

# Corporation Franchise Tax

The corporation franchise tax is a business privilege tax that dates back to 1902. For most taxpayers, Ohio is in the process of phasing out the corporation franchise tax in favor of the new commercial activity tax (CAT). The 2009 franchise tax report (based on the taxable year ending in 2008) is the last report that most taxpayers will file.



Current law requires most taxpayers to compute the tax on both net worth and net income and pay on the base that produces the higher tax (see the exhibit for examples of these calculations). The net worth rate is 4 mills; the net income rate is 5.1 percent on the first \$50,000 of net income and 8.5 percent on remaining net income.

The corporation franchise tax is computed differently for financial institutions, which pay no tax on net income but pay 13 mills on net worth. In addition, financial institutions must follow a different apportionment formula than general taxpayers.

All corporations except family farm corporations and financial institutions are also subject to a litter tax based on either net worth or net income.

In fiscal year 2008, the corporation franchise tax generated about \$754.6 million in total revenue. The tables in this chapter provide data from the 2007 tax year taken from reports due and filed in 2007. For all corporations except financial institutions, the reported tax liability (including litter tax) before credits, the 40 percent phase-out factor, and the manufacturing grant, was approximately \$1,441.1 million. After tax credits, the manufacturing grant, and the 40 percent phase-out factor, the liability was \$795.5 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 \$159.7 million for the 2007 tax year.

Of the total tax liability before credits for general corporations, about 85 percent came from net income taxpayers. Of all corporation franchise taxpayers, approximately 22 percent paid tax on net income, 28 percent paid tax on net worth, and the remaining 50 percent paid the minimum tax.

Of financial institutions, banks filed 65 percent of all returns and paid 73 percent of the total tax liability. Savings and loans

filed 25 percent of returns and paid 23 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 is being phased out during the 2006 through 2010 franchise tax report years (for business activities in the taxable years ending in 2005 through 2009). As a result, the 2009 franchise tax report, based on the taxpayer's taxable year ending in 2008, is the last franchise tax report for most taxpayers.

Put simply, the tax is being phased out in 20 percent increments, after the application of most nonrefundable tax credits, according to the following schedule:

Franchise tax report year	Tax
2005	Normal liability
2006	80% × liability
2007	60% × liability
2008	40% × liability
2009	20% × liability
2010	No liability

A minimum tax of either \$50 or \$1,000, depending on corporation size, still applies until the phase-out is complete.

The franchise tax phase-out and CAT phase-in do not apply to financial institutions, which continue to pay the 13 mill net worth tax. The phase-out also does not apply to:

- certain financial holding companies, bank holding companies and savings and loan holding companies;
- certain affiliates of these holding companies and certain affiliates of financial institutions;
- certain affiliates of insurance companies; and
- securitization companies.

These latter entities will continue to pay according to net worth or net income, whichever is greater.

## Credits and the phase-out

Most corporations were permitted to carry forward unclaimed Ohio net operating losses on their franchise tax reports during the phase-out period. However, certain companies with Ohio net operating losses in excess of \$50 million were allowed to claim a portion of their unused net operating losses and other net deferred tax assets as a credit against the CAT. That portion of the net operating losses on which such taxpayers claim the CAT credit may not be deducted on the franchise report. But net operating losses **not** in excess of \$50 million may continue to be deducted during the franchise tax phase-out period.

Additionally, taxpayers subject to the franchise tax phase-

out and the CAT phase-in were not permitted to claim their unused nonrefundable franchise tax credits or credit carry forwards as a credit against the CAT. Exceptions to this 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.

## 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 (as defined in Chapter 1729 or similar laws of another state) 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. 5709.65, 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 base and the net worth base, and pay on the base that produces the greater tax.

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

Qualifying holding companies pay tax on the net income base only.

### 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, Exclusions, Deductions and Additions**). The tax is calculated by multiplying this adjusted net worth by the net worth apportionment ratio and by the net worth tax rate of four mills (0.4 percent). For financial institutions, the tax is determined by multiplying the taxpayer's adjusted net worth by the taxpayer's Ohio apportionment ratio and by the net worth rate of 13 mills (1.3 percent). See this chapter's exhibit for more information.

### 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, Exclusions, Deductions and Additions**). The adjusted income is then allocated (nonbusiness income) or apportioned (business income) in and outside Ohio as follows:

**Allocable Income** – 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 (R.C. 5733.051).

**Apportionable Income** – 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 the exhibit).

**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)

### General Franchise Tax Rates

**Net Worth** – Net worth taxable value is taxed at the rate of four mills (0.4 percent). The maximum tax on the net worth base for taxpayers other than financial institutions is \$150,000 per taxpayer.

**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. Financial institutions are not subject to tax on the net income basis.

**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. The phase-out factor has no effect on the franchise tax minimum fee.

For franchise tax report years 2006, 2007, 2008, 2009, and 2010, taxpayers subject to the phase-out will pay 80 percent, 60 percent, 40 percent, 20 percent, and 0 percent, respectively, of the franchise tax after nonrefundable credits that they would otherwise be required to pay. Nevertheless, the non-refundable 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.

### Litter Tax Rates (R.C. 5733.066 and 5733.065)

**Tier I litter tax** – In addition to the general franchise tax rate, the Tier I litter tax applies to all corporations except family farm corporations and financial institutions. The Tier I litter tax is computed on both the net income base and net worth base and paid on the base that produces the greater tax. The rates are:

- **Net Worth** – 0.14 mills (0.014) on the taxable value (adjusted net worth) of the corporation, or
- **Net Income** – 0.11 percent on the first \$50,000 of Ohio taxable income plus 0.22 percent 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** – In addition to the Tier I tax, the Tier II litter tax applies to taxpayers that manufacture or sell litter stream

products in Ohio. Like the Tier I litter tax, the Tier II litter tax applies to both the net income base and the net worth base and is paid on the base that produces the greater tax. The rates are:

- **Net Worth** – 0.14 mills (0.014) on the taxable value of the corporation, or
- **Net Income** – 0.22 percent on Ohio taxable income in excess of \$50,000.

The maximum Tier II litter 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.

#### Financial Institutions Rate

Financial institutions are subject to tax on the net worth base at a rate of 13 mills (0.013).

