Corporation Franchise Tax

Ohio first imposed a corporation franchise tax in 1902 at a rate of one mill (.001) on the value of capital stock (net worth) in Ohio. That rate remained until 1959 when it was raised to three mills, followed by one-mill increases in 1967 and 1969. This five-mill net worth tax was joined in 1971 by an alternate tax on net income in Ohio. The current corporation franchise tax requires taxpayers to compute the tax on both net worth and net income and pay on the base that produces the highest tax. However, the franchise tax is now being phased out over a five-year period (see next column).

During the 1980s and 1990s there were many changes to the corporation franchise tax, but rates settled from 1988-98 at 5.82 mills on net worth with tax on net income staying at 5.1 percent on the first $50,000 of income and 8.9 percent on remaining net income.

In 1999, the corporation franchise tax was significantly changed, including rate cuts on net worth to four mills and net income to 8.5 percent. In addition, the net worth tax was capped at $150,000 for non-financial institutions and the formula for determining how net worth is established (apportioned) for tax purposes was replaced with a new apportionment formula for net income (see **Exhibits 1** and **2** for details on the apportionment formula).

The corporation franchise tax applies differently to financial institutions than it does to general corporations. Financial institutions are subject only to a net worth tax with a rate of 13 mills and work with a different apportionment formula than applies to general corporations.

All corporations, except family farm corporations and financial institutions, are also subject to a litter tax which is likewise determined using the net worth and/or net income factors.

In Fiscal Year 2005, the corporation franchise tax generated just under $1,111.6 million in total revenue (for all funds, and includes some payments for previous year(s) liabilities). This tax is the third largest source of revenue among taxes supporting Ohio's General Revenue Fund.

Most of the FY 2005 revenue, amounting to $1,051.6 million, or 94.6 percent, was distributed to the General Revenue Fund. The Local Government Fund received $41.5 million or 3.7 percent; and $5.9 million or 0.5 percent was distributed to the Local Government Revenue Assistance Fund. The percentage share distributed to each fund was established by House Bill 95, the biennium budget bill for FY 2004-2005.

The tables in this chapter provide data from tax year 2004 taken from reports due and filed in 2004. For all corporations except financial institutions, the reported tax liability (including litter tax) before credits was $898.5 million. After tax credits, liability was $715.7 million.

Data on financial institutions are reported separately from general corporations and are shown in the final table. Financial institutions reported tax liability before credits of $189.3 million for tax year 2004.

Of the total tax liability before credits for general corporations, about 76 percent came from net income taxpayers. Of all corporation franchise taxpayers, approximately 20 percent paid tax on net income, 32 percent paid tax on net worth, and the remaining 48 percent paid the minimum tax.

Of financial institutions, banks filed 65 percent of all returns and paid 78 percent of the total tax liability. Savings and loans filed 25 percent of returns and paid 21 percent of the total liability. Other types of financial institutions accounted for the balance of returns and tax liability.

Franchise Tax Phase-Out

For most taxpayers the franchise tax will phase-out (see also **Recent Legislation**) at the rate of 20 percent per year over each of the five franchise tax years 2006 through 2010 (taxable years ending in 2005 through 2009). During the same period Ohio's new commercial activity tax (CAT) will be phased in. As a result of the phase-out, the 2009 franchise tax report (based on the taxpayer's taxable year ending in 2008) will be the last franchise tax report for most taxpayers. The franchise tax phase-out does not apply to: (1) financial institutions and their affiliates and (2) securitization companies. Financial institutions and their affiliates and certain securitization companies continue to be subject to the franchise tax and are not subject to the CAT.

Taxpayer (Ohio Revised Code 5733.01):

The Ohio corporation franchise tax is imposed on both domestic and foreign corporations for the privilege of doing business in Ohio. It is paid by corporations that:

- are organized for-profit;
- own capital or property in Ohio;
- hold a charter or certificate of compliance authorizing business operations in Ohio; or
- have nexus with Ohio.

Unless exempted, both domestic and foreign for-profit corporations and nonprofit agricultural cooperatives (i.e., Chapter 1729 or like corporations) are subject to the corporation franchise tax. Business trusts defined in R.C. 1746.01 and having nexus with Ohio are also subject to the corporation franchise tax.

Tax Base (R.C. 5709.50, 5709.65, 5733.04, 5733.05, 5733.051, 5733.056):

The franchise tax is levied on the value of a corporation's issued and outstanding shares of stock. Generally a corporation must determine the value of that stock under both the net income and net worth base, and pay on the base that produces the greater tax.

Financial institutions are not subject to the tax on net income but are subject to the tax on the net worth base at a higher rate than other taxpayers.

Exhibit 1 - Corporation Franchise Tax
Net Worth Tax Base

Ohio
Taxable = Net Value
Value of Stock* x [(Property factor x .20) + (Payroll Factor x .20)** + (Sales Factor x .60)]****

* Excludes value of pollution control, coal conversion, and energy conversion facilities property, qualified property in an enterprise zone, and land devoted exclusively to agriculture. See **Exhibit 2** for explanation of factors.

** Net income base apportionment ratio adjusted to include nonbusiness property, payroll, and sales excluded from the net income base apportionment factors.

Exhibit 2 - Corporation Franchise Tax
Net Income Tax Base (does not apply to financial institutions)

Ohio Taxable Income*	=	Business Income Apportioned to Ohio	+	Nonbusiness Income Allocated to Ohio	—	Ohio Net Operating Loss Carryforward Deduction

* Also includes income (or deducts a loss) from a transferor corporation and includes positive adjustments (or deducts negative adjustments) for related entities and related members.

1. Net Income Apportionment Formula:

Ohio Apportioned Net Income = Apportionable Income x [(Property Factor x .20) + (Payroll Factor x .20) + (Sales Factor x .60)]

2. The factors are computed as follows (a):

Property Factor (b) = **Average cost of owned or rented real and tangible personal property used in business in Ohio** / **Average cost of such property used everywhere**

Payroll Factor (c) = **Total compensation paid in Ohio** / **Total compensation paid everywhere**

Sales Factor (d) = **Sales in Ohio** / **Sales everywhere**

(a) The net income base factors do not include property, payroll or sales relating to nonbusiness income.

(b) Excludes from both the numerator and the denominator the original cost of: (1) property within Ohio with respect to which the state has issued an Air Pollution, Noise Pollution, or an Industrial Water Pollution Control Certificate; and (2) property used exclusively during the taxable year for qualified research. Excludes from only the numerator the original cost of qualifying improvements to land or tangible personal property at an enterprise zone facility for which the taxpayer holds a Tax Incentive Qualification Certificate issued by the Ohio Department of Development.

(c) Excludes from both the numerator and the denominator compensation paid in Ohio to employees engaged in qualified research. Excludes from only the numerator compensation paid to certain new employees at an enterprise zone facility for which the taxpayer holds a Tax Incentive Qualification Certificate issued by the Ohio Department of Development.

(d) 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 purchaser received the benefit of that which was purchased. Sales derived from nonbusiness allocable income are not included in this factor. Interest and dividends likewise are not included in the sales factor.

Qualifying holding companies and certain high-tech start-up companies pay tax on the net income base only.

