CORPORATE FRANCHISE TAX

TAX BASE

The corporate franchise tax is an excise tax levied on the value of a corporation's issued and outstanding shares of stock. There are two bases for determining the value of a corporation's issued and outstanding shares: the net income base and the net worth base. A taxpayer pays tax on the base, described below, that produces the greater tax.

1. Ohio Net Worth (taxable value): Net book value of assets less net carrying value of liabilities yields net worth. The net book value of exempted assets is subtracted from net worth and any "qualifying amount" as reflected on the books of the corporation is added to net worth, thus yielding the net value of the stock. This amount is multiplied by the Ohio apportionment ratio to yield taxable value.
2. Ohio Net Income (Ohio taxable income): Federal taxable income is used as the beginning point, plus or minus any Ohio adjustments. From the resulting tax base, certain types of income are allocated to Ohio or outside of Ohio according to Ohio franchise tax law and the remaining (unallocated) income is multiplied by the Ohio apportionment ratio to yield apportioned income. The total income allocated and apportioned to Ohio, plus certain additions and minus certain deductions, yields Ohio taxable income.

The Ohio apportionment ratio is the sum of a property factor (the ratio of property within Ohio to property everywhere, multiplied by 20%), a payroll factor (the ratio of payroll within Ohio to payroll everywhere, multiplied by 20%), and a sales factor (the ratio of sales within Ohio to sales everywhere, multiplied by 60%).

RATES

General Rate (excluding financial institutions):

The general franchise tax rates are as follows:

1. 4.00 mills on Ohio net worth. The maximum tax for each taxpayer on the net worth base is $150,000.
2. 5.1% on the first $50,000 of Ohio net income plus 8.5% on Ohio net income in excess of $50,000. (Corporations that meet ownership requirements to file a combined report must share the tax bracket to which the 5.1% rate applies, regardless of whether or not the corporations filed combined.)

The minimum fee is $50.

RATES (con't.)

In addition, corporations are subject to an additional (litter) tax. Each corporation is subject to the tier one litter tax, and "litter-stream" corporations are also subject to the tier two litter tax.

Financial Institutions Rate:

13 mills on net worth, but the $150,000 net worth tax limit does not apply.

The minimum fee is $50.

(Neither the net income tax nor the litter tax apply.)

MAJOR EXEMPTIONS

- Non-profit corporations.
- Dealers in intangibles (stockbrokers, mortgage companies, etc.).
- Insurance companies, HMO's, and other corporations required to file annual reports with the superintendent of insurance.
- Public utilities (except railroads, long-distance telephone companies and electric companies).
- Credit unions.
- “S” corporations and qualified subchapter S subsidiaries (QSSS).
- Real Estate Investment Trusts (REIT), Regulated Investment Companies (RIC), and Real Estate Mortgage Investment Conduits (REMIC).
- Corporations in bankruptcy proceedings under Chapter 7 of the U.S. Bankruptcy Code.
- Corporations exempt under federal law.
- High-technology start-up companies are exempt from the net worth base. Subject to certain limitations, a corporation that is organized not more than three years prior to March 31 of any tax year during the 2003-2007 period is not subject to the net worth base of the franchise and litter taxes during such tax year. (Such corporations are subject to the net income base of the franchise and litter taxes).
- Qualifying holding companies are exempt from the net worth base.

REVENUE (IN MILLIONS)

Fiscal Year	General Rev. Fund	Local Gov't. Funds	Other Funds(1)	Total
1998	$1,190.6	$60.4	$17.7	$1,268.7
1999	1,078.7	54.7	16.9	1,150.3
2000	969.4	48.9	11.6	1,029.9
2001	915.3	46.1	11.6	973.0

(1) *Includes litter funds, and Attorney General Claims Fund; also includes Rail Development Fund for Fiscal Years 1998 and 1999.*

DISPOSITION OF REVENUE

After making any required deposits in the Attorney General Claims Fund, 95.2% of remaining revenue is deposited in the General Revenue Fund, 4.2% is deposited in the Local Government Fund, and 0.6% is deposited in the Local Government Revenue Assistance Fund.

For fiscal years 2002 and 2003, the two local government funds each receive the same amount of corporate franchise tax revenue as they received in fiscal year 2001. The remainder is deposited in the General Revenue Fund. Refer to *Disposition of Revenue* in the Individual Income Tax section for information on the semi-annual reduction of the local government fund, local government revenue assistance fund, and library and local government support fund deposits.

