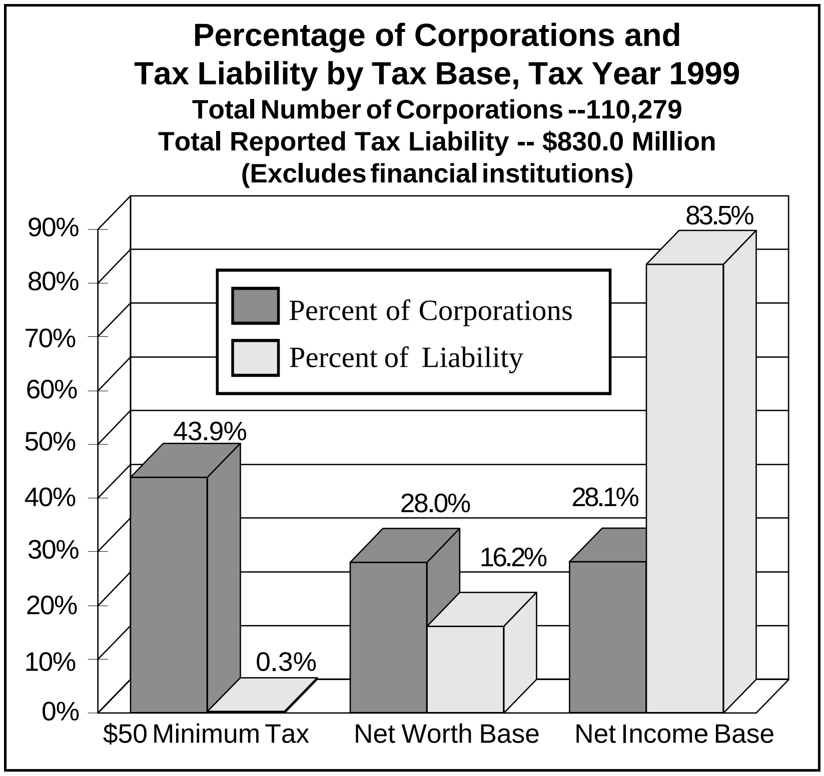
CORPORATION FRANCHISE TAX



The Ohio corporation franchise tax came into effect in 1902 at a one mill (0.1 percent) rate on the value of capital stock (net worth) in Ohio. The tax rate remained at one mill until 1959 when it was increased to three mills, followed by one-mill increases in 1967 and 1969, respectively. In 1971, the five mill net worth tax was complemented by a new tax based on net income in Ohio. With the enactment of this new tax base, taxpayers were required to compute both the net worth tax and the net income tax, and pay the higher of the two tax calculations.

During the 1980's many changes were made to the corporation franchise tax rates, and the litter tax and a (now-repealed) surtax were enacted. However, from 1988 to 1998 the franchise tax rates remained constant, with a 5.82 mill net worth tax rate and a 5.1 percent rate on the first $50,000 of net income and 8.9 percent rate on remaining net income. In 1999, major changes were made to the tax, including reductions in the net worth tax rate (to 4 mills) and the top net income tax rate (to 8.5 percent). Among the many other changes that took effect in 1999 were the imposition of a $150,000 cap on the net worth tax and the replacement of the two-factor net worth apportionment formula with the three-factor net income apportionment formula (**See Exhibits One and Two** on page 35 for further detail on the apportionment formula).

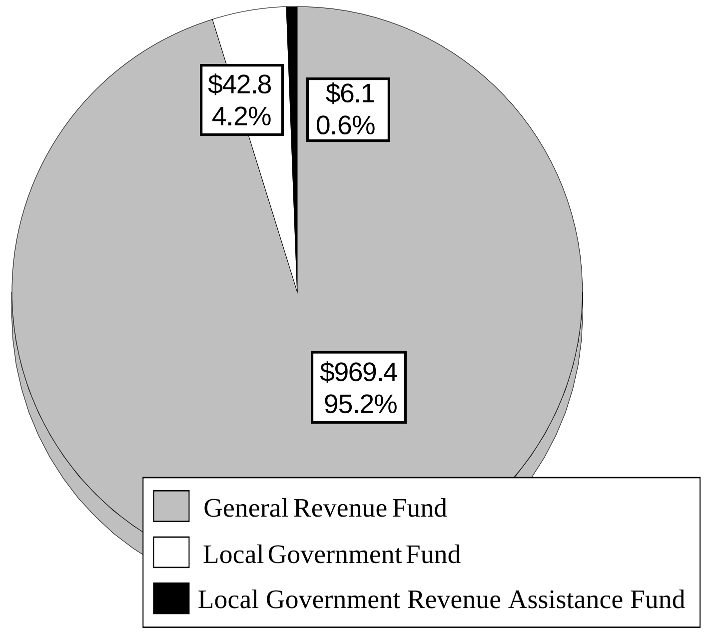
Financial institutions are treated in a different manner than general corporations under the corporation franchise tax. Financial institutions are subject to a 13 mill net worth tax (net income tax and litter tax do not apply) and have different apportionment provisions than those for general corporations.