1. Net Worth Base* (R.C. 5733.05(C):
The net worth base value of issued and outstanding shares of stock is determined by subtracting from book net worth those items excluded by statute (see **Exemptions and Exclusions**). The tax is calculated by multiplying the taxpayer's adjusted net worth by the net worth apportionment ratio by the net worth tax rate of four mills (.004).
For financial institutions, the tax is determined by multiplying the taxpayer's adjusted net worth by the taxpayer's Ohio apportionment ratio by the net worth rate of 13 mills (.013).
(* See **Exhibit 1**)

2. Net Income Base (R.C. 5733.05(B):
The net income base value of issued and outstanding shares is calculated by making certain deductions from and additions to federal taxable income before net operating loss deductions and special deductions for the taxable year (see **Exemptions and Exclusions**). The adjusted income is then allocated (nonbusiness income) or apportioned (business income) in and outside Ohio.

Allocable Income (for taxable years ending after June 25, 2003)(R.C. 5733.051):
Unless the Tax Commissioner requires an alternative method of allocation or approves the taxpayer's requested alternative method, only nonbusiness income is allocated in and outside Ohio.

Apportionable Income (for taxable years ending after June 25, 2003):
All income is presumed to be apportionable business income unless the taxpayer shows otherwise or the Tax Commissioner approves or requires an alternative method of apportionment. Business income is apportioned to Ohio according to a weighted three-factor formula: property, payroll and sales (see **Exhibit 2**).

Net Income:
Ohio taxable (net) income is equal to the sum of nonbusiness income allocated to Ohio and business income apportioned to Ohio less Ohio net operating losses carried forward from an earlier year.

Rates (R.C. 5733.06):

1. Franchise Tax Rates:

Net Worth –
Net worth taxable value is taxed at the rate of four mills (.004). The maximum tax on the net worth base is $150,000 per taxpayer (non-financial institutions).

Net Income –
Net income is taxed at the rate of 5.1 percent on the first $50,000 of Ohio taxable income and 8.5 percent on Ohio taxable income in excess of $50,000. Corporations that meet the ownership requirements to file a combined report must share the $0 to $50,000 tax bracket to which the 5.1 percent rate applies, regardless of whether or not they actually file a combined return.

Minimum fee –
For taxable years ending after June 25, 2003, the minimum tax liability for certain large taxpayers is $1,000, and for taxpayers other than large taxpayers, the minimum fee is $50.

For franchise tax report years 2006, 2007, 2008, 2009, and 2010, franchise taxpayers that are subject to the phase-out will pay 80 percent, 60 percent, 40 percent, 20 percent, and 0.0 percent, respectively, of the franchise tax after nonrefundable credits that they would otherwise be required to pay. Nevertheless, the nonrefundable credit for tax paid by a qualifying pass-through entity is not subject to the phase-out percentages and thus this credit remains recoverable at 100 percent over the course of the phase-out.

2. Litter Tax Rates (R.C. 5733.065 and 5733.066):
Tier I litter tax applies to all corporations except family farm corporations and financial institutions. The rates are:
Net Worth – 0.14 mills (.00014) on the taxable value (adjusted net worth) of the corporation, or
Net Income – 0.11 percent (.0011) on the first $50,000 of Ohio taxable income plus 0.22 percent (.0022) on taxable income in excess of $50,000. The maximum Tier I litter tax charged any taxpayer or group of combined taxpayers is $5,000.

Tier II litter tax applies to taxpayers that manufacture or sell litter stream products in Ohio. The rates are:
Net Worth – 0.14 mills (.00014) on the taxable value of the corporation, or
Net Income – 0.22 (.0022) percent on Ohio taxable income in excess of $50,000. The maximum Tier II tax charged any taxpayer or group of combined taxpayers is $5,000.

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):
Financial institutions are subject to tax on the net worth base at a rate of 13 mills (.013).

Exemptions, Exclusions, Deductions and Additions:

1. Corporations not Subject to the Franchise Tax (R.C. 1733.43, 5733.01, 5733.04, 5733.06, 5733.09, and 5733.10):
(a) Nonprofit corporations (except certain agricultural and consumer cooperatives);
(b) Municipal corporations;
(c) Public utilities subject to public utility excise tax;
(d) Credit unions;
(e) Dealers in intangibles;
(f) Corporations required to file annual reports with the Ohio Superintendent of Insurance;
(g) Subject to certain restrictions, "Real estate investment trusts," "regulated investment companies," and "real estate mortgage investment conduits" as defined in the Internal Revenue Code (I.R.C.);

(h) Corporations electing treatment as an "S" corporation under the I.R.C. and their qualified subchapter S subsidiaries (QSSS);
(i) Limited liability companies (LLCs), if treated as a partnership for federal tax purposes; and
(j) Corporations in Chapter 7 bankruptcy proceedings except for the portion of the current tax year such corporation had the power to exercise its corporate franchise unimpaired by such proceedings.

2. Additions and Deductions in Determining Net Worth (R.C. 5709.25, 5709.35, 5709.50, 5709.65, 5915.29, 6111.36 and 5733.056):
Add to book net worth (assets minus liabilities) the "qualifying amount" (see R.C. 5733.05(D)(1)) (does not apply to financial institutions).
Deduct from book net worth:
(a) Certified Ohio civil defense structures;
(b) Land in Ohio devoted exclusively to agriculture;
(c) Qualified improvements to property located in an enterprise zone (applies only to financial institutions); and
(d) Appreciation and goodwill (applies only to financial institutions).

3. Adjustments in Determining Ohio Net Income (R.C. 5709.35, 5733.04, 5733.042, 5733.053, 5733.054, 5733.055, and 5733.058):
(a) Deduct certain income from sources outside the United States;
(b) Deduct I.R.C. section 243 dividends received deduction;
(c) To the extent not otherwise deducted, deduct dividends received from public utilities, insurance companies, and financial institutions in which the taxpayer has the ownership interests as described by statute (receipts from these companies are eliminated in determining the sales factor for apportioning net income and net worth);
(d) Deduct gains and add losses from the sale of capital assets and I.R.C. section 1231 assets to the extent such gains and losses occurred prior to becoming a taxpayer;
(e) Deduct interest on Ohio public and purchase obligations and gains from the sale of Ohio public obligations (losses from sales of Ohio public obligations are added to net income);
(f) Deduct wage and salary expense not otherwise deducted for federal tax purposes because of the targeted jobs tax credit and/or the work opportunity tax credit;
(g) Deduct net interest income on federal government obligations;
(h) Deduct Ohio net operating loss carried forward from the prior 20 years (there is no Ohio net operating loss carry back provision);
(i) Deduct amounts contributed to an individual development account program;
(j) Deduct 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);
(k) Deduct taxable temporary differences in connection with the commercial activity tax credit for franchise tax net operating losses (beginning July1, 2005; see R.C. section 5751.53(H)(3)).
(l) Add the amount claimed as a credit for taxes paid by a qualifying pass-through entity to the extent that the amount was deducted or excluded from the corporation's federal taxable income;
(m) Add interest and intangibles expense paid to certain related members;
(n) Add income (and deduct losses) earned by a transferor corporation that merges into the taxpayer in a tax-free reorganization; and
(o) Add depreciation expense adjustment for I.R.C. section 168(k) bonus depreciation and additional I.R.C. section 179 depreciation and miscellaneous federal tax adjustments as required. Deduct one-fifth of this add-back in each of the five subsequent years. Deduct any miscellaneous federal tax adjustments as required.
(p) Add distributive or proportionate share of pass-through entity expenses paid to, losses incurred from transactions with, and excess inventory costs paid to related members for taxable years ending after June 29, 2005.
(q) Add deductible temporary differences in connection with the commercial activity tax credit for franchise tax net operating losses (beginning July 1, 2005; see R.C. section 5751.53 (H)(2)).