SECTIONS OF OHIO REVISED CODE

Chapter 5733.

RESPONSIBILITY FOR ADMINISTRATION

Tax Commissioner.

REMITTER OF TAX

Domestic and foreign corporations that are doing business in Ohio, owning capital or property in Ohio, holding a charter or certificate of compliance authorizing the corporation to do business in Ohio, or otherwise having nexus with Ohio during the calendar year (unless specifically exempt).

PAYMENT DATES

January 31:	1/3 of tax liability.
March 31:	1/3 of tax liability.
May 31:	1/3 of tax liability.

SPECIAL PROVISIONS / CREDITS

A nonrefundable credit is provided for cash donations made to municipal corporations, townships, counties, park districts, and boards of education that have received litter control and recycling grants. The credit is limited to the lesser of one-half of the cash donation or one-half of the sum of the litter taxes paid by the taxpayer.

A nonrefundable credit is provided to state-chartered savings and loan institutions for the difference between the annual assessment paid to the state division of savings and loans and the supervisory fees paid to the federal savings and loan insurance corporation.

A nonrefundable credit is available equal to the taxpayer's proportionate share of the 8.5% tax paid by a pass-through entity in which the taxpayer is directly or indirectly a qualifying investor.

In addition to other applicable credits, corporations located in "enterprise zones" may qualify for three nonrefundable credits:

1. Credit for amount reimbursed to certain employees for day-care costs — maximum of $300 per child;
2. Credit for amount reimbursed to certain employees for job-training costs — maximum of $1,000 per employee;
3. Credit for each new employee hired who had been a participant in the Ohio Works program, the prevention, retention, and contingency program, or the former general assistance program — $1,000 per employee.

For tax years 1990 - 2003, three separate nonrefundable credits are available for Ohio - licensed child day-care used by a taxpayer's employees. One credit is equal to the lesser of $100,000 or 50% of the expenses that the taxpayer incurred to establish a child-day care center located at the taxpayer's worksite. Another credit equals 50% of support payments made by the taxpayer to those child-day care centers serving the children of the taxpayer's employees. The third credit equals 50% of the amount that the taxpayer reimbursed its employees for child day-care expenses, but the credit may not exceed $750 per child.

SPECIAL PROVISIONS / CREDITS (con't.)

If approved by the Tax Credit Authority, a refundable tax credit may be taken for new jobs creation. The credit is equal to a designated percentage of the state income tax withheld from the wages paid to the taxpayer's new employees.

A nonrefundable credit may be taken for manufacturing machinery and equipment purchased between July 1, 1995 and December 31, 2005 and located in Ohio. For equipment not located in an eligible area, the credit is 7.5% of the amount by which the cost of the qualifying equipment purchased during the qualifying period for use in an Ohio county exceeds the "base investment" for that county. For equipment that is located in an eligible area, the credit percentage is 13.5% rather than 7.5%.

A nonrefundable credit may be claimed by grape producers equal to 10% of the cost of property used in growing, harvesting or producing grapes in Ohio.

A nonrefundable credit may be granted to investors who make qualified investments in a qualifying small Ohio-based research and development or technology transfer companies. The credit is 25% of the amount of capital invested by the taxpayer in the qualifying company.

A nonrefundable credit is provided equal to one-half of average annual costs for an eligible job training program, subject to maximum of $1,000 per trained employee and $100,000 maximum per taxpayer. (Delayed until 2004.)

A nonrefundable credit is available equal to 7% of the excess of qualified research expenses incurred during the taxable year over the average annual qualified research expenses incurred during the three preceding taxable years. (Delayed for most taxpayers until 2004.)

A nonrefundable credit is available to an affiliated group if such group pays over $3.5 million in additional tax as the result of the related entity and related member adjustments. The credit is equal to the additional tax in excess of $3.5 million but may not exceed $1.5 million.

SPECIAL PROVISIONS / CREDITS (con't.)

A nonrefundable credit is provided to railroad companies equal to 10% of their total maintenance expenditures during the taxable year for each grade crossing warning device in this state, but the credit for each device may not exceed $200 per year.

A nonrefundable credit may be granted by the director of development equal to 10% of a company's costs incurred in completing a voluntary cleanup of a contaminated site (not to exceed $500,000). Authority to grant tax credits to additional companies expired on June 30, 1999.