In fiscal year 2000, the corporation franchise tax generated just over $1.0 billion in total (all funds) revenue. The franchise tax produces the third highest amount of revenue among the taxes that support Ohio's General Revenue Fund. Of this total, 4.2% or $42.8 million was distributed to the Local Government Fund, 0.6% or $6.1 million to the Local Government Revenue Assistance Fund, and 95.2% or $969.4 million to the General Revenue Fund. (See chart 5 on page 26)

The tables in this section provide tax year 1999 data on the distribution of the corporation franchise tax among the alternative tax bases for various industrial classifications and tax liability classes. The data were taken from franchise tax reports that were due in 1999, with the bulk of the taxes collected between January and May 1999 (fiscal year 1999).

For all corporate franchise taxpayers except financial institutions, the reported liability before credits (not including Tier I and Tier II litter taxes) was $880.8 million, but tax credits reduced the net liability to $830.0 million. About 84 percent of the total tax liability before credits was based on net income. In contrast, only about 28 percent of the corporations paid the tax on net income. About 28 percent of the corporations paid the tax based on net worth and another 44 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 $182.1 million for tax year 1999. Banks filed 62 percent of the returns and reported 86 percent of the total tax liability. Savings and loans filed 28 percent of these returns, but reported only 14 percent of the total tax liability. Other financial institutions accounted for the balance of the returns and tax liability.

Chart 5
Distribution of Revenues from Corporation Franchise Tax
Total: $1,029.9 million
Fiscal Year 2000



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** (page 35).

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, on page 27). 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 35).

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) — 13 mills.

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 trusts," "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 partership 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 R.C. 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 calculated according to this formula for tax year 1993 through tax year 2000. 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. 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 employee who, at the time of hire, was a participant in programs established by R.C. chapters 5107 and 5108. 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, 2005 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 income 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, or otherwise having nexus with Ohio under the Constitution of the United States, 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.

OHIO REVISED CODE CITATIONS:

Chapters 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 384; effective November 24, 1999.
***R.C. 5733.39* -** Increases the Ohio coal credit from $1 per ton to $3 per ton of Ohio coal burned in a coal-fired electric generating unit. The credit applies only to coal used between May 1, 2001 and December 31, 2004. The credit may be claimed beginning in tax year 2002. Also removes certain restrictions contained in Senate Bill 3 that require a minimum percentage of the coal used in an electric generating unit be Ohio coal.

Senate Bill 3; effective October 5, 1999.
***R.C. 5733.09 and Temporary Law Section 12* -** Electric companies are made subject to corporation franchise tax beginning in tax year 2002.

***R.C. 5733.05, 5733.09* -** Stipulates the method to situs sales of electricity to this state, and provides a method of apportioning sales of electric transmission and distribution services to this state.

***R.C. 5733.39* -** Effective in tax year 2002, a nonrefundable tax credit is allowed for Ohio coal used in coal-fired electric generating units, under certain conditions. The credit equals one dollar per ton of Ohio coal burned (**See House Bill 384 for credit revision**).

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 to December 31, 2005. Allows the credit to be taken when the property is sold or otherwise removed from Ohio before the end of 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 seven 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 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.

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 408; effective October 1, 1997.
R.C. 5733.04(I)(14) - Taxpayers may deduct from net income the amount contributed to an individual development account program established by a county department of human services pursuant to RC sections 329.11 through 329.14 for the purpose of matching funds deposited by program participants.

House Bill 215, effective July 1, 1997.
Changes below are effective in year 1999 unless specified otherwise.