Credits:

1. **Credit for Recycling and Litter Prevention Donations (R.C. 5733.064):**
Taxpayers may claim a nonrefundable credit equal to 50 percent of cash donations for litter control made to municipalities, counties, and townships that 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.
2. **Enterprise Zone Day Care and Training Credits (R.C. 5709.65(A)):**
Taxpayers that locate in an enterprise zone and hold a tax incentive qualification certificate issued by the Ohio Department of Development may claim a nonrefundable credit 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.
3. **Credit for Savings and Loan Association Fees (R.C. 5733.063):**
Savings and loan associations are permitted a nonrefundable credit against the tax due that is equal to the annual assessment the association paid to the Division of Savings and Loan Associations under R.C. 1155.13, less the amount the association paid in supervisory fees during the taxable year to the Federal Savings and Loan Insurance Corporation (or the amount it would have paid if insured).
4. **Credit for Taxes Paid by a Qualifying Pass-Through Entity (R.C. 5733.0611):**
A corporation that is a qualifying investor in a qualifying pass-through entity can claim a nonrefundable credit equal to the corporation's proportionate share of the tax paid by the qualifying pass-through entity.
5. **New Jobs Credit (R.C. 5733.0610):**
A taxpayer may claim a refundable credit for new jobs created pursuant to an agreement with the Tax Credit Authority created under R.C. 122.17. The credit equals a designated percentage of the total

Ohio income tax withheld from new employees during the taxable year. The percentage is established by agreement between the taxpayer and the Tax Credit Authority. The credit is permitted for a period of up to ten years.

6. **Credit for Grape Production Property (R.C. 5733.32):**
A taxpayer may claim a nonrefundable credit equal to 10 percent of the cost of purchasing and installing or constructing qualifying property used to produce grapes in Ohio.

7. **Credit for Eligible New Employees in an Enterprise Zone (R.C. 5709.66):**
A taxpayer that is issued a tax credit certificate for an eligible employee may claim a $1,000 nonrefundable credit for each taxable year covered under the enterprise zone agreement during which the eligible employee is employed by the taxpayer.

8. **Technology Investment Tax Credit (R.C. 5733.35):**
Investors that provide capital to certain qualifying small, Ohio-based research and development or technology transfer companies may be eligible for a nonrefundable credit equal to 25 percent of the taxpayer's at-risk investment. The credit must be approved by the state Industrial Technology and Enterprise Board. The maximum cumulative value of credits granted to all taxpayers cannot exceed $10 million.

9. **Credit for Purchases of New Manufacturing Machinery and Equipment – 7.5 Percent/13.5 Percent Credit (R.C. 5733.33) and Grant for Purchases of New Manufacturing Machinery and Equipment:**
For taxable years ending on or after July 1, 2005, the manufacturer's credit converts to a grant administered by the Ohio Department of Development. Thus, tax year 2006 taxpayers whose taxable year ended prior to July 1, 2005 must claim the credit and taxpayers whose taxable year ended on or after July 1, 2005 must claim the grant (even for the 1/7 amounts from 2004 and earlier qualifying purchases). Because the taxable year for the 2007 franchise report and reports thereafter will end after July 1, 2005, only the grant will be available on the franchise tax form for tax years 2007 and thereafter.
The qualifying purchase period for the credit and the grant ended on June 30, 2005. (Under prior law the credit would have applied to qualifying purchases of new manufacturing machinery and equipment through December 31, 2015.) So, franchise taxpayers may claim neither a credit nor a grant for new manufacturing machinery and equipment purchased after June 30, 2005.

The nonrefundable credit/grant equals 7.5 percent of the amount by which the cost of qualifying equipment purchased during a calendar year for use in an Ohio county exceeds the taxpayer's "base investment" for that county. The credit/grant rate for investments in certain eligible areas (inner city areas, distressed areas, labor surplus areas, situational distress areas, and certain Ohio counties) is 13.5 percent. One-seventh of the credit/grant may be claimed in each of the seven tax years following the purchase year. For those taxpayers that are subject to the franchise tax phase-out, the credit/grant will end with their final (2009) franchise tax report because the unused 1/7 credit/grant amounts cannot be applied against the CAT.

10. **Day Care Credit (R.C. 5733.37):**
A nonrefundable tax credit equal to 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 (the maximum credit is $100,000) may be claimed for tax years 1999 through 2003. No new credit is generated for tax year 2004 and thereafter. Unused credits may be carried forward for five taxable years.

11. **Credit for Qualifying Affiliated Groups (R.C. 5733.068):**
If as a result of the related entity and related member adjustments, an affiliated group would pay over $3.5 million more franchise tax than the members of the group otherwise would have paid had the members of the group not made the related entity and related member adjustment, then the members of the affiliated group may claim a nonrefundable credit equal to the difference between the additional tax and $3.5 million. However, the credit is limited to $1.5 million for the affiliated group (even if the additional tax exceeds $5 million).

12. **Job Training Credit (R.C. 5733.42):**
This temporary nonrefundable credit applies to franchise taxpayers for tax years 2004, 2005 and 2006 that incurred "eligible training costs" and received a tax credit certificate from the Ohio Director of Job and Family Services with respect to an "eligible training program" for "eligible employees." The credits cannot exceed $20 million per calendar year and are granted to qualified applicants through means of a lottery-based allocation.

13. **Credit for Maintaining Railroad Crossing Warning Devices (R.C. 5733.43):**
Railroad companies can claim a nonrefundable credit for maintaining signs, signals, gates, and other electrical warning devices at public highway-railway crossings in Ohio at common grade. The credit equals 10 percent of the annual maintenance costs for each active grade-crossing warning device in Ohio and cannot exceed $200 for each device.

14. **Job Retention Credit (R.C. 5733.0610(B)):**
This nonrefundable credit applies to manufacturers that make a capital investment of at least $200 million (or under certain conditions $100 million) at a single Ohio site during three consecutive calendar years in the period beginning January 1, 2002 and ending December 31, 2006. To qualify, the taxpayer must employ an average of 1,000 full-time employees at the site during each of the 12 months preceding application. In addition, the taxpayer must retain at least 1,000 full-time employees at the site for the entire term of the credit agreement.

The credit is determined in an agreement between the taxpayer and the Ohio Tax Credit Authority and equals a percentage (not to exceed 75 percent) of the Ohio income tax withheld from the wages paid to the taxpayer's employees at the project site. The credit began in tax year 2003 and is limited to a term of ten years. For those franchise taxpayers that are subject to the franchise tax phase-out and the CAT phase-in, the last franchise report year for which the R.C. 5733.0610(B) nonrefundable job retention credit applies is the 2008 report. The franchise tax credit then automatically converts to a nonrefundable credit against the CAT for tax periods beginning on or after July 1, 2008 for the remaining years of the taxpayer's agreement with the Ohio Tax Credit Authority.

15. **Ethanol Plant Investment Credit (R.C. 5733.46 and 901.13):**
This nonrefundable credit equals 50 percent of the taxpayer's investment in a R.C. 901.13 certified ethanol plant in the calendar year preceding the tax year. The credit is limited to $5,000 per taxpayer per plant. The credit began in tax year 2003 .

16. **Credit for Qualified Research Expense (R.C. 5733.351):**
For years 2004 and thereafter this nonrefundable credit equals 7.0 percent of the amount by which the taxpayer's "qualified research expense" (see I.R.C. section 41) in Ohio during the taxable year exceeds the taxpayer's average annual qualified research expenses for the three preceding years. For those franchise taxpayers that are subject to the franchise tax phase-out and the CAT phase-in, the last franchise report year for which the nonrefundable credit for qualified research expense will apply is the 2008 report. The franchise tax credit then automatically converts to a nonrefundable credit against the CAT and any unused franchise tax credit credit carryforward can be applied toward the CAT for tax periods beginning after June 30, 2008 provided that the total number of carryforward years under the franchise tax and the CAT does not exceed seven.