A nonrefundable credit is available to electric companies amounting to $3 per ton of Ohio coal used in a coal-fired electric generating unit.

In determining Ohio taxable income, a corporation claiming the pass-through entity tax credit must add to federal taxable income the amount claimed as a credit to the extent that the amount was deducted or excluded from the corporation's federal taxable income.

Financial institutions are subject to a franchise tax net worth base that differs from the net worth base of general corporations. Financial institutions are also subject to a different apportionment formula than that used for general corporations.

A corporation that dissolves or surrenders its license to conduct business prior to January 1 of the tax year is subject to an "exit tax" on its unreported Ohio net income. Any income not previously included in a franchise tax report is subject to the exit tax.

Under certain circumstances a taxpayer must add to its income certain gains and losses that were included in the federal taxable income of a related entity that is not an Ohio taxpayer. Interest expense and intangible expense paid to related members are also added to a taxpayer's net income.

SPECIAL PROVISIONS / CREDITS (con't.)

If a taxpayer is a related member to a qualifying holding company, the taxpayer must adjust its net worth and debt by the "qualifying amount." The qualifying amount is an amount that results in the taxpayer's debt-to-equity ratio equaling the debt-to-equity ratio of the qualifying controlled group of which the taxpayer is a member.

HISTORY OF MAJOR CHANGES

1902 • Enacted at rate of 1 mill on value of capital stock located in Ohio.

1959 • Rate increased to 3 mills.

1967 • Rate increased to 4 mills.

1969 • Rate increased to 5 mills.

1971 • Income base added; 4% on first $25,000 of net income, 8% on income over $25,000.

1978 • Credit allowed for certain tangible property taxes.

1980 • Additional "litter" rates enacted for tax years 1981 through 1986:
- Litter rates for all corporations except litter stream corporations — 0.14 mills on net worth, or 0.11% on the first $25,000 of income and 0.22% on income over $25,000. Maximum tax of $5,000.
- Litter rates for corporations manufacturing or selling "litter stream" products — 0.28 mill on net worth, or 0.11% on the first $25,000 of income and 0.44% on income over $25,000. Maximum tax of $10,000.

• 15% surtax imposed for tax year 1981.

1981 • Increase in regular corporate rates to 5.5 mills on net worth and to 4.6% and 8.7% on net income. The minimum tax was increased to $150.
• Financial institutions exemption repealed; they became taxed at a 6.5 mill rate on net worth for tax years 1982 and 1983.
• 5.75% surtax imposed for tax year 1982.

1982 • 5.75% surtax imposed for tax year 1983.

HISTORY OF MAJOR CHANGES (con't.)

1983 • Increase in regular corporate rates to 5.82 mills on net worth and to 5.1% and 9.2% on net income plus a 5.4% surtax. The minimum tax was reduced to $50.
• Increase in financial institution rates to 15 mills on net worth plus an additional tax of 6.47 mills on savings and loans and 1.54 mills on other financial institutions for tax years 1984 and 1985.

1985 • Litter tax rates continued through 1991.
• Surtax on net income reduced to 2.7% in 1987, repealed in 1988.
• "S" corporations exempted from corporate franchise tax for year 1987 and thereafter.

1986 • Decrease in regular corporate tax on net income top rate to 8.9% effective 1988; lower bracket doubled to first $50,000 of net income effective 1989.

1987 • Long-distance telephone companies subject to corporate franchise tax effective tax year 1988.
• Litter tax rates continued through 1993.

1989 • Corporations undergoing "F" reorganizations subject to tax.

1991 • Income transferred to passive investment corporations is subject to tax and certain costs and expenses paid to those corporations are disallowed.

1992 • Credit for increased exports.
• Credit for new jobs created.
• Railroads are explicitly subject to corporate franchise tax effective tax year 1993.
• Litter tax rates extended to 1995.

1994 • 20% investment tax credit enacted.
• Enterprise zone subsidized employment credit enacted.
• Grape production credit enacted.
• Litter tax rates made permanent.

1995 • 7.5%/13.5% investment tax credit enacted.
• Portion of corporate franchise tax payments made by railroads earmarked for the rail development fund (expired in fiscal year 2000).

HISTORY OF MAJOR CHANGES (con't.)