R.C. 5733.02 - Expands the types of transactions under which taxpayers are to add to their net income the amount of interest expenses and costs and intangible expenses and costs paid, accrued, or incurred to, or connected with, certain related members.

R.C. 5733.05 - Changes the weighting of the net income apportionment factors, with a 60 percent weight for sales, 20 percent weight for property and 20 percent weight for payroll. Replaces the existing net worth tax base with a new tax base which consists of total assets less total net carrying value of liabilities. The existing net worth apportionment formula is replaced with the revised three-factor net income apportionment formula cited above.

R.C. 5733.056 - Effective in tax year 1998, the net worth tax on financial institutions will be revised. A three-factor apportionment formula will be used, with a 15 percent weight for property factor, 15 percent weight for payroll factor and 70 percent weight for sales factor. The numerator and denominator of each of the factors are redefined. Through tax year 2001, the taxpayer may use an alternative apportionment method, based solely on deposits.

R.C. 5733.06 - Top net income tax rate reduced to 8.5 percent. Net worth tax rate lowered to 4 mills. Qualifying holding companies are exempt from the net worth tax. Tax rate on financial institutions lowered to 14 mills in tax year 1999 and 13 mills beginning in tax year 2000. Limits to $50,000 the total amount of net income tax rate. Maximum net worth tax liability for a taxpayer other than a financial institution is set at $150,000. Net income tax imposed on existing taxpayer.

R.C. 5733.0611 - Enacts a credit equal to the taxpayer's proportionate share of the net income franchise tax paid by, or tax due of, a pass-through entity.

R.C. 5733.067 - Subsidiary tax credit repealed.

R.C. 5733.33 - Qualifying investment period of the 7.5 percent/13.5 percent tax credit extended to December 31, 2000.

R.C. 5733.36 - Effective for tax years 1999 through 2003, a credit is available which is equal to 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.

R.C. 5733.37 - A credit is available to taxpayers for the start-up expenses of a day care center established on the taxpayer's site and which is used by the taxpayer's employees. The credit is equal to 50 percent of such expenses up to $100,000 and is available in tax years 1999 - 2003.

R.C. 5733.38 - Enacts a credit equal to 50 percent of the reimbursement made by the taxpayers to its employees for the day care expenses of dependents, with a maximum credit of $750 per child per year. The credit is effective in tax years 1999 through 2003.

R.C. 5733.41 - Effective in taxable year 1998, the net income tax component of the corporate franchise tax will be imposed on qualifying pass-through entities for the income attributable to qualifying investors that are not individuals.

RECENT SIGNIFICANT COURT DECISIONS:

***Keycorp v Tracy* (1999), 87 Ohio St. 3d 238.**
The appellant is a bank holding company owning both banking and nonbanking subsidiaries. Originally it appealed two issues to the BTA. The first issue, whether it was a quiescent holding company, was resolved in its favor and was not appealed by the Tax Commissioner. The second issue was whether repurchase agreements, eurodollar deposits, cash deposits, and certificates of deposit were excluded in determining the value of its issued and outstanding shares of stock. The BTA held that they were not excludable. The court ruled that the transactions mentioned above were not investments in the issued indebtedness of the appellant and therefore cannot be excluded under former R.C.5733.05(A)(5)(c).

***U.S. Telecom v Tracy* (May 26, 2000), BTA No. 97-879.**
The appellant is a general partner of a limited partnership (LP) commercially domiciled in Kansas. Appellant's sole connection with Ohio is the interest in the LP, which did conduct business in Ohio. The Board ruled that under Ohio law, the appellant's interest in the LP could not be included in the property and business done factors of the net worth method of calculating Ohio's franchise tax.

***UCOM, Inc. v Tracy* (May 26, 2000), BTA No. 97-880.**
Appellant is a limited partner of a limited partnership (LP) commercially domiciled in Kansas. Appellant's sole connection with Ohio is the interest in the LP, which did conduct business in Ohio. The Board ruled that the appellant was not subject to Ohio franchise tax. The Board stated that the appellant's only connection to Ohio was its passive investment in the LP.

***Money Access Services Corp. v Tracy* (June 2, 2000), BTA No. 98-1006, motion for reconsideration denied, June 23, 2000.**
Board followed *Customized Transportation*, ruling that the franchise tax statutes permit calculation of the tax due upon income received in a short taxable year.