17. **Lottery Commission Withholding Credit (R.C. 5747.062(B)(2)):**
This refundable credit equals the amount the Ohio Lottery Commission withheld from payments to the taxpayer.

18. **Credit for Small Telephone Companies (R.C. 5733.57):**
For tax years 2005 through 2009 certain small telephone companies can claim a credit equal to a percentage of the amount by which the telephone company's tax before credits exceeds the public utility gross receipts tax that would have been charged had the law not been changed.

19. **Nonrecurring 9-1-1 Charges Credit for Telephone Companies (R.C. 5733.55):**
Beginning in tax year 2005, a telephone company is allowed a nonrefundable credit equal to the amount of the company's eligible nonrecurring 9-1-1 charges. A telephone company must claim this credit for the taxable year in which the 9-1-1 service becomes available for use.

20. **Credit for Providing Programs to Aid the Communicatively Impaired (R.C. 5733.56):**
Beginning in tax year 2005, a telephone company can claim a nonrefundable credit if it provides a telephone service to aid the communicatively impaired in accessing the telephone network under R.C. 4905.79. The credit equals the cost of providing the program during the taxable year, excluding any costs incurred prior to July 1, 2004. Substitute H.B. 66 made an amendment for tax year 2005. The law allows any telephone company providing services for the hearing impaired to claim the full amount of the nonrefundable tax credit authorized by R.C. 5733.56.

21. **Research and Development Loan Repayment Credit (R.C. 5733.352):**
The amount of the credit equals the borrower's qualified research and development loan payments during the calendar year immediately preceding the tax year. The payments include principal and interest on a loan made to the borrower from Ohio's research and development fund administered by the Ohio Department of Development. For those taxpayers that are subject to the franchise tax phase-out and the CAT phase-in, the last franchise tax report year for which the nonrefundable research and development loan repayment credit will apply is the 2008 report. The franchise tax credit then automatically converts to a nonrefundable credit against the CAT for tax periods beginning on or after January 1, 2008, and any unused franchise tax credit carryforward can be applied toward the CAT as provided in R.C. section 5751.52.

Special Provisions

1. Corporations ceasing business in Ohio may be subject to an "exit tax" on unreported Ohio net income earned in the two calendar years prior to the tax year (see R.C. 5733.06(H)).
2. A transferee corporation in a tax-free reorganization is required to include in its income the income of the transferor if the transferor is not subject to the franchise tax (see R.C. 5733.053).
3. A corporation claiming 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 (see R.C. 5733.04(I)(14)).
4. Qualifying pass-through entities (partnerships, S corporations, and LLCs treated as a partnership for federal income tax purposes) doing business in or having nexus with Ohio:
   - are required to pay tax on the qualifying investors' share of the entity's Ohio profits.
   - are subject to a 5.0 percent withholding tax on the sum of the (individual's) distributive shares of the entity's Ohio income and gain.
   - are subject to an 8.5 percent tax on the sum of the (non-individual's) distributive shares of Ohio income and gain. For the pass-through entity's taxable year ending in 2005, the pass-through entity's tax rate on its Ohio income that passes through to its qualifying investors that are subject to the phase-out, the rate is 6.8 percent. The tax is due only if the adjusted qualifying amount exceeds $1,000 (see R.C.5733.40, 5733.41, 5733.04(I)(14), 5733.0611, 5747.41 through 5747.453, 5747.01(A)(16) and 5747.059).
5. The net worth tax for financial institutions differs substantially from the net worth tax for regular corporations (see R.C. 5733.056).
6. Each taxpayer must include in its adjusted qualifying amounts, allocable and 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 (see R.C. 5733.057).

7. If more than half of a taxpayer's capital stock (with voting rights) is owned or controlled by another corporation or by a related interest, the Tax Commissioner may permit or require the combining of net income to calculate the tax base. Qualifying taxpayers may elect to file a combined report if each has nondividend income from Ohio. This election may not be changed by the taxpayer without the Tax Commissioner's consent. Combination provisions do not apply to the net worth base (see R.C. 5733.052).
8. Intangible expenses and costs paid to certain related members are added to income (see R.C. 5733.042).

Filing and Payment Dates (R.C. 5733.02, 5733.021, 5733.022 and 5733.13):

January 31:
If by this date the corporation does not file the annual report and make full payment of the tax due, then the corporation must file an estimated report and pay one-third of that estimated liability. If the estimated tax liability is the minimum fee, the corporation must make full payment by January 31.

March 31:
By this date, the corporation must either file its franchise tax report and pay the remaining tax due or the corporation must file a request for extension and pay the second one-third of its estimated tax liability.

May 31:
By this date, a corporation must either file the annual report and pay the remaining tax due or file a request for additional extension and pay the remaining one-third of its estimated tax liability. 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 extended due date for filing its federal corporation income tax return.

The interest rate on both underpayments and overpayments is based on the average federal short-term rate in effect in July of the previous year plus three percentage points. For calendar year 2005, the rate is 5.0 percent. The rate will increase to 6.0 percent in calendar year 2006.

Disposition of Revenue (R.C. 4981.09, 5733.12, 5733.122):

After necessary deposits to the Attorney General Claims Fund, the Litter Control Tax Administration Fund, and the Recycling and Litter Prevention Fund, 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.

This distribution has been temporarily replaced, however (see the chart **Distribution of Revenue from Corporation Franchise Tax** for the FY 2005 distribution). House Bill 95, 125th General Assembly, the FY 2004-2005 biennium budget bill, continued a freeze on local government funds that began in 2002 and froze the funds at their FY 2001 levels.

For each month of FY 2005, the Local Government Fund and Local Government Revenue Assistance Fund received the same amount they received for the corresponding month of the July 2003 - June 2004 period.

An uncodified provision of H.B. 66, the FY 2006-2007 biennium budget bill, froze FY 2006 and FY 2007 local government fund distributions at FY 2005 levels.

The amount appropriated annually for administration of the litter tax is credited to the Litter Control Tax Administration Fund. The annual amount credited to the Recycling and Litter Prevention Fund equals the litter tax liability in the second preceding year.

Administration:

The corporation franchise tax is administered by the Department of Taxation. Some tax credits and grants are administered by the Ohio Department of Development. Tax payments are payable to the Ohio Treasurer of State but are received by the Department of Taxation. Certain large taxpayers are required to pay by electronic funds transfer (EFT). Taxpayers that are required to pay by EFT must register through the Treasurer of State.

Ohio Revised Code Citations:

Chapters 122, 1733, 4981, 5703, 5709, 5733, 5751 and 5915.

Recent Legislation

Amended Substitute H.B. 66, 126th General Assembly (FY 2006-2007 biennium budget bill, effective June 30, 2005 for taxable years ending on or after July 1, 2005).

Phase-Out of the Corporation Franchise Tax

The corporation franchise tax phases out for most corporations over a five-year period starting in 2006. A corporation will continue to compute its corporation franchise tax liability over the next five years, but will pay a smaller percentage of the tax computed each year until the tax is totally phased out in 2010. A corporation will pay either the minimum tax ($50 for small companies and $1,000 for larger companies), or its computed tax, whichever is greater. In calculating its corporation franchise tax, a corporation will take any nonrefundable credits first (except for the pass-through entity tax credit). Then, the corporation will reduce its remaining liability by a percentage: 20 percent for 2006, 40 percent for 2007, 60 percent for 2008, and 80 percent for 2009. The pass-through entity tax credit and the refundable tax credits are then taken after making that calculation. For most corporations, there will be no franchise tax payable for tax year 2010 and forward.