1996
- Credit is given for costs incurred completing voluntary clean-up of a contaminated site.
- Credit is given for investors who make qualified investments in an Ohio early stage investment entity.
- "Alternative" 20% investment tax credit enacted.

1997
- Eligible investment period for 7.5%/13.5% investment tax credit extended to 12/31/2000.
- Effective tax year 1999, net worth tax is simplified, the tax rate is lowered to 4 mills and the maximum liability is $150,000; top net income tax rate also lowered to 8.5%. Tax on financial institutions is reformed effective tax year 1998 with a 14 mill rate in tax year 1999 and 13 mill rate beginning tax year 2000. Net income tax rates imposed on qualifying pass-through entity income.

1999
- Eligible investment period for the 7.5%/13.5% investment tax credit extended to 12/31/2005.
- Effective tax year 2001, credit is given for increased instructional costs for employee training.
- Effective tax year 2002, credit provided for increase in qualified research expenses.
- Effective tax year 2002, credit is available for costs of maintaining active railroad grade crossing devices.
- Electric utilities subject to corporate franchise tax effective in 2002.
- Credit of $3 per ton of coal burned in coal-fired electric generating unit after April 30, 2001 but before January 1, 2005, effective in 2002.

2000
- Effective tax year 2001, credit of lesser of $1,000 or one-half of the cost of lights and reflectors installed on agricultural tractors, if purchased between 10/5/00 and 10/4/01.
- Job training credit changes enacted.

2001
- Job training tax credit delayed until tax year 2004 and is extended through tax year 2006 (originally scheduled to expire in tax year 2004).
- Credit for increase on qualified research expenses delayed until tax year 2004 (originally scheduled to begin in tax year 2002).

HISTORY OF MAJOR CHANGES (con't.)

2001
- Effective tax year 2003, credit is available on investments made by a financial institution in a dealer in intangibles.
- Effective tax year 2003, credit is available for fostering job retention.
- Effective tax year 2003, net worth exemption for high-tech start-ups for first three years of existence.

COMPARISON WITH OTHER STATES (AS OF 11/01)

California
8.84% of net income.

Florida
5.5% of net income. Corporations subject to federal alternative minimum tax pay tax equal to the greater of the regular 5.5% net income tax or 3.3% alternative minimum tax.

Taxpayers also subject to excise tax of 2.2% on the adjusted value of the federal Accelerated Cost Recovery System (ACRS) depreciation allowance.

Illinois
4.8% of net income. 2.5% personal property replacement tax on net income. 0.1% franchise tax on paid-in capital.

Indiana
4.5% of net income (Indiana adjusted gross income less taxes paid). In addition, the greater of adjusted gross income tax (3.4% of federal taxable income with adjustments) or gross income tax (0.3% and 1.2% rates applied according to source of the income).

Kentucky

Taxable Net Income	Rate
Up to $25,000	4.00%
$25,001 - 50,000	5.00
50,001 - 100,000	6.00
100,001 - 250,000	7.00
Over 250,000	8.25

Plus: 0.21% on capital employed.

COMPARISON WITH OTHER STATES (con't.)

Massachusetts

9.5% of net income plus 0.26% of either net worth or value of tangible property.

Michigan

Adjusted tax base includes business income, compensation paid to employees, interest payments, and depreciation of tangible assets. For taxpayers with fiscal year ending in December, the tax year 2001 rate is 2.0%

New Jersey

7.5% on corporations with under $100,000 of net income and 9.0% on corporations with over $100,000 of net income.

New York

7.5% of net income, 0.178% of capital, or 3.0% of modified net income, whichever is greatest.

Ohio

Greater of 5.1% of the first $50,000 of net income and 8.5% of net income over $50,000, or 0.4% of net worth (maximum $150,000), or $50. Additional rates on all corporations except “litter stream corporations" are 0.11% and 0.22% of net income or 0.014% of net worth, with a maximum tax from these rates of $5,000; additional rates on "litter stream corporations" are 0.11% and 0.44% of net income or 0.028% of net worth, with a maximum tax from these rates of $10,000.

Pennsylvania

9.99% of net income plus 0.749% of taxable value of capital stock.

Texas

The greater of 0.25% on net taxable capital or 4.5% on net taxable earned surplus.

West Virginia

9.0% of net income plus additional franchise tax equal to 0.7% on capital employed.