***Emerson Electric Co. v Tracy* (Sept. 17, 1999), BTA No. 97-1288.**
Pursuant to R.C. 5733.04(I)(2), the Tax Commissioner disallowed 15% of the claimed foreign source income. The statute provides that such amount is deemed to be for expenses attributable to the production of such income. The taxpayer contended that this statutory provision is unconstitutional. The BTA held that it had no jurisdiction to void an act of the General Assembly.

Exhibit 1 -- Corporation Franchise Tax

Net Worth Tax Base

Taxable Value = Net Value of Stock* x ((Property factor x .2) + (Payroll factor x .2) + (Sales factor x .6))

Excludes value of pollution control, coal conversion, and energy conversion facilities property, and qualified property in an enterprise zone, and land devoted exclusively to agriculture.

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:

   Ohio Apportioned Net Income = Apportionable Income x ((Property Factor x .2) + (Payroll Factor x .2) + (Sales Factor x .6))

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 14
Corporate Franchise Tax Collections, Fiscal Years 1996 - 2000

Fiscal Year	Gross Tax Collections	Refunds	Net Tax Collections
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
2000	1,219,484,766	189,600,815	1,029,883,951

Source: Ohio Office of Budget and Management.

Table 15
Number of Corporations, By Tax Base and Industry, Tax Year 1999

	Number of Corporations by Tax Base			
Industry	Minimum	Net Worth	Net Income	Total
Agriculture & Forestry	327	579	359	1,265
Mining	322	348	184	854
Construction	3,083	2,596	3,018	8,697
Manufacturing	3,409	4,565	4,697	12,671
Communications & Transportation	1,570	1,180	1,295	4,045
Wholesale Trade	2,223	2,739	2,770	7,732
Retail Trade	4,022	4,081	3,739	11,842
Finance	5,191	3,395	2,902	11,488
Services	12,522	7,408	6,852	26,782
Unknown*	15,769	4,000	5,134	24,903
TOTAL	48,438	30,891	30,950	110,279

**Industry classification was not indicated by taxpayer.*

Table 16
Number of Corporations, By Tax Base and Tax Liability Class, Tax Year 1999

Tax Liability Class	Number of Corporations by Tax Base: Minimum	Net Worth	Net Income	Total
Minimum	48,438	—	—	48,438
$51 - $1,000	—	19,721	11,234	30,955
1,001 - 2,000	—	4,023	5,075	9,098
2,001 - 3,000	—	1,853	2,925	4,778
3,001 - 4,000	—	948	1,436	2,384
4,001 - 5,000	—	627	1,214	1,841
5,001 - 10,000	—	1,419	2,942	4,361
10,001 - 15,000	—	540	1,293	1,833
15,001 - 20,000	—	319	782	1,101
20,001 - 25,000	—	225	580	805
25,001 - 30,000	—	181	428	609
30,001 - 35,000	—	116	346	462
35,001 - 50,000	—	218	641	859
50,001 - 100,000	—	333	886	1,219
100,001 - 200,000	—	368	533	901
200,001 - 500,000	—	0	406	406
500,001 - 1,000,000	—	0	138	138
Over $1,000,000	—	0	91	91
TOTAL	48,438	30,891	30,950	110,279

Table 17
Corporation Franchise Tax -- Reported Tax Liability By Tax Base and Industry, Tax Year 1999

Industry	Tax Liability Before Litter Tax and Credits by Tax Base				Litter Tax (a)	Nonrefundable Tax Credits	Liability After Nonrefundable Credits & Litter Tax
	Minimum	Net Worth	Net Income	Total			
Agriculture & Forestry	$16,350	$1,039,733	$1,885,006	$2,941,089	$64,933	$25,627	$2,980,395
Mining	16,100	2,208,388	7,599,687	9,824,175	169,882	1,503,692	8,490,365
Construction	154,150	4,030,769	31,501,208	35,686,127	728,113	223,536	36,190,704
Manufacturing	170,450	51,094,562	309,327,301	360,592,313	4,575,918	48,724,217	316,444,014
Transport, Communication, Utility	78,500	8,304,168	35,935,781	44,318,449	644,728	324,101	44,639,076
Wholesale Trade	111,150	10,674,379	76,928,478	87,714,007	1,314,437	1,597,443	87,431,001
Retail Trade	201,100	9,936,460	68,370,532	78,508,092	1,217,840	1,404,602	78,321,330
Finance, Insurance, Real Estate	259,550	14,078,713	40,136,494	54,474,757	998,537	1,140,257	54,333,037
Services	626,100	17,093,000	67,616,988	85,336,088	1,732,819	355,227	86,713,680
Unknown (b)	788,450	24,383,281	96,265,597	121,437,328	1,685,795	8,696,279	114,426,844
TOTAL	$2,421,900	$142,843,453	$735,567,072	$880,832,425	$13,133,002	$63,994,981	$829,970,446