Most corporations will continue to claim any unused net operating loss carryforwards on their future returns. Certain companies with Ohio net operating losses in excess of $50 million will be allowed to claim a portion of their unused net operating losses and other net deferred tax assets as a credit against the commercial activity tax.

Certain corporations will continue to pay the franchise tax. These include: banks and other financial institutions (and most of their majority-owned affiliates), and securitization types of companies. The franchise tax on these companies will be based on the corporation franchise tax law prior to its amendment by H.B. 66 (no phase-out).

Ohio law allows businesses to take a credit against their franchise tax for purchases of new manufacturing machinery and equipment. This credit (or the new grant) will no longer be available for purchases of qualifying equipment made after June 30, 2005. In addition, the qualifying machinery and equipment purchased prior to July 1, 2005 must be installed by June 30, 2006. The law also clarifies an existing requirement that a taxpayer (which can be a pass-through entity for investors in that entity) must also file a "Notice of Intent" with the Ohio Department of Development by the filing date (plus any extensions) for the taxpayer's taxable year that includes September 30, 2005. Thus, the failure to file such notice of intent by that date now has a consequence – it will result in the taxpayer being denied the credit (or grant). The current credit for taxpayers with fiscal years ending after June 30, 2005 may no longer be claimed as a tax credit. Instead, such taxpayers must claim a grant, administered by the Ohio Department of Development. The same eligibility requirements applicable to the former credit for new manufacturing machinery and equipment also apply to the grant. The terms and conditions for the new grants are essentially the same as those for the former credit. Any benefits that could be taken under the credit must now be taken under the grant.

Additionally, taxpayers that are subject to the franchise tax phase-out and the CAT phase-in may not claim their unused nonrefundable franchise tax credits or credit carryforwards as a credit against the CAT. Exceptions to that general rule include the following three nonrefundable credits: the job retention credit, the credit for qualified research expense, and the research and development loan repayment credit.

For those taxpayers that are subject to the franchise tax phase-out and the CAT phase-in, the last franchise report year for which the nonrefundable job retention credit applies is the 2008 report. The franchise tax credit then automatically converts to a nonrefundable credit against the CAT for tax periods beginning on or after July 1, 2008 for the remaining years of the taxpayer's agreement with the Ohio Tax Credit Authority.

For those taxpayers that are subject to the franchise tax phase-out and the CAT phase-in, the last franchise report year for which the nonrefundable credit for qualified research expense will apply is the 2008 report. The franchise tax credit then automatically converts to a nonrefundable credit against the CAT and any unused franchise tax credit credit carryforward can be applied toward the CAT for tax periods beginning on or after July 1, 2008 provided that the total number of carryforward years under the franchise tax and the CAT does not exceed seven.

For those taxpayers that are subject to the franchise tax phase-out and the CAT phase-in, the last franchise tax report year for which the nonrefundable research and development loan repayment credit will apply is the 2008 report. The franchise tax credit then automatically converts to a nonrefundable credit against the CAT for tax periods beginning on or after January 1, 2008, and any unused franchise tax credit carryforward can be applied toward the CAT as provided in R.C. section 5751.52.

H.B. 66 amended R.C. section 5733.98 changing the order in which nonrefundable franchise tax credits are recovered for report years 2006 and thereafter. For franchise tax years 2006 and thereafter, the credit for tax paid by a qualifying pass-through entity is deducted after all other nonrefundable credits and the research and development loan repayment credit is deducted immediately before the credit for tax paid by a qualifying pass-through entity. The credit for tax paid by a qualifying pass-through entity is not subject to the phase-out and therefore is recoverable at 100 percent.

Credit for Losses on Loans to the Ohio Venture Capital Program. If the taxpayer elected to claim the credit as a refundable credit and the amount of the credit as shown on the tax credit certificate issued by the Ohio Venture Capital Authority is less than or equal to the franchise tax (including the litter taxes) after all nonrefundable credits are deducted, then the taxpayer can claim a refundable credit equal to the amount shown on the credit certificate.

If the taxpayer elected to claim the credit as a refundable credit and the amount of the credit as shown on the tax credit certificate issued by the Ohio Venture Capital Authority is greater than the franchise tax (including the litter taxes) after all nonrefundable credits are deducted, then the taxpayer can claim a refundable credit equal to the sum of: (1) the franchise tax (including the litter taxes) after all nonrefundable credits are deducted, and (2) 75 percent of the amount by which the refundable credit exceeds the tax after all nonrefundable credits.

Caution: This credit may not be claimed until the beginning of the fifth year after the authority establishes its investment policy. The authority established its investment policy on June 13, 2004. Thus, this credit cannot be claimed on the 2006 franchise tax report and is not included on the tax form.

Recent Significant Court Decisions:

National City Bank, Cleveland (n/k/a National City Bank), c/o National City Corporation v. Zaino (July 22, 2005), BTA Case No. 2003 A-1328. The Board of Tax Appeals affirmed the commissioner's findings in determining that increases in the cash surrender values (CSV) of the taxpayer's bank-owned life insurance (BOLI) contracts are not considered appreciation and therefore should not be excluded in computing the taxpayer's net worth subject to franchise tax.

New World Communications of Ohio, Inc. and WJW License Inc. v. Zaino (March 18, 2005), BTA Case No. 2003 A-1732, 2003 A-1733. In determining the value of issued and outstanding shares under the net worth base following the taxpayer's emergence from bankruptcy and adoption of "fresh-start" reporting, the Board of Tax Appals ruled that the unamortized value of an FCC license may not be deducted as goodwill pursuant to former R.C. 5733.05(A)(4). Consistent with Generally Accepted Accounting Principles, Ohio case law provides that an asset is not goodwill if it can be separately purchased and sold and has a separately identifiable value. An FCC license is an identifiable intangible asset capable of being assigned a specific value separate from goodwill. While FCC regulations may prohibit the transfer of an FCC license without the related assets, the license's value can be quantified, as it is valued independently from the other assets included in the sale of a radio station.

Wesnovtek Corp. v. Wilkins (2005), 105 Ohio St.3d 312, 2005-Ohio-1826. Reversing the Board of Tax Appeals, the Ohio Supreme Court held as follows: (1) Pursuant to former R.C. 5733.051 as it applied to the 1988 tax year at issue, the taxpayer's net loss from the bulk sale of inventory located in Ohio was apportionable rather than allocable because inventory is not a capital asset and gain or loss from the sale of inventory is not a capital gain or loss, (2) proceeds from the bulk sale of inventory located in Ohio are included in the numerator of the sales factor, and (3) the Tax Commissioner properly declined to consider the taxpayer's written request for deviation from the standard allocation and apportionment formula because the taxpayer failed to file its request in writing at the time it filed its 1988 franchise tax report as was required by R.C. 5733.05(B)(2)(d) as it read for tax year 1988.

Cuno v. DaimlerChrysler (September 2, 2004), 04a0293p.06, United States Court of Appeals for the Sixth Circuit. In Cuno v. DaimlerChrysler, Inc. (Sept. 2, 2004), a three-judge panel of the U.S. Sixth Circuit Court of Appeals issued an opinion holding that the Ohio tax credit for new manufacturing machinery and equipment violates the Commerce Clause of the U.S. Constitution and enjoined its enforcement. The State of Ohio will seek review of the court's decision. Because a review of the decision is being made, ODT is not currently enjoined from administering the tax credit. As stated above, ODT is currently allowing taxpayers to claim the credit in those circumstances where purchases of new manufacturing machinery and equipment qualify for the credit under Ohio law. ODT will continue to monitor the situation and issue future guidance.

