385,891	1,244,139	1,635,830	34,499	271	8,527	1,662,073
Lumber and Wood Products	6,450	2,134,727	2,244,727	4,385,904	79,942	11,986	510,397	3,967,435
Furniture and Fixtures	7,050	519,521	4,497,393	5,023,964	58,511	5,024	311,388	4,776,111
Paper	7,650	6,991,980	5,879,554	12,879,184	184,841	9,411	1,823,807	11,249,629
Printing and Publishing	30,796	2,173,293	27,367,961	29,572,050	310,618	789	1,764,231	28,119,226
Chemicals	27,800	14,499,507	40,576,208	55,103,515	628,157	27,208	3,738,388	52,020,492
Petroleum and Coal	2,900	2,652,091	2,253,594	4,908,585	72,508	6,069	225,819	4,761,343
Rubber and Plastics	24,900	6,531,503	14,874,671	21,431,074	333,421	4,182	3,179,428	18,589,249
Leather Products	600	152,710	497,540	650,850	15,456	80	20,911	645,475
Stone, Clay & Glass Products	11,920	3,228,500	16,492,809	19,733,229	213,401	9,085	2,858,300	17,097,415
Primary Metal	9,750	10,046,404	9,391,166	19,447,320	260,835	5,376	3,085,092	16,628,439
Fabricated Metal	48,200	9,851,236	49,612,205	59,511,641	920,586	11,505	7,839,622	52,604,110
Machinery (non-electrical)	32,757	6,044,220	25,917,395	31,994,372	443,067	8,231	3,726,961	28,718,709
Electrical Machinery	31,250	4,942,397	44,423,622	49,397,269	434,104	19,459	2,146,753	47,704,079
Transportation Equipment	13,300	9,490,410	51,426,107	60,929,817	323,728	3,974	13,769,660	47,487,859
Instruments and Related Products	12,850	2,759,379	9,154,160	11,926,389	191,968	6,931	755,960	11,369,328
Miscellaneous Manufacturing	24,923	3,116,151	22,928,133	26,069,207	321,218	8,901	2,469,942	23,929,384
TOTAL	$341,846	$91,138,432	$370,555,609	$462,035,887	$5,192,547	$218,831	$50,204,794	$417,242,471

*Tier One of litter tax is paid by all corporations. Tier Two of litter tax is paid only by “litter stream” corporations.

Table 24
Corporation Franchise Tax -- Reported Tax Liability for Manufacturing Corporations, By Tax Base and Tax Liability Class, Tax Year 1998

	Tax Liability Before Litter Tax and Credits by Tax Base							
Tax Liability Class	Minimum	Net Worth	Net Income	Total	Tier 1 Litter Tax*	Tier 2 Litter Tax*	Nonrefundable Tax Credits	Liability After Nonrefundable Tax Credits & Litter Tax
Minimum	$341,846	—	—	$341,846	$2,857	$61	$134,864	$209,900
$51 - $1,000	--	$11,574,963	$7,808,983	19,383,946	310,640	7,650	18,392,422	1,309,814
1,001 - 2,000	--	1,301,885	844,723	2,146,608	51,023	1,478	166,927	2,032,182
2,001 - 3,000	--	1,258,883	971,355	2,230,238	51,289	1,641	192,119	2,091,049
3,001 - 4,000	--	1,121,984	1,243,018	2,365,002	47,117	557	626,398	1,786,278
4,001 - 5,000	--	997,364	1,160,300	2,157,664	55,986	708	384,274	1,830,084
5,001 - 10,000	--	3,987,650	4,122,541	8,110,191	194,442	10,371	480,352	7,834,652
10,001 - 15,000	--	2,691,095	3,891,448	6,582,543	151,245	4,478	251,639	6,486,627
15,001 - 20,000	--	2,686,510	3,951,537	6,638,047	157,558	2,867	627,095	6,171,377
20,001 - 25,000	--	2,339,748	3,486,605	5,826,353	137,405	3,752	285,318	5,682,192
25,001 - 30,000	--	1,993,273	3,058,600	5,051,873	114,343	3,648	210,182	4,959,682
30,001 - 35,000	--	1,947,834	3,440,439	5,388,273	114,337	2,862	864,080	4,641,392
35,001 - 50,000	--	4,216,681	9,572,135	13,788,816	311,520	6,547	642,785	13,464,098
50,001 - 100,000	--	11,573,484	23,112,556	34,686,040	761,633	33,163	2,714,187	32,766,649
100,001 - 200,000	--	10,670,479	36,950,030	47,620,509	1,009,594	34,562	2,702,149	45,962,516
200,001 - 500,000	--	18,856,753	66,608,618	85,465,371	1,119,578	56,261	6,850,105	79,791,105
500,001 - 1,000,000	--	8,630,133	49,312,690	57,942,823	337,045	28,810	2,922,056	55,386,622
Over $1,000,000	--	5,289,713	151,020,031	156,309,744	264,935	19,415	11,757,842	144,836,252
TOTAL	$341,846	$91,138,432	$370,555,609	$462,035,887	$5,192,547	$218,831	$50,204,794	$417,242,471

*Tier One of litter tax is paid by all corporations. Tier Two of litter tax is paid only by “litter stream” corporations.

Table 25
Corporation Franchise Tax -- Number of Financial Institutions and Reported Tax Liability, By Type of Institution, Tax Year 1998

Tax Liability Class	Number of Corporations by Type				Liability by Type			
	Banks	Savings & Loans	Other*	Total	Banks	Savings & Loans	Other*	Total
$50 - $1,000	16	6	40	62	$4,781	$300	$3,220	$8,301
1,001 - 2,000	1	0	2	3	1,827	0	2,400	4,227
2,001 - 3,000	0	1	0	3	3,156	0	4,480	6,825
3,001 - 4,000	0	1	0	1	0	3,156	0	3,156
4,001 - 5,000	0	0	0	0	0	0	0	0
5,001 - 10,000	2	1	3	6	13,801	9,009	19,440	2,250
10,001 - 15,000	3	0	1	4	35,657	0	10,462	46,119
15,001 - 20,000	3	2	2	7	55,170	31,775	32,422	119,367
20,001 - 25,000	4	4	0	8	95,660	91,501	0	187,161
25,001 - 30,000	4	3	0	7	109,164	82,934	0	192,098
30,001 - 35,000	6	5	1	12	198,760	167,251	31,927	397,938
35,001 - 50,000	21	8	0	29	886,522	340,626	0	1,227,148
50,001 - 100,000	53	35	3	91	3,830,153	2,608,486	197,893	6,636,532
100,001 - 200,000	52	36	0	88	7,415,457	5,330,302	0	12,745,759
200,001 - 500,000	39	34	1	74	12,552,818	10,068,129	384,021	23,004,968
500,001 - 1,000,000	21	8	0	29	13,352,435	5,096,973	0	18,449,408
$1,000,001 & Over	20	4	1	25	102,790,192	13,048,301	1,051,276	116,889,769
TOTAL	246	147	56	449	$141,344,742	$36,878,743	$1,737,541	$179,961,026

* Primarily credit agencies that accept deposits.