(a) Combines Tier One litter tax, which is paid by all corporations, and Tier Two litter tax, which is paid only by "litter stream" corporations.
(b) Industry classification was not indicated by taxpayer.

Table 18
Corporation Franchise Tax--Reported Tax Liability
By Tax Base and Tax Liability Class, Tax Year 1999

Tax Liability Class	Minimum	Net Worth	Net Income	Total	Litter Tax*	Nonrefundable Tax Credits	Liability After Nonrefundable Tax Credits and Litter Tax**
	Tax Liability Before Litter Tax and Credits by Tax Base						
Minimum	$2,421,900			$2,421,900	0	0	$2,421,900
$51 - $1,000	—	$6,721,235	$4,741,201	11,462,436	$359,092	$141,429	11,680,099
1,001 - 2,000	—	5,712,696	7,360,414	13,073,110	365,520	248,494	13,190,136
2,001 - 3,000	—	4,544,388	7,079,061	11,623,449	320,500	330,673	11,613,276
3,001 - 4,000	—	3,277,881	4,984,619	8,262,500	240,537	316,410	8,186,627
4,001 - 5,000	—	2,800,054	5,438,453	8,238,507	220,380	333,501	8,125,386
5,001 - 10,000	—	9,846,264	20,817,313	30,663,577	821,238	1,274,054	30,210,761
10,001 - 15,000	—	6,640,508	15,891,100	22,531,608	591,827	1,173,826	21,949,609
15,001 - 20,000	—	5,516,552	13,597,584	19,114,136	509,697	947,587	18,676,246
20,001 - 25,000	—	5,054,440	12,980,170	18,034,610	468,007	914,845	17,587,772
25,001 - 30,000	—	4,977,223	11,773,646	16,750,869	454,664	661,229	16,544,304
30,001 - 35,000	—	3,763,598	11,203,362	14,966,960	378,468	1,064,878	14,280,550
35,001 - 50,000	—	9,105,793	26,840,510	35,946,303	916,860	2,288,452	34,574,711
50,001 - 100,000	—	23,078,854	62,311,300	85,390,154	2,140,839	5,900,180	81,630,813
100,001 - 200,000	—	51,803,967	74,882,268	126,686,235	2,797,862	14,804,802	114,679,295
200,001 - 500,000	—	—	126,544,954	126,544,954	1,610,411	7,463,160	120,692,205
500,001 - 1,000,000	—	—	96,512,608	96,512,608	572,789	9,664,150	87,421,247
Over $1,000,000			232,608,509	232,608,509	364,311	16,467,311	216,505,509
TOTAL	$2,421,900	$142,843,453	$735,567,072	$880,832,425	$13,133,002	$63,994,981	$829,970,446

* *Combines Tier One litter tax, which is paid by ~~all~~ corporations, and Tier Two litter tax, which is paid only by "litter stream" corporations.*

** *Liability before refundable credits.*

Table 19
Number of Manufacturing Corporations, By Tax Base and Industry, Tax Year 1999

Industry	Number of Corporations by Tax Base			
	Minimum	Net Worth	Net Income	Total
Food	175	242	230	647
Tobacco Manufacturers	8	5	5	18
Apparel and Other Textiles	78	81	46	205
Lumber and Wood Products	152	187	215	554
Paper	99	142	142	383
Printing and Publishing	288	357	362	1,007
Chemicals	233	367	332	932
Petroleum and Coal	41	43	29	113
Rubber and Plastics	281	269	297	847
Leather Products	12	15	5	32
Stone, Clay & Glass Products	143	185	228	556
Primary Metal	89	134	137	360
Fabricated Metal	604	1,015	1,195	2,814
Machinery (non-electrical)	348	497	522	1,367
Electrical Machinery	321	345	308	974
Transportation Equipment	129	147	143	419
Instruments and Related Products	130	176	140	446
Miscellaneous Manufacturing	278	358	361	997
TOTAL	3,409	4,565	4,697	12,671