## Exemptions, Exclusions, Deductions and Additions

**Exempt Corporations** (R.C. 1733.43, 5733.01, 5733.04, 5733.06, 5733.09, and 5733.10)

Entities not subject to the franchise tax include:

- nonprofit corporations (except certain agricultural cooperatives);
- municipal corporations;
- public utilities subject to public utility excise tax;
- credit unions;
- dealers in intangibles;
- corporations required to file annual reports with the Ohio Superintendent of Insurance;
- 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.);
- corporations electing treatment as an “S” corporation under the I.R.C. and their qualified subchapter S subsidiaries (QSSS);
- limited liability companies (LLCs), if treated as a partnership for federal tax purposes; and
- 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.

**Additions and Deductions in Determining Net Worth** (R.C. 5709.25, 5709.35, 5709.50, 5709.65, 5915.29, 6111.36 and 5733.056)

In determining net worth, entities:

- add to book net worth (assets minus liabilities) the “qualifying amount” (see R.C. 5733.05(D)(1); this adjustment does not apply to financial institutions).
- deduct from book net worth:
  - certified Ohio civil defense structures;
  - land in Ohio devoted exclusively to agriculture;
  - qualified improvements to property located in an enterprise zone (generally does not apply to financial institutions); and

- appreciation and goodwill (applies only to financial institutions).

**Adjustments in Determining Ohio Net Income** (R.C. 5709.35, 5733.04, 5733.042, 5733.053, 5733.054, 5733.055, and 5733.058)

In determining Ohio net income, entities:

- deduct certain income from sources outside the United States;
- deduct the “dividends received” deduction provided by section 243 of the I.R.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 (in addition, receipts from these companies are eliminated in determining the sales factor for apportioning net income and net worth);
- 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;
- 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);
- 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;
- deduct net interest income on federal government obligations;
- deduct Ohio net operating loss carried forward from the prior 20 years (there is no Ohio net operating loss carry back provision);
- deduct amounts contributed to an individual development account program;
- 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);
- deduct taxable temporary differences in connection with the commercial activity tax credit for franchise tax net operating losses;
- 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;
- add interest and intangibles expense paid to certain related members;
- add income (and deduct losses) earned by a transferor corporation that merges into the taxpayer in a tax-free reorganization;
- 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;
- add distributive or proportionate share of pass-through entity expenses paid to, losses incurred from transac-

tions with, and excess inventory costs paid to related members; and

- add deductible temporary differences in connection with the commercial activity tax credit for franchise tax net operating losses.

## Credits and Grants

### **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 litter tax rates.

### **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:

- the amount reimbursed to specified employees for the cost of day care services up to a maximum of \$300 per child; and
- the amount reimbursed to specified employees for training costs up to a maximum of \$1,000 per employee.

### **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).

### **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.

### **Jobs Creation Tax Credit** (R.C. 122.17 and 5733.0610)

A taxpayer may claim a refundable credit for new jobs created according 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 15 years.

For taxpayers that are subject to the franchise tax phase-out and the CAT phase-in, the last franchise tax report for which the refundable new jobs credit applied was the 2008 report. The franchise tax credit automatically converted to a refundable credit against the CAT. Additionally, credit certificates issued on or before May 31, 2008 must be claimed against the franchise tax and credit certificates issued after May 31, 2008 must be claimed against the CAT, regardless of

the taxable year or tax period to which the credit certificate relates.

### **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.

### **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.

### **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.

### **Grant for Purchases of New Manufacturing Machinery and Equipment**

The nonrefundable 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 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  $\frac{1}{7}$  grant amounts are phasing out in the same years and by the same percentages as the franchise tax. For those taxpayers subject to the franchise tax phase-out, the grant will end with the final (2009) franchise tax report because the unused  $\frac{1}{7}$  grant amounts cannot be applied against the CAT.

### **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).

### **Job Training Credit** (R.C. 5733.42)

This nonrefundable credit applies to taxpayers 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 total aggregate credits for all applicants cannot exceed \$20 million per calendar year and are granted to qualified applicants through means of a lottery-based allocation. Except for carry forward amounts, this credit expired with the 2008 report.

**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.

**Job Retention Tax Credit** (R.C. 122.171 and 5733.0610(B))

This nonrefundable credit applies to manufacturers that on or after Jan. 1, 2002 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. 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 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 applied was the 2008 report. The franchise tax credit automatically converted 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. See **Recent Legislation** for amendments to this credit.

**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.

**Credit for Qualified Research Expense** (R.C. 5733.351)

This nonrefundable credit equals 7 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 in Ohio 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 applied was the 2008 report. The credit automatically converted to a nonrefundable credit against the CAT and any unused franchise tax credit carry forward can be applied toward the CAT for tax periods beginning after June 30, 2008, provided that the total number of carry forward years under the franchise tax and the CAT does not exceed seven.

**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.

**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 public utility gross receipts tax continued to apply to the taxpayer.

**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.

**Credit for Providing Programs to Aid the Communicatively Impaired** (R.C. 5733.56)

For tax year 2005, telephone companies could claim a nonrefundable credit for providing telephone service to aid the communicatively impaired in accessing the telephone network. If, in its taxable year ending in 2004, the taxpayer generated this credit and the taxpayer was unable to utilize the credit or a portion of the credit on its 2005 report, the unused 2005 credit amount could be carried forward and claimed as a nonrefundable credit in 2006 and subsequent years. In addition, for tax years 2006, 2007 and 2008, telephone companies could claim a refundable credit for providing telephone service to aid the communicatively impaired in accessing the telephone network. The credit equals the telephone company's costs incurred for providing the telephone service program to aid the communicatively impaired during the taxable year ending prior to the tax year.

**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 applied was the 2008 report. The franchise tax credit automatically converted to a nonrefundable credit against the CAT for tax periods beginning on or after Jan. 1, 2008, and any unused franchise tax credit carry forward can be applied toward the CAT as provided in R.C. section 5751.52.

**Ohio Historic Preservation Credit** (R.C. 149.311)

This refundable credit applies to owners of certain historic buildings in Ohio for the expenditures paid or incurred to rehabilitate such buildings. The credit, if approved by the Ohio Department of Development, equals 25 percent of the owner's "qualified rehabilitation expenditures" paid or incurred during the 24 or 60-month rehabilitation period shown on the taxpayer's tax credit certificate issued by the Department of Development. The historic building's owners can claim the credit against either the franchise tax, dealer in intangibles tax or individual income tax. Franchise taxpayers that are issued the certificate may claim the credit even if the taxpayer is no longer subject to the franchise tax (because of the franchise tax phase-out).