Federated Department Stores v. Zaino (January 9, 2004), BTA No. 2002-V-103. The Department of Taxation appealed the board's decision to the Ohio Supreme Court.

Issue: Following the taxpayer's emergence from Chapter 11 reorganization on February 4, 1992 and the taxpayer's adoption of "fresh-start" reporting, should the taxpayer's 1993 franchise tax net worth base reflect the taxpayer's higher net worth "fresh-start" values determined in accordance with Generally Accepted Accounting Principles (GAAP) and reported to the Securities and Exchange Commission on form 10-K and to shareholders in the taxpayer's annual report? Or, instead, should the taxpayer's 1993 franchise tax net worth base reflect the taxpayer's lower net worth "pre-fresh-start" historical values also prepared in accordance with GAAP and included in a balance sheet within the "notes" to the annual report to shareholders?

Holding: The board stated that the issue before it was not to choose from alternative sets of books (one set of books utilized by the taxpayer in its annual report and SEC form 10-K, and another set of books depicting the taxpayer's fiscal situation before emerging from bankruptcy and adopting fresh-start reporting). Rather, the issue was whether the books upon which the taxpayer relied in reporting its net worth values on the 1993 franchise tax report were consistent with GAAP. The board then agreed with the taxpayer that the earliest date that the taxpayer could have adopted fresh-start reporting was February 4, 1992. So, the taxpayer's use of the lower net worth amount was correct, and the "1993 corporation franchise tax report, which was prepared in conformance with generally accepted accounting principles, accurately reflects its book values as of February 1, 1992."

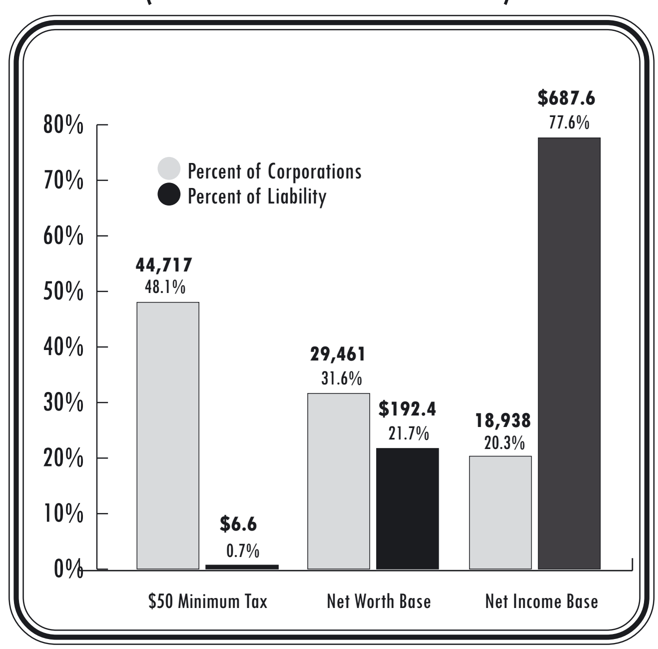
Percentage of Corporations and Tax Liability by Tax Base, Tax Year 2004

Total Number of Corporations 93,116

Total Reported Tax Liability $886.6 million

(figures in millions)

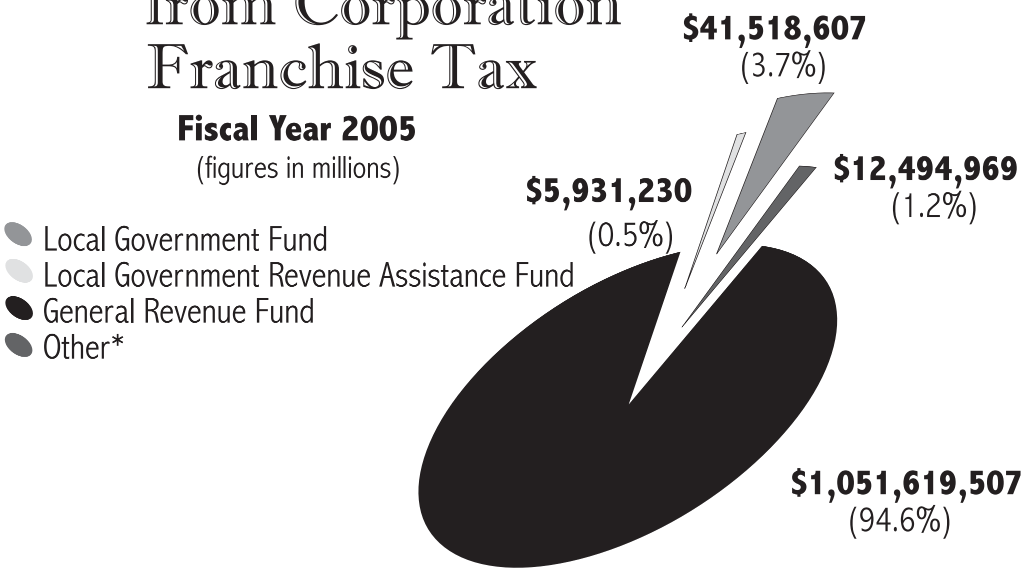
(excludes financial institutions)



Distribution of Revenue from Corporation Franchise Tax

Fiscal Year 2005

(figures in millions)



Total $1,111.6 million

* Includes litter fund and Attorney General revenues.

Table 1
Corporation Franchise Tax Collections, Fiscal Years 2001 - 2005

Fiscal Year	Gross Tax Collections	Refunds	Net Tax Collections
2001	$1,158,910,767	$185,943,569	$972,967,198
2002	1,011,443,330	237,075,921	774,367,410
2003	1,015,027,341	206,770,271	808,257,070
2004	1,060,594,780	190,009,406	870,585,374
2005	1,282,059,637	170,495,325	1,111,564,312

Table 2
Corporation Franchise Tax - Number of Corporations By Tax Base and Industry Tax Year 2004

Industry	Number of Corporations by Tax Base			
	Minimum	Net Worth	Net Income	Total
Agriculture & Forestry	414	490	244	1,148
Mining	242	264	95	601
Construction	2,587	2,670	1,311	6,568
Manufacturing	3,038	4,484	1,861	9,383
Transport, Communication, Utility	1,427	1,088	667	3,182
Wholesale Trade	1,644	2,352	1,279	5,275
Retail Trade	2,909	3,438	1,727	8,074
Finance, Insurance, Real Estate	4,111	3,074	2,076	9,261
Services	10,504	6,234	4,313	21,051
Unknown*	17,841	5,367	5,365	28,573
TOTAL	**44,717**	**29,461**	**18,938**	**93,116**

* Industry classification was not indicated by the taxpayer.