Table 20
Number of Manufacturing Corporations, By Tax Base and Tax Liability Class, Tax Year 1999

Tax Liability Class	Number of Corporations by Tax Base			
	Minimum	Net Worth	Net Income	Total
Minimum	3,409	—	—	3,409
$51 - $1,000	—	1,967	789	2,756
1,001 - 2,000	—	681	583	1,264
2,001 - 3,000	—	365	399	764
3,001 - 4,000	—	203	227	430
4,001 - 5,000	—	154	194	348
5,001 - 10,000	—	365	553	918
10,001 - 15,000	—	178	301	479
15,001 - 20,000	—	102	197	299
20,001 - 25,000	—	68	165	233
25,001 - 30,000	—	53	131	184
30,001 - 35,000	—	44	114	158
35,001 - 50,000	—	82	188	270
50,001 - 100,000	—	137	330	467
100,001 - 200,000	—	166	210	376
200,001 - 500,000	—	—	197	197
500,001 - 1,000,000	—	—	73	73
Over $1,000,000	—	—	46	46
TOTAL	3,409	4,565	4,697	12,671

Table 21
Corporation Franchise Tax -- Reported Tax Liability for Manufacturing Corporations, By Tax Base and Industry Classification Tax Year 1999

Industry	Tax Liability Before Litter Tax and Credits by Tax Base				Litter Tax*	Nonrefundable Tax Credits	Liability After Nonrefundable Tax Credits and Litter Tax**
	Minimum	Net Worth	Net Income	Total			
Food	$8,750	$3,376,995	$36,505,850	$39,891,595	$340,223	$3,392,388	$36,839,430
Tobacco Manufacturers	400	71,062	4,257,558	4,329,020	14,072	3,148	4,339,944
Apparel and Other Textiles	3,900	272,599	581,651	858,150	23,324	12,554	868,920
Lumber and Wood Products	7,600	1,158,327	6,794,901	7,960,828	132,797	985,579	7,108,046
Paper	4,950	2,944,304	5,600,112	8,549,366	174,521	1,974,304	6,749,583
Printing and Publishing	14,400	2,011,242	24,964,548	26,990,190	269,359	2,396,719	24,862,830
Chemicals	11,650	9,055,471	36,532,654	45,599,775	545,991	4,183,674	41,962,092
Petroleum and Coal	2,050	1,288,765	1,058,987	2,349,802	60,042	574,609	1,835,235
Rubber and Plastics	14,050	2,483,362	14,509,474	17,006,886	276,324	3,087,302	14,195,908
Leather Products	600	197,098	143,268	340,966	10,270	9,898	341,338
Stone, Clay & Glass Products	7,150	2,044,529	13,628,613	15,680,292	197,986	3,743,144	12,135,134
Primary Metal	4,450	3,910,138	8,441,350	12,355,938	205,256	3,005,526	9,555,668
Fabricated Metal	30,200	6,289,597	41,839,318	48,159,115	777,394	7,863,027	41,073,482
Machinery (non-electrical)	17,400	3,841,383	19,394,086	23,252,869	425,034	2,204,102	21,473,801
Electrical Machinery	16,050	3,898,652	36,209,050	40,123,752	405,947	2,353,698	38,176,001
Transportation Equipment	6,450	3,338,678	32,687,622	36,032,750	274,002	9,884,188	26,422,564
Instruments and Related Products	6,500	2,398,893	6,210,446	8,615,839	185,793	390,034	8,411,598
Miscellaneous Manufacturing	13,900	2,513,467	19,967,813	22,495,180	257,583	2,660,323	20,092,440
TOTAL	$170,450	$51,094,562	$309,327,301	$360,592,313	$4,575,918	$48,724,217	$316,444,014

* *Combines Tier One litter tax, which is paid by all corporations, and Tier Two litter tax, which is paid only by "litter stream" corporations.*

** *Liability before refundable credits.*

Table 22
Corporation Franchise Tax -- Reported Tax Liability for Manufacturing Corporations, By Tax Base and Tax Liability Class, Tax Year 1999