**Credit for Selling Alternative Fuel in Ohio** (R.C. 5733.48)

For tax years 2008 and 2009 retail service stations in Ohio may claim a nonrefundable credit for selling E85 blend fuel

or blended biodiesel. For tax year 2008 the credit equals 15 cents per gallon of alternative fuel sold at a retail dealer's Ohio service station during any part of calendar year 2007 that is included in the dealer's taxable year ending in 2007. For tax year 2009 the credit equals 15 cents per gallon of alternative fuel sold at a retail dealer's Ohio service station during any part of calendar year 2007 that is included in the dealer's taxable year ending in 2008, plus 13 cents per gallon of alternative fuel sold and dispensed during any part of calendar year 2008 that is included in that taxable year. Dealers must calculate the credit separately for each Ohio retail service station owned or operated by the retail dealer. Alternative fuel sales are credit eligible only when sold and dispensed from a metered pump. The credit may also be claimed against the individual income tax.

## Special Provisions

Special provisions of the corporation franchise tax include the following:

- corporations ceasing business in Ohio may be subject to an "exit tax" on unreported Ohio net income recognized in the two calendar years prior to the tax year (see R.C. 5733.06(H)).
- 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).
- 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 (R.C. 5733.04(I)(14)).
- qualifying pass-through entities (partnerships, S corporations, and LLCs treated as partnerships 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 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 2008, the pass-through entity's tax rate on its Ohio income that passes through to its qualifying investors that are subject to the franchise tax phase-out was 1.7 percent. The tax is due only if the adjusted qualifying amount exceeds \$1,000 (R.C. 5733.40, 5733.41, 5733.04(I)(14), 5733.0611, 5747.41 through 5747.453, 5747.01(A)(16) and 5747.059).
- the net worth tax for financial institutions differs substantially from the net worth tax for regular corporations (R.C. 5733.056).
- each taxpayer must include in its adjusted qualifying amounts, allocable and apportionable income or loss, property, compensation, and sales, the taxpayer's pro-

portionate or distributive share of such items for any pass-through entity in which the taxpayer has a direct or indirect ownership interest (R.C. 5733.057).

- if more than half of a taxpayer's capital stock with voting rights is owned or controlled directly or indirectly 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. A qualifying controlled group of taxpayers may elect to file a combined report if each has non-dividend income from Ohio sources. This election may not be changed by the taxpayer without the Tax Commissioner's consent. The combination provisions do not apply to the net worth base (R.C. 5733.052).
- intangible expenses and costs paid to certain related members are added to income (R.C. 5733.042).

## Filing and Payment Dates

(R.C. 5733.02, 5733.021, 5733.022 and 5733.13)

Key filing and payment dates include:

- Jan. 31. If by Jan. 31 of the tax year the corporation does not file the annual report and make full payment of the tax due, then by that date the corporation must file form FT 1120E and pay one-third of that estimated liability. If the estimated tax liability is the minimum fee, the corporation must make full payment by Jan. 31.
- March 31. By March 31 of the tax year the corporation must either file its franchise tax report and pay the remaining tax due or the corporation must file a request for extension (form FT 1120ER) and pay the second one-third of its estimated tax liability.
- May 31. By May 31 of the tax year the corporation must either file the annual report and pay the remaining tax due or file a request for additional extension (form FT 1120EX) and pay the remaining one-third of its estimated tax liability. A corporation filing 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.

## Interest

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.

## EFT

Taxpayers are required to pay by electronic funds transfer (EFT) if, for the second preceding tax year, the taxpayer's total franchise tax liability after reduction for nonrefundable credits exceeded \$50,000. Taxpayers that are required to pay by EFT must register with the Treasurer of State.

## Disposition of Revenue

(R.C. 4981.09, 5733.12, 5733.122)

Traditionally, after necessary deposits to the Attorney General Claims Fund and the Litter Control Tax Administration Fund, the General Revenue Fund received 95.2 percent of franchise tax collections, with the balance directed to the

Local Government Fund (4.2 percent) and the Local Government Revenue Assistance Fund (0.6 percent). But, since fiscal year 2002, state contributions to local government funds had been frozen in some form; during FY 2007, the Local Government Fund and Local Government Revenue Assistance Fund received the same amount as in the prior fiscal year.

In House Bill 119, the FY 2008-2009 biennial budget bill enacted in 2007, the General Assembly revised the formula and the revenue accounting associated with the local government funds. Starting in January 2008, all franchise tax revenue was directed to the General Revenue Fund after deposits with the Attorney General Claims Fund and the Litter Control Tax Administration Fund. For details on the local government fund changes, see the **Local Government Funds** chapter.

The amount appropriated annually for administration of the litter tax is credited to the Litter Control Tax Administration Fund.

## 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 Treasurer of State but are received by the Department of Taxation.

## Ohio Revised Code Citations

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

## Recent Legislation

### House Bill 554, 127th Ohio General Assembly (effective Sept. 9, 2008).

This bill included several changes to the R.C. 149.311 historical building preservation tax credit. The bill:

- eliminated the July 1, 2008 through June 30, 2009 credit application period and created two new 12-month application periods: one beginning July 1, 2009, the other beginning July 1, 2010.
- eliminated the cost-benefit analysis from the application review and approval process. Prior law required a cost benefit analysis showing that the rehabilitation project would yield a net revenue gain in state and local taxes. In place of the cost-benefit analysis, the new law requires consideration of the proposed project's "potential economic impact and a regional distributive balance of credits throughout the state."
- eliminated the first-come-first-serve order of reviewing and approving credit applications.

- limited the size of the credit permitted per project to either \$5 million or 25 percent of *estimated* "qualified rehabilitation expenditures," whichever is less. Prior law did not include such limits.
- limited the total aggregate credit to be divided-up among all applicants to \$60 million for each of the application periods beginning July 1, 2009 and July 1, 2010. Prior law did not limit the aggregate credit per application period.
- earmarked \$45 million of the \$60 million total aggregate credit for each of the application periods beginning July 1, 2009 and July 1, 2010 to applications that were filed during the period beginning July 1, 2007 but had not been approved by March 1, 2008.
- eliminated a limit on the number of projects that may be approved for any application period. Previous law set a limit of 100 projects per application period.
- specifically provided that the owner of a historic building may not include the state, a state agency, or any political subdivision.

### House Bill 562, 127th Ohio General Assembly (effective Sept. 23, 2008).

Among other provisions this new law amended the R.C. 122.171 nonrefundable job retention credit by reducing the required number of years a credit recipient must maintain operations at the project site for which the recipient claims the credit from at least twice the term of the credit to either seven years, or the term of the credit plus three years, whichever is more. The new law also reduced the credit repayment requirements for taxpayers that fail to maintain operations at the project site for the required number of years as set forth in the credit agreement.