Table 3
Corporation Franchise Tax - Number of Corporations By Tax Base and Tax Liability Level Tax Year 2004

Tax Liability Level	Number of Corporations by Tax Base			
	Minimum	Net Worth	Net Income	Total
Minimum ($50 or $1,000)	44,717	—	—	44,717
$51 - 1,000	—	15,512	6,610	22,122
1,001 - 2,000	—	5,036	3,316	8,352
2,001 - 3,000	—	2,092	1,658	3,750
3,001 - 4,000	—	1,134	841	1,975
4,001 - 5,000	—	786	648	1,434
5,001 - 10,000	—	1,752	1,812	3,564
10,001 - 15,000	—	738	848	1,586
15,001 - 20,000	—	417	473	890
20,001 - 25,000	—	284	376	660
25,001 - 30,000	—	191	258	449
30,001 - 35,000	—	167	193	360
35,001 - 50,000	—	342	417	759
50,001 - 100,000	—	428	594	1,022
100,001 - 200,000	—	582	397	979
200,001 - 500,000	—	0	310	310
500,001 - 1,000,000	—	0	93	93
Over $1,000,000	—	0	94	94
TOTAL	**44,717**	**29,461**	**18,938**	**93,116**

Table 4
Corporation Franchise Tax -
Reported Tax Liability by Tax Base and Industry
Tax Year 2004

Industry	Tax Liability Before Litter Tax and Credits By Tax Base				Litter Tax (a)	Liability Before Tax Credits	Tax Credits	Liability After Tax Credits
	Minimum	Net Worth	Net Income	Total				
Agriculture & Forestry	$31,150	$895,955	$1,084,446	$2,011,551	$48,466	$2,060,017	$69,565	$1,990,452
Mining	27,300	2,074,561	3,787,140	5,889,001	120,878	6,009,879	1,240,604	4,769,275
Construction	306,050	5,549,507	22,460,447	28,316,004	463,495	28,779,499	325,092	28,454,407
Manufacturing	671,500	61,915,030	167,381,438	229,967,968	3,403,286	233,371,254	77,857,560	155,513,694
Transport, Communication, Utility	251,850	11,051,167	187,333,570	198,636,587	698,446	199,335,033	41,046,630	158,288,403
Wholesale Trade	246,550	13,495,018	58,542,711	72,284,279	1,032,020	73,316,299	13,969,141	59,347,158
Retail Trade	287,950	10,533,409	69,261,038	80,082,397	949,845	81,032,242	6,983,878	74,048,364
Finance, Insurance, Real Estate	428,800	20,675,858	56,947,420	78,052,078	1,139,845	79,191,923	14,823,797	64,368,126
Services	1,131,300	21,229,001	63,788,926	86,149,227	1,540,518	87,689,745	10,749,393	76,940,352
Unknown (b)	3,181,550	44,943,928	57,042,139	105,167,617	2,581,103	107,748,720	15,782,135	91,966,585
TOTAL	**$6,564,000**	**$192,363,434**	**$687,629,275**	**$886,556,709**	**$11,977,902**	**$898,534,611**	**$182,847,795**	**$715,686,816**

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

Table 5
Corporation Franchise Tax - Reported Tax Liability By Tax Base and Tax Liability Level, Tax Year 2004

Tax Liability Level	Tax Liability Before Litter Tax and Credits By Tax Base				Litter Tax*	Liability Before Tax Credits	Tax Credits	Liability After Tax Credits
	Minimum	Net Worth	Net Income	Total				
Minimum ($50 or $1,000)	$6,564,000	—	—	$6,564,000	—	$6,564,000	$6,008,684	$555,316
$51 - 1,000	—	$5,536,698	$2,840,958	8,377,656	$247,517	8,625,173	236,199	8,388,974
1,001 - 2,000	—	6,330,850	4,692,609	11,023,459	320,022	11,343,481	808,684	10,534,797
2,001 - 3,000	—	5,043,253	3,963,459	9,006,712	259,927	9,266,639	410,663	8,855,976
3,001 - 4,000	—	3,796,442	2,891,284	6,687,726	194,554	6,882,280	372,888	6,509,392
4,001 - 5,000	—	3,381,416	2,894,855	6,276,271	179,413	6,455,684	332,501	6,123,183
5,001 - 10,000	—	11,975,342	12,624,227	24,599,569	703,307	25,302,876	2,572,149	22,730,727
10,001 - 15,000	—	8,848,218	10,498,338	19,346,556	539,101	19,885,657	2,522,871	17,362,786
15,001 - 20,000	—	7,368,021	7,972,056	15,340,077	427,868	15,767,945	1,867,967	13,899,978
20,001 - 25,000	—	6,156,486	8,607,748	14,764,234	395,224	15,159,458	2,035,605	13,123,853
25,001 - 30,000	—	5,054,190	6,919,515	11,973,705	333,975	12,307,680	1,419,875	10,887,805
30,001 - 35,000	—	5,262,834	6,118,045	11,380,879	324,601	11,705,480	1,366,820	10,338,660
35,001 - 50,000	—	13,765,773	17,041,740	30,807,513	834,127	31,641,640	4,917,013	26,724,627
50,001 - 100,000	—	28,809,203	41,926,272	70,735,475	1,812,483	72,547,958	13,071,133	59,476,825
100,001 - 200,000	—	81,034,708	56,210,313	137,245,021	3,312,072	140,557,093	45,158,966	95,398,127
200,001 - 500,000	—	—	94,694,826	94,694,826	1,340,049	96,034,875	17,577,219	78,457,656
500,001 - 1,000,000	—	—	62,934,561	62,934,561	389,081	63,323,642	16,640,380	46,683,262
Over $1,000,000	—	—	344,798,469	344,798,469	364,581	345,163,050	65,528,178	279,634,872
TOTAL	**$6,564,000**	**$192,363,434**	**$687,629,275**	**$886,556,709**	**$11,977,902**	**$898,534,611**	**$182,847,795**	**$715,686,816**

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

Table 6
Corporation Franchise Tax -
Number of Manufacturing Corporations
By Tax Base and Industry
Tax Year 2004

Industry	Number of Corporations by Tax Base			
	Minimum	Net Worth	Net Income	Total
Food	142	199	135	476
Tobacco Manufacturers	4	4	4	12
Apparel and Other Textiles	68	70	25	163
Lumber and Wood Products	116	167	64	347
Paper	83	109	37	229
Printing and Publishing	237	292	136	665
Chemicals	233	303	158	694
Petroleum and Coal	35	42	14	91
Rubber and Plastics	190	265	141	596
Leather Products	6	14	3	23
Stone, Clay & Glass Products	98	176	80	354
Primary Metal	126	183	59	368
Fabricated Metal	660	1,161	393	2,214
Machinery (non-electrical)	305	488	146	939
Electrical Machinery	260	326	125	711
Transportation Equipment	107	145	80	332
Miscellaneous Manufacturing	368	540	261	1,169
TOTAL	**3,038**	**4,484**	**1,861**	**9,383**

Table 7
Corporation Franchise Tax -
Number of Manufacturing Corporations
By Tax Base and Tax Liability Level
Tax Year 2004

	Number of Corporations by Tax Base			
Tax Liability Level	**Minimum**	**Net Worth**	**Net Income**	**Total**
Minimum ($50 or $1,000)	3,038	—	—	3,038
$51 - 1,000	—	1,488	271	1,759
1,001 - 2,000	—	806	242	1,048
2,001 - 3,000	—	402	139	541
3,001 - 4,000	—	227	73	300
4,001 - 5,000	—	182	61	243
5,001 - 10,000	—	401	209	610
10,001 - 15,000	—	189	123	312
15,001 - 20,000	—	125	79	204
20,001 - 25,000	—	84	72	156
25,001 - 30,000	—	66	49	115
30,001 - 35,000	—	37	36	73
35,001 - 50,000	—	100	86	186
50,001 - 100,000	—	148	141	289
100,001 - 200,000	—	229	111	340
200,001 - 500,000	—	—	102	102
500,001 - 1,000,000	—	—	38	38
Over $1,000,000	—	—	29	29
TOTAL	**3,038**	**4,484**	**1,861**	**9,383**

Table 8
Corporation Franchise Tax - Reported Tax Liability for Manufacturing Corporations, by Tax Base and Industry Classification
Tax Year 2004