Tax Liability Class	Tax Liability Before Litter Tax and Credits by Tax Base: Minimum	Net Worth	Net Income	Total	Litter Tax*	Nonrefundable Tax Credits	Liability After Nonrefundable Tax Credits and Litter Tax**
Minimum	$170,450	—		$170,450	0	0	$170,450
$51 - $1,000	—	801,639	363,089	1,164,728	$34,382	$85,536	1,113,574
1,001 - 2,000	—	971,005	858,265	1,829,270	49,726	163,126	1,715,870
2,001 - 3,000	—	900,685	970,916	1,871,601	48,287	251,284	1,668,604
3,001 - 4,000	—	704,980	785,108	1,490,088	42,124	241,094	1,291,118
4,001 - 5,000	—	685,954	874,839	1,560,793	38,856	250,555	1,349,094
5,001 - 10,000	—	2,562,550	3,961,784	6,524,334	165,118	928,300	5,761,152
10,001 - 15,000	—	2,215,261	3,705,253	5,920,514	150,134	856,613	5,214,035
15,001 - 20,000	—	1,767,776	3,448,790	5,216,566	134,630	728,310	4,622,886
20,001 - 25,000	—	1,529,675	3,687,602	5,217,277	128,892	737,938	4,608,231
25,001 - 30,000	—	1,464,692	3,597,549	5,062,241	137,040	493,297	4,705,984
30,001 - 35,000	—	1,429,763	3,689,793	5,119,556	129,667	698,204	4,551,019
35,001 - 50,000	—	3,360,101	7,869,557	11,229,658	270,576	1,874,470	9,625,764
50,001 - 100,000	—	9,411,303	23,384,060	32,795,363	808,298	4,680,086	28,923,575
100,001 - 200,000	—	23,289,178	29,872,756	53,161,934	1,106,911	12,422,919	41,845,926
200,001 - 500,000	—	—	61,437,220	61,437,220	811,270	5,464,940	56,783,550
500,001 - 1,000,000	—	—	51,815,405	51,815,405	319,500	6,066,710	46,068,195
Over $1,000,000			109,005,315	109,005,315	200,507	12,780,835	96,424,987
TOTAL	$170,450	$51,094,562	$309,327,301	$360,592,313	$4,575,918	$48,724,217	$316,444,014

* *Combines Tier One litter tax, which is paid ~~by~~ all corporations, and Tier Two litter tax, which is paid only by "litter stream" corporations.*

** *Liability before refundable credits.*

Table 23
Corporation Franchise Tax -- Number of Financial Institutions and Reported Tax Liability, By Type of Institution, Tax Year 1999

Tax Liability Class	Number of Corporations by Type: Banks	Savings & Loans	Other*	Total	Liability by Type: Banks	Savings & Loans	Other*	Total
$50 - $1,000	12	7	23	42	$3,692	$422	$1,593	$5,707
1,000 - 2,000	2	0	1	3	2,889	0	1,729	4,618
2,000 - 3,000	0	1	1	2	0	2,516	2,023	4,539
3,000 - 4,000	2	0	0	2	7,217	0	0	7,217
4,000 - 5,000	4	1	0	5	17,353	4,545	0	21,898
5,000 - 10,000	0	1	0	1	0	8,191	0	8,191
10,000 - 15,000	2	1	3	6	21,937	11,212	34,655	67,804
15,000 - 20,000	3	3	1	7	53,893	53,908	15,929	123,730
20,000 - 25,000	3	1	0	4	68,161	21,623	0	89,784
25,000 - 30,000	6	3	1	10	167,752	82,067	29,262	279,081
30,000 - 35,000	5	5	3	13	169,226	159,482	95,619	424,327
35,000 - 50,000	16	8	0	24	653,686	324,805	0	978,491
50,000 - 100,000	57	23	1	81	4,044,582	1,563,936	66,677	5,675,195
100,000 - 200,000	53	25	1	79	7,322,397	3,680,109	188,312	11,190,818
200,000 - 500,000	41	20	0	61	12,848,316	5,629,951	0	18,478,267
500,000 - 1,000,000	18	7	1	26	11,636,676	4,819,366	918,144	17,374,186
$1,000,000 & Over	16	4	0	20	118,727,024	8,659,140	0	127,386,164
TOTAL	240	110	36	386	$155,744,801	$25,021,273	$1,353,943	$182,120,017

** Primarily credit agencies that accept deposits.*