### House Bill 458, 127th General Assembly (effective Dec. 30, 2008).

**Conformity** – Among other provisions, this new law amended the definition of "Internal Revenue Code as amended" in R.C. 5701.11, thereby adopting the amendments to the Internal Revenue Code (I.R.C.) enacted by Congress from Dec. 21, 2007 (the effective date of the General Assembly's previous amendment to R.C. 5701.11) through Dec. 30, 2008.

**Senate Bill 321, 126th Ohio General Assembly**, made the credit for losses on loans made to the Ohio Venture Capital Program refundable as of June 5, 2006. Under prior law the taxpayer had a choice of taking this credit as a refundable credit or as a nonrefundable credit.

**Table 1**

<b>Corporation Franchise Tax Collections, Fiscal Years 2004-2008</b>			
<b>Fiscal Year</b>	<b>Gross Tax Collections</b>	<b>Refunds</b>	<b>Net Tax Collections</b>
2004	\$1,060,594,780	\$190,009,406	\$870,585,374
2005	1,282,059,637	170,495,325	1,111,564,312
2006	1,309,521,936	203,658,836	1,105,863,100
2007	1,302,582,440	176,928,156	1,125,654,284
2008	963,244,229	208,611,265	754,632,965

**Table 2**

<b>Corporation Franchise Tax Number of Corporation by Tax Base and Industry, Tax Year 2007</b>				
<b>Industry</b>	<b>Minimum</b>	<b>Number of Corporations by Tax Base</b>		<b>Total</b>
		<b>Net Worth</b>	<b>Net Income</b>	
Agriculture, Forestry, and Fishing	623	506	356	1,485
Mining	226	203	174	603
Utilities (excluding telecommunications)	112	61	53	226
Construction	4,325	2,686	1,864	8,875
Manufacturing	4,000	4,163	3,132	11,295
Wholesale Trade	2,462	2,129	1,864	6,455
Retail Trade	6,224	4,366	2,914	13,504
Transportation and Warehousing	1,756	838	777	3,371
Information (including telecommunications)	885	424	368	1,677
Finance & Insurance	2,530	1,088	1,031	4,649
Real Estate, and Rental & Leasing of Property	3,541	1,995	1,347	6,883
Professional, Scientific & Technical Services	3,923	1,477	1,562	6,962
Management of Companies (Holding Companies)	123	14	19	156
Administrative & Support Services, and Waste Management & Remediation Services	1,306	483	515	2,304
Education, Health Care and Social Assistance	4,129	1,483	1,325	6,937
Arts, Entertainment, and Recreation	256	109	77	442
Accommodation and Food Services	1,789	831	751	3,371
Other Services	1,809	1,189	755	3,753
Unclassified <sup>1</sup>	5,139	1,147	1,106	7,392
<b>TOTAL</b>	<b>45,158</b>	<b>25,192</b>	<b>19,990</b>	<b>90,340</b>

<sup>1</sup> Industry classification was not indicated by the taxpayer.

**Exhibit**

The purpose of this exhibit is to explain how the corporation franchise tax is calculated on either the net worth or net income base.

**Net worth base**

The net worth tax base of the tax is calculated this way:

$$\text{Ohio taxable value}^1 = \text{net value of stock} \times \text{apportionment ratio}$$

**Net income base**

The net income base of the tax is calculated this way:

$$\begin{array}{rcccl} \text{Ohio} & & \text{Business} & & \text{Nonbusiness} & & \text{Ohio Net Operating} \\ \text{Taxable} & = & \text{Income} & + & \text{Income Allocated} & - & \text{Loss Carry} \\ \text{Income}^2 & & \text{Apportioned} & & \text{to Ohio} & & \text{Forward Deduction} \\ & & \text{to Ohio} & & & & \end{array}$$

**Apportionment ratios and factors**

On either tax base, an apportionment ratio is used to distinguish net income or worth in Ohio from net income or worth everywhere else. Apportionment ratios are calculated according to this weighting:

$$\text{Apportionment ratio} = (\text{Property factor} \times 0.20) + (\text{Payroll factor} \times 0.20) + (\text{Sales factor} \times 0.60)$$

The individual factors are calculated this way:

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

$$\begin{array}{l} \text{Payroll} \\ \text{Factor} \end{array} = \frac{\text{Total compensation paid in Ohio}}{\text{Total compensation paid everywhere}}$$

$$\begin{array}{l} \text{Sales} \\ \text{Factor} \end{array} = \frac{\text{Sales in Ohio}}{\text{Sales everywhere}}$$

On the net income base of the franchise tax, the factors do not include property, payroll or sales relating to non-business income. On the net worth base of the tax, they do.

Also, for sales of tangible personal property, sales inside and outside Ohio are determined by the final destination of the property sold; other sales are situated according to where the purchaser received the benefit of that which was purchased.

Specific adjustments apply to each factor, as follows:

**Property** — Neither the numerator nor the denominator include the original cost of property used exclusively for qualified research or property in Ohio for which the state has issued an Air Pollution, Noise Pollution, or an Industrial Water Pollution Control Certificate. Also, the numerator does not include 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.