Industry	Tax Liability Before Litter Tax and Credits by Tax Base				Litter Tax*	Liability Before Tax Credits	Tax Credits	Liability After Tax Credits
	Minimum	Net Worth	Net Income	Total				
Food	$34,650	$3,570,210	$25,171,815	$28,776,675	$290,915	$29,067,590	$7,150,728	$21,916,862
Tobacco Manufacturers	200	176,429	7,538,294	7,714,923	45,558	7,760,481	0	7,760,481
Apparel and Other Textiles	16,700	763,923	542,830	1,323,453	39,921	1,363,374	65,712	1,297,662
Lumber and Wood Products	15,300	1,430,956	1,604,131	3,050,387	74,283	3,124,670	1,108,043	2,016,627
Paper	19,350	2,490,019	2,206,758	4,716,127	104,283	4,820,410	3,514,098	1,306,312
Printing and Publishing	36,550	1,614,711	8,475,908	10,127,169	144,153	10,271,322	2,379,831	7,891,491
Chemicals	81,950	8,994,661	42,799,837	51,876,448	462,961	52,339,409	6,946,659	45,392,750
Petroleum and Coal	11,250	1,638,545	792,617	2,442,412	40,634	2,483,046	558,446	1,924,600
Rubber and Plastics	42,700	3,670,075	7,131,287	10,844,062	214,955	11,059,017	4,594,754	6,464,263
Leather Products	2,200	217,977	1,063,522	1,283,699	12,534	1,296,233	212,340	1,083,893
Stone, Clay & Glass Products	20,100	3,174,615	3,287,739	6,482,454	142,783	6,625,237	3,216,037	3,409,200
Primary Metal	33,850	3,493,859	3,780,102	7,307,811	143,208	7,451,019	6,879,202	571,817
Fabricated Metal	100,450	7,875,883	14,982,686	22,959,019	445,614	23,404,633	8,728,034	14,676,599
Machinery (non-electrical)	83,650	4,776,177	5,058,120	9,917,947	240,731	10,158,678	3,424,561	6,734,117
Electrical Machinery	66,200	6,266,280	8,759,916	15,092,396	299,911	15,392,307	4,991,129	10,401,178
Transportation Equipment	31,950	5,299,131	19,157,191	24,488,272	319,866	24,808,138	18,438,726	6,369,412
Miscellaneous Manufacturing	74,450	6,461,579	15,028,685	21,564,714	380,976	21,945,690	5,649,260	16,296,430
TOTAL	**$671,500**	**$61,915,030**	**$167,381,438**	**$229,967,968**	**$3,403,286**	**$233,371,254**	**$77,857,560**	**$155,513,694**

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

Table 9
Corporation Franchise Tax - Reported Tax Liability For Manufacturing Corporations, by Tax Base and Tax Liability Level, Tax Year 2004

Tax Liability Level	Tax Liability Before Litter Tax and Credits By Tax Base: Minimum	Net Worth	Net Income	Total	Litter Tax*	Liability Before Tax Credits	Tax Credits	Liability After Tax Credits
Minimum ($50 or $1,000)	$671,500	—	—	$671,500	—	$671,500	$536,812	$134,688
$51 - 1,000	—	$601,586	$120,973	722,559	$23,444	746,003	89,222	656,781
1,001 - 2,000	—	1,003,647	360,560	1,364,207	42,600	1,406,807	385,456	1,021,351
2,001 - 3,000	—	957,237	331,807	1,289,044	41,037	1,330,081	263,854	1,066,227
3,001 - 4,000	—	758,286	251,531	1,009,817	31,894	1,041,711	227,059	814,652
4,001 - 5,000	—	783,132	284,166	1,067,298	32,626	1,099,924	219,320	880,604
5,001 - 10,000	—	2,724,454	1,469,682	4,194,136	126,191	4,320,327	1,066,179	3,254,148
10,001 - 15,000	—	2,352,561	1,504,172	3,856,733	110,253	3,966,986	1,933,048	2,033,938
15,001 - 20,000	—	2,101,643	1,345,986	3,447,629	105,675	3,553,304	884,567	2,668,737
20,001 - 25,000	—	1,820,273	1,716,610	3,536,883	98,855	3,635,738	864,200	2,771,538
25,001 - 30,000	—	1,737,829	1,314,088	3,051,917	88,536	3,140,453	720,513	2,419,940
30,001 - 35,000	—	1,161,802	1,132,106	2,293,908	68,870	2,362,778	608,381	1,754,397
35,001 - 50,000	—	4,051,811	3,554,813	7,606,624	218,253	7,824,877	2,472,465	5,352,412
50,001 - 100,000	—	10,228,131	10,309,459	20,537,590	531,367	21,068,957	7,193,104	13,875,853
100,001 - 200,000	—	31,632,638	15,505,064	47,137,702	1,196,700	48,334,402	28,910,036	19,424,366
200,001 - 500,000	—	—	32,427,505	32,427,505	422,964	32,850,469	11,769,723	21,080,746
500,001 - 1,000,000	—	—	26,191,256	26,191,256	161,112	26,352,368	8,881,167	17,471,201
Over $1,000,000	—	—	69,561,660	69,561,660	102,909	69,664,569	10,832,454	58,832,115
Total	**$671,500**	**$61,915,030**	**$167,381,438**	**$229,967,968**	**$3,403,286**	**$233,371,254**	**$77,857,560**	**$155,513,694**

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

Table 10
Corporation Franchise Tax - Number of Financial Institutions and Reported Tax Liability, By Type of Institution, Tax Year 2004

Tax Liability Level	Number of Corporations By Type				Tax Liability Before Credits By Type				
	Banks	Savings & Loans	Other*	Total	Banks	Savings & Loans	Other*	Total	Tax Credits
Minimum ($50 or $1,000)	7	—	22	29	$4,150	—	$9,650	$13,800	—
$51 - 1,000	2	2	1	5	1,238	$854	799	2,891	—
1,001 - 2,000	1	—	1	2	1,376	—	1,335	2,711	—
2,001 - 3,000	3	2	1	6	7,611	5,424	2,922	15,957	—
3,001 - 4,000	2	—	—	2	7,618	—	—	7,618	—
4,001 - 5,000	1	—	—	1	4,837	—	—	4,837	—
5,001 - 10,000	4	—	2	6	31,196	—	15,423	46,619	—
10,001 - 15,000	5	1	—	6	64,099	10,541	—	74,640	$16,828
15,001 - 20,000	8	2	—	10	138,015	33,825	—	171,840	12,988
20,001 - 25,000	6	1	1	8	125,809	24,241	21,915	171,965	—
25,001 - 30,000	1	1	—	2	26,424	27,940	—	54,364	3,823
30,001 - 35,000	5	1	1	7	163,689	31,130	34,646	229,465	—
35,001 - 50,000	19	9	3	31	824,575	359,366	122,513	1,306,454	28,118
50,001 - 100,000	52	25	3	80	3,943,596	1,952,433	162,719	6,058,748	264,593
100,001 - 200,000	58	19	2	79	8,451,929	2,736,934	269,126	11,457,989	202,269
200,001 - 500,000	46	21	0	67	14,713,733	6,556,733	—	21,270,466	639,294
500,001 - 1,000,000	19	8	1	28	12,336,449	5,154,936	764,622	18,256,007	605,273
Over $1,000,000	16	8	—	24	106,747,094	23,382,739	—	130,129,833	19,113,615
TOTAL	**255**	**100**	**38**	**393**	**$147,593,438**	**$40,277,096**	**$1,405,670**	**$189,276,204**	**$20,886,801**

* Primarily credit agencies that accept deposits.