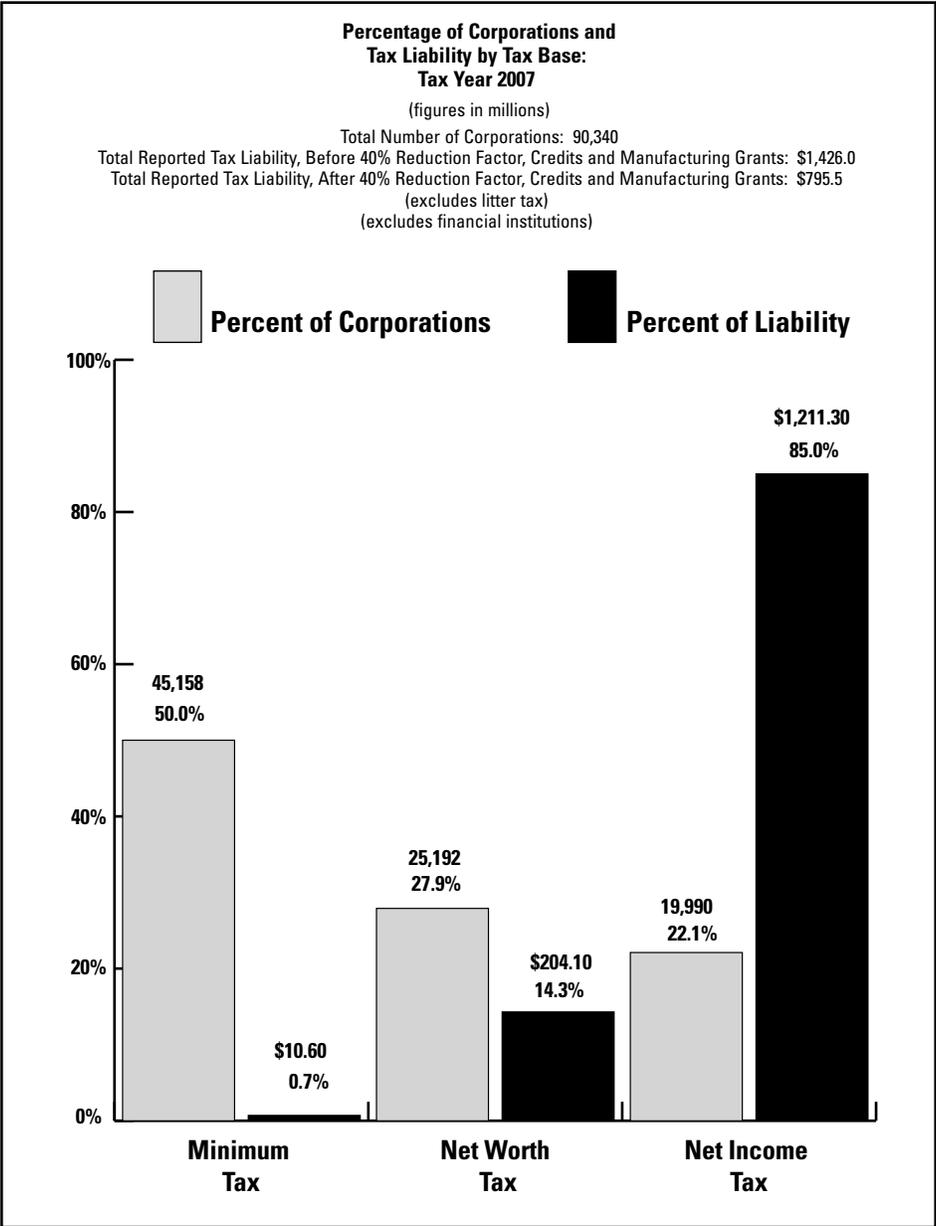
**Payroll** — Neither the numerator or denominator include compensation paid in Ohio to employees engaged in qualified research. The numerator does not include compensation paid to certain new employees at an enterprise zone facility for which the taxpayer holds a Tax Incentive Qualification Certificate issued by the Ohio Department of Development.

**Sales** — Does not include sales derived from non-business allocable income. Also does not include interest and dividends.

1 The value of pollution control, coal conversion and energy conversion facilities property is excluded from the net value of stock. Also excluded: qualified property in an enterprise zone and land devoted exclusively to agriculture.

2 Taxable income also includes income or losses from a a transferor corporation and includes positive or negative adjustments for related entities and related members.

Chart 1



Note: House Bill 66 (126th General Assembly) phases out the corporation franchise tax for most taxpayers by 20 percentage-point annual increments over a five-year period beginning in tax year 2006. The liability amounts shown in the chart are prior to the 40 percent reduction in effect for tax year 2007, and prior to tax credits and manufacturing grants.

Table 3

Corporation Franchise Tax Number of Corporations by Tax Base and Tax Liability Class: Tax Year 2007						
Tax Liability Class		Number of Corporations by Tax Base			Total	
		Net Minimum	Net Worth	Net Income		
	Minimum	45,158	--	--	45,158	
\$51	- 1,000	--	12,823	6,091	18,914	
1,001	- 2,000	--	3,897	3,044	6,941	
2,001	- 3,000	--	1,881	1,772	3,653	
3,001	- 4,000	--	1,046	863	1,909	
4,001	- 5,000	--	705	748	1,453	
5,001	- 10,000	--	1,602	1,992	3,594	
10,001	- 15,000	--	704	974	1,678	
15,001	- 20,000	--	398	645	1,043	
20,001	- 25,000	--	280	420	700	
25,001	- 30,000	--	216	381	597	
30,001	- 35,000	--	171	272	443	
35,001	- 50,000	--	360	524	884	
50,001	- 100,000	--	477	849	1,326	
100,001	- 200,000	--	632	597	1,229	
200,001	- 500,000	--	--	470	470	
500,001	- 1,000,000	--	--	171	171	
Over	\$1,000,000	--	--	177	177	
<b>TOTAL</b>		<b>45,158</b>	<b>25,192</b>	<b>19,990</b>	<b>90,340</b>	

**Table 4**

	Corporation Franchise Tax									
	Reported Tax Liability by Tax Base and Industry									
	Tax Year 2007					Tax Year 2008				
	Before 40% Reduction Factor Applicable to Most Taxpayers					After 40% Reduction Factor Applicable to Most Taxpayers				
	Minimum	Net Worth	Net Income	Total	Litter Tax <sup>1</sup>	Total Liability Before Credits and Grant	Total Non-Refundable and Tax Credits <sup>2</sup>	Manufacturing Grant	Tax Liability After Tax Credits and Grant <sup>2</sup>	
Agriculture, Forestry, and Fishing	\$81,500	\$1,182,183	\$3,010,145	\$4,273,828	\$90,742	\$4,364,570	\$21,780	\$117,396	\$2,539,774	
Mining	53,100	2,042,847	14,012,326	16,108,273	175,119	16,283,392	16,088	12,438	9,763,316	
Utilities (excluding telecommunications)	41,700	2,115,604	115,242,536	117,399,840	89,175	117,489,015	15,327,216	0	61,272,067	
Construction	909,750	9,750,932	34,025,901	44,686,583	782,997	45,469,580	451,089	10,958	27,127,190	
Manufacturing	1,506,250	70,224,299	436,388,667	508,119,216	4,846,119	512,965,335	33,667,227	3,942,973	277,001,819	
Wholesale Trade	800,450	15,820,559	112,602,938	129,223,947	1,806,203	131,030,150	2,676,976	555,173	75,482,865	
Retail Trade	1,562,350	30,085,035	160,445,688	192,093,073	2,185,580	194,278,653	8,833,158	187,749	107,940,260	
Transportation and Warehousing	524,800	4,703,255	47,432,533	52,660,588	492,147	53,152,735	1,698,718	5,201	30,546,276	
Information (including telecommunications)	311,200	8,850,054	70,350,821	79,512,075	535,919	80,047,994	6,388,736	1,081	42,170,564	
Finance & Insurance	636,650	10,602,729	39,713,649	50,953,028	627,053	51,580,081	3,414,424	50,583	29,286,261	
Real Estate, and Rental & Leasing of Property	574,150	9,683,306	20,759,706	31,017,162	599,537	31,616,699	522,258	20,392	18,302,806	
Professional, Scientific & Technical Services	936,200	12,263,692	66,137,922	79,337,814	939,513	80,277,327	3,211,931	15,134	45,658,129	
Management of Companies (Holding Companies)	19,450	478,249	2,510,946	3,008,645	23,934	3,032,579	123,055	0	1,762,020	
Administrative & Support Services, and Waste Management & Remediation Services	328,450	2,987,116	11,584,401	14,899,967	261,871	15,161,838	341,033	0	8,954,112	
Education, Health Care and Social Assistance	703,300	6,012,194	38,337,452	45,052,946	499,315	45,552,261	1,102,392	35,070	26,532,362	
Arts, Entertainment, and Recreation	57,450	620,683	1,145,840	1,823,973	41,569	1,865,542	0	0	1,141,912	
Accommodation and Food Services	301,300	3,497,008	19,115,151	22,913,459	371,386	23,284,845	393,247	12,177	13,849,775	
Other Services	249,100	2,906,118	6,510,883	9,666,101	210,885	9,876,986	478,470	1,702	5,592,409	
Unclassified <sup>3</sup>	1,002,700	10,301,181	11,929,373	23,233,254	529,071	23,762,325	4,092,733	134,392	10,595,947	
<b>TOTAL</b>	<b>\$10,599,850</b>	<b>\$204,127,044</b>	<b>\$1,211,256,878</b>	<b>\$1,425,983,772</b>	<b>\$15,108,136</b>	<b>\$1,441,091,907</b>	<b>\$82,760,531</b>	<b>\$5,102,428</b>	<b>\$795,519,863</b>	

1 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.  
 2 Does not reflect nonrefundable credit for taxes paid by qualifying pass-through entities. In addition, refundable tax credits are not subject to the reduction factor.  
 3 Industry classification was not indicated by taxpayer.

Note: House Bill 66 (126th General Assembly) phases out the corporation franchise tax for most taxpayers by 20 percentage-point annual increments over a five-year period beginning in tax year 2006. Except for the last two columns, all amounts shown are prior to the 40 percent reduction in effect for tax year 2007.

**Table 5**

Corporation Franchise Tax Reported Tax Liability by Tax Base and Tax Liability Class Tax Year 2007												
Tax Liability Class	Before 40% Reduction Factor Applicable to Most Taxpayers						After 40% Reduction Factor					
	Tax Liability Before Litter Tax and Credits By Tax Base						Total Non-Tax Liability After					
	Net Minimum	Net Worth	Net Income	Total	Litter Tax <sup>1</sup>	Total Liability Before Credits and Grant	Refundable and Tax Credits <sup>2</sup>	Manufacturing Grant	Tax Credits and Grant <sup>2</sup>	Total Non-Tax Liability After		
Minimum (\$50 or \$1,000)	\$10,599,850	--	--	\$10,599,850	\$0	\$10,599,850	\$6,596,834	\$0	\$4,000,684			
\$51 - 1,000	--	\$4,510,310	\$2,465,144	6,975,454	219,374	7,194,827	40,428	11,194	4,407,672			
1,001 - 2,000	--	5,572,899	4,447,816	10,020,715	288,354	10,309,069	908,233	37,153	5,301,267			
2,001 - 3,000	--	4,583,985	4,300,608	8,884,593	284,997	9,149,590	834,505	44,723	4,609,626			
3,001 - 4,000	--	3,603,399	2,988,707	6,592,106	196,744	6,788,850	139,321	53,161	3,931,427			
4,001 - 5,000	--	3,154,524	3,370,371	6,524,895	187,164	6,712,059	172,127	54,451	3,807,039			
5,001 - 10,000	--	11,316,590	14,266,251	25,582,841	719,447	26,302,288	411,819	145,947	15,481,651			
10,001 - 15,000	--	8,687,834	11,972,169	20,660,003	590,216	21,250,219	2,661,989	118,137	10,184,305			
15,001 - 20,000	--	6,926,504	11,233,329	18,159,833	506,620	18,666,453	1,400,325	87,155	9,904,312			
20,001 - 25,000	--	6,248,388	9,368,451	15,616,839	424,448	16,041,287	490,992	93,735	9,141,675			
25,001 - 30,000	--	5,893,553	10,437,557	16,331,110	452,764	16,783,874	380,882	103,991	9,654,346			
30,001 - 35,000	--	5,525,176	8,813,018	14,338,194	393,429	14,731,623	563,140	61,898	8,302,951			
35,001 - 50,000	--	15,136,002	21,897,608	37,033,610	970,353	38,003,963	2,178,583	172,805	20,796,650			
50,001 - 100,000	--	33,867,211	60,065,455	93,932,666	2,423,953	96,356,619	4,064,271	369,192	54,000,573			
100,001 - 200,000	--	89,100,669	83,818,946	172,919,615	4,078,003	176,997,618	14,342,978	829,473	93,626,684			
200,001 - 500,000	--	--	147,130,419	147,130,419	1,921,330	149,051,749	9,218,505	859,110	80,660,559			
500,001 - 1,000,000	--	--	120,840,361	120,840,361	651,779	121,492,140	4,942,903	1,484,154	65,604,941			
Over \$1,000,000	--	--	693,840,668	693,840,668	819,161	694,659,829	33,412,696	576,148	392,103,501			
<b>TOTAL</b>	<b>\$10,599,850</b>	<b>\$204,127,044</b>	<b>\$1,211,256,878</b>	<b>\$1,425,983,772</b>	<b>\$15,108,136</b>	<b>\$1,441,091,907</b>	<b>\$82,760,531</b>	<b>\$5,102,428</b>	<b>\$795,519,663</b>			

1 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.

2 Does not reflect nonrefundable credit for taxes paid by qualifying pass-through entities. In addition, refundable tax credits are not subject to the reduction factor.

Note: House Bill 66 (126th General Assembly) phases out the corporation franchise tax for most taxpayers by 20 percentage-point annual increments over a five-year period beginning in tax year 2006. Except for the last two columns, all amounts shown are prior to the 40 percent reduction in effect for tax year 2007.

**Table 6**

<b>Corporation Franchise Tax Number of Manufacturing Corporations, by Tax Base and Industry Tax Year 2007</b>				
<b>Industry</b>	<b>Number of Corporations by Tax Base</b>			
	<b>Net Minimum</b>	<b>Net Worth</b>	<b>Income</b>	<b>Total</b>
Food	222	220	188	630
Tobacco Manufacturers	8	1	5	14
Apparel and Other Textiles	76	61	34	171
Lumber and Wood Products	118	123	79	320
Paper	84	91	49	224
Printing and Publishing	224	192	122	538
Chemicals	325	315	246	886
Petroleum and Coal	47	38	47	132
Rubber and Plastics	241	275	180	696
Leather Products	6	10	11	27
Stone, Clay & Glass Products	112	136	111	359
Primary Metal	148	183	139	470
Fabricated Metal	768	960	688	2,416
Machinery (non-electrical)	462	426	338	1,226
Electrical Machinery	360	355	289	1,004
Transportation Equipment	163	179	129	471
Miscellaneous Manufacturing	636	598	477	1,711
<b>TOTAL</b>	<b>4,000</b>	<b>4,163</b>	<b>3,132</b>	<b>11,295</b>

**Table 7**

<b>Corporation Franchise Tax Number of Manufacturing Corporations, by Tax Base and Tax Liability Class Tax Year 2007</b>					
<b>Tax Liability Class</b>	<b>Number of Corporations by Tax Base</b>				
	<b>Minimum</b>	<b>Minimum</b>	<b>Net Worth</b>	<b>Net Income</b>	<b>Total</b>
	Minimum	4,000	--	--	4,000
\$51 -	1,000	--	1,276	404	1,680
1,001 -	2,000	--	671	332	1,003
2,001 -	3,000	--	362	229	591
3,001 -	4,000	--	229	147	376
4,001 -	5,000	--	171	106	277
5,001 -	10,000	--	397	386	783
10,001 -	15,000	--	176	198	374
15,001 -	20,000	--	120	163	283
20,001 -	25,000	--	90	113	203
25,001 -	30,000	--	69	96	165
30,001 -	35,000	--	56	67	123
35,001 -	50,000	--	126	134	260
50,001 -	100,000	--	154	268	422
100,001 -	200,000	--	266	181	447
200,001 -	500,000	--	--	166	166
500,001 -	1,000,000	--	--	76	76
Over	\$1,000,000	--	--	66	66
<b>TOTAL</b>		<b>4,000</b>	<b>4,163</b>	<b>3,132</b>	<b>11,295</b>

**Table 8**

Industry	Corporation Franchise Tax Reported Tax Liability for Manufacturing Corporations, by Tax Base and Industry Classification Tax Year 2007									
	Before 40% Reduction Factor Applicable to Most Taxpayers					After 40% Reduction Factor				
	Tax Liability Before Litter Tax and Credits, By Tax Base		Net Worth	Income	Total	Litter Tax <sup>1</sup>	Total Liability Before Credits and Grant	Total Non-Refundable Tax Credits <sup>2</sup>	Manufacturing Grant	Tax Liability After Tax Credits and Grant <sup>2</sup>
Net Minimum	Net Worth									
Food	\$104,200	\$4,175,894	\$32,871,257	\$37,151,351	\$386,513	\$37,537,864	\$2,908,371	\$876,876	\$19,502,979	
Tobacco Manufacturers	3,250	900	12,313,859	12,318,009	31,628	12,349,637	0	0	7,411,082	
Apparel and Other Textiles	30,400	707,449	1,044,040	1,781,889	45,237	1,827,126	34,434	64	1,087,350	
Lumber and Wood Products	40,100	844,386	3,655,139	4,539,625	79,730	4,619,355	10,754	76,427	2,702,909	
Paper	35,550	2,510,203	3,070,166	5,615,919	101,651	5,717,570	1,861,524	25,138	1,740,971	
Printing and Publishing	53,950	807,269	5,350,749	6,211,968	121,422	6,333,390	363,890	100,051	3,479,356	
Chemicals	149,250	11,869,780	115,973,519	127,992,549	653,661	128,646,210	3,714,606	9,992	74,824,532	
Petroleum and Coal	18,500	1,164,542	75,661,638	76,844,680	93,210	76,937,890	518,165	18,877	45,729,863	
Rubber and Plastics	99,450	4,897,576	10,043,638	15,040,664	324,386	15,365,050	1,048,811	145,911	7,993,459	
Leather Products	1,250	208,926	591,864	802,040	17,272	819,312	0	0	492,594	
Stone, Clay & Glass Products	36,950	2,373,946	7,967,843	10,378,739	173,274	10,552,013	588,895	131,451	5,842,778	
Primary Metal	51,100	4,585,048	32,120,656	36,756,804	290,696	37,047,500	5,167,246	138,726	17,181,199	
Fabricated Metal	213,200	7,561,814	33,397,302	41,172,316	664,050	41,836,366	2,328,226	429,678	22,898,138	
Machinery (non-electrical)	195,050	5,653,329	13,788,050	19,636,429	411,376	20,047,805	1,537,853	52,488	10,925,471	
Electrical Machinery	155,750	7,710,337	26,683,839	34,549,926	478,623	35,028,549	2,497,887	171,466	19,152,989	
Transportation Equipment	75,600	6,595,130	25,957,042	32,627,772	371,684	32,999,456	8,426,283	1,663,138	11,096,244	
Miscellaneous Manufacturing	242,700	8,557,770	35,898,066	44,698,536	601,706	45,300,242	2,660,282	102,690	24,939,906	
<b>TOTAL</b>	<b>\$1,506,250</b>	<b>\$70,224,299</b>	<b>\$436,388,667</b>	<b>\$508,119,216</b>	<b>\$4,846,119</b>	<b>\$512,965,335</b>	<b>\$33,667,227</b>	<b>\$3,942,973</b>	<b>\$277,001,819</b>	

<sup>1</sup> 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.

<sup>2</sup> Does not reflect nonrefundable credit for taxes paid by qualifying pass-through entities. In addition, refundable tax credits are not subject to the reduction factor.

Note: House Bill 66 (126th General Assembly) phases out the corporation franchise tax for most taxpayers by 20 percentage-point annual increments over a five-year period beginning in tax year 2006. Except for the last two columns, all amounts shown are prior to the 40 percent reduction in effect for tax year 2007.

**Table 9**

**Corporation Franchise Tax  
Reported Tax Liability for Manufacturing Corporations  
by Tax Base and Tax Liability Class:  
Tax Year 2007**

**Before 40% Reduction Factor Applicable to Most Taxpayers**

Tax Liability Class	Tax Liability Before Litter Tax and Credits, By Tax Base			Litter Tax <sup>1</sup>	Total Liability Before Credits and Grant	Total Non-Refundable Tax Credits <sup>2</sup>	After 40% Reduction Factor	
	Minimum	Net Worth	Net Income				Manufacturing Grant	Tax Liability After Tax Credits and Grant <sup>2</sup>
Minimum (\$50 or \$1,000)	\$1,506,250	--	--	\$0	\$1,506,250	\$1,562,085	\$0	-\$59,146
\$51	--	\$520,187	\$171,908	22,688	692,095	714,783	8,119	445,685
1,001	--	972,696	492,223	44,315	1,464,919	1,509,234	33,297	853,635
2,001	--	877,864	553,651	44,813	1,431,515	1,476,328	42,327	814,348
3,001	--	795,564	508,252	44,138	1,303,816	1,347,954	43,724	653,100
4,001	--	769,318	482,456	37,042	1,251,774	1,288,816	39,651	711,854
5,001	--	2,800,358	2,764,874	163,439	5,565,232	5,728,671	118,744	3,304,673
10,001	--	2,202,776	2,460,074	134,566	4,662,850	4,797,416	103,146	2,570,246
15,001	--	2,102,206	2,861,174	141,904	4,963,380	5,105,284	58,352	2,602,438
20,001	--	2,015,795	2,513,481	126,126	4,529,276	4,655,402	73,699	2,547,900
25,001	--	1,881,798	2,633,640	122,794	4,515,438	4,638,232	92,409	2,595,041
30,001	--	1,806,504	2,166,743	121,077	3,973,247	4,094,324	48,375	2,135,253
35,001	--	5,322,302	5,665,244	305,976	10,987,546	11,293,522	158,615	5,554,730
50,001	--	11,100,781	19,135,308	793,433	30,236,089	31,029,522	236,094	16,317,861
100,001	--	37,056,150	25,304,023	1,542,161	62,360,173	63,902,334	627,400	29,118,044
200,001	--	--	51,801,957	661,370	51,801,957	52,463,327	630,706	28,264,787
500,001	--	--	52,761,395	296,742	52,761,395	53,058,137	1,455,689	26,192,979
Over \$1,000,000	--	264,112,264	264,112,264	243,535	264,355,799	8,759,410	172,626	152,378,394
<b>TOTAL</b>	<b>\$1,506,250</b>	<b>\$70,224,299</b>	<b>\$436,388,667</b>	<b>\$4,846,119</b>	<b>\$508,119,216</b>	<b>\$512,965,335</b>	<b>\$3,942,973</b>	<b>\$277,001,819</b>

1 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.

2 Does not reflect nonrefundable credit for taxes paid by qualifying pass-through entities. In addition, refundable tax credits are not subject to the reduction factor.

Note: House Bill 66 (126th General Assembly) phases out the corporation franchise tax for most taxpayers by 20 percentage-point annual increments over a five-year period beginning in tax year 2006. Except for the last two columns, all amounts shown are prior to the 40 percent reduction in effect for tax year 2007.

**Table 10**

Tax Liability Class	Corporation Franchise Tax Number of Financial Institutions and Reported Tax Liability by Type of Institution: Tax Year 2007										Tax Liability Before Credits By Type			Refundable & Nonrefundable Tax Credits
	Number of Corporations By Type					Tax Liability Before Credits By Type					Total	Other <sup>1</sup>	Savings & Loans	
	Banks	Savings & Loans	Other <sup>1</sup>	Total	Banks	Savings & Loans	Other <sup>1</sup>	Total						
Minimum (\$50 or \$1000)	12	3	13	28	\$12,000	\$0	\$10,000	\$22,000	\$0	\$10,000	\$22,000	\$0		
\$51 - 1,000	5	2	9	16	853	912	1,358	3,123	0	1,358	3,123	0		
1,001 - 2,000	4	0	3	7	7,111	0	5,410	12,521	0	5,410	12,521	0		
2,001 - 3,000	3	1	0	4	7,302	2,847	0	10,149	0	0	10,149	0		
3,001 - 4,000	0	0	1	1	0	0	3,923	3,923	0	3,923	3,923	0		
4,001 - 5,000	3	0	0	3	14,076	0	0	14,076	0	0	14,076	0		
5,001 - 10,000	5	1	0	6	43,100	5,107	0	48,207	0	0	48,207	0		
10,001 - 15,000	6	0	3	9	69,038	0	37,084	106,122	0	37,084	106,122	13,304		
15,001 - 20,000	5	2	2	9	93,009	32,689	33,963	159,661	0	33,963	159,661	2,696		
20,001 - 25,000	7	0	1	8	160,389	0	22,969	183,358	0	22,969	183,358	2,398		
25,001 - 30,000	4	1	2	7	113,743	28,984	59,344	202,071	0	59,344	202,071	11,168		
30,001 - 35,000	4	2	1	7	130,552	64,441	32,492	227,485	0	32,492	227,485	14,979		
35,001 - 50,000	15	6	2	23	642,515	262,608	97,931	1,003,054	0	97,931	1,003,054	12,166		
50,001 - 100,000	40	21	0	61	3,000,145	1,502,133	0	4,502,278	0	0	4,502,278	219,819		
100,001 - 200,000	57	20	4	81	7,885,477	2,780,574	452,361	11,118,412	0	452,361	11,118,412	211,007		
200,001 - 500,000	53	23	0	76	15,854,871	7,366,891	0	23,221,762	0	0	23,221,762	689,989		
500,001 - 1,000,000	19	7	1	27	13,546,618	4,944,265	794,475	19,285,358	0	794,475	19,285,358	192,031		
Over \$1,000,000	13	8	1	22	75,310,267	20,026,426	4,207,742	99,544,435	0	4,207,742	99,544,435	9,042,071		
<b>TOTAL</b>	<b>255</b>	<b>97</b>	<b>43</b>	<b>395</b>	<b>\$116,891,066</b>	<b>\$37,017,877</b>	<b>\$5,759,052</b>	<b>\$159,667,995</b>	<b>\$116,891,066</b>	<b>\$5,759,052</b>	<b>\$159,667,995</b>	<b>\$10,411,628</b>		

<sup>1</sup> Primarily credit agencies that accept deposits.