# Corporation Franchise Tax

Ohio is in the process of phasing out the corporation franchise tax for most taxpayers in favor of the new commercial activity tax (CAT).

The corporation franchise tax is a business privilege tax that dates back to 1902. 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 exhibits 1 and 2 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 8.9 percent on remaining net income.

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

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 2007, the corporation franchise tax generated about $1,125.6 million in total revenue. Of that amount, about $1,076.5 million, or 95.6 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 amount distributed to each fund was established by House Bill 66, the biennium budget bill for FY 2006-2007.

The tables in this chapter provide data from the 2006 tax year taken from reports due and filed in 2006. For all corporations except financial institutions, the reported tax liability (including litter tax) before credits, the 20 percent phase-out factor, and the manufacturing grant, was $1,238.8 million. After tax credits, the manufacturing grant, and the 20 percent phase-out factor, the liability was $827.4 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 $164.4 million for the 2006 tax year.

Of the total tax liability before credits for general corporations, about 83 percent came from net income taxpayers. Of all corporation franchise taxpayers, approximately 21 percent paid tax on net income, 29 percent paid tax on net worth, and the remaining 50 percent paid the minimum tax.

Of financial institutions, banks filed 63 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 in 20 percent increments 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, will be the last franchise tax report for most taxpayers.

The phase-out of the franchise tax does **not** apply to:

- financial institutions and certain affiliates of financial institutions when such affiliates are engaged in financial institution-type activities;
- certain affiliates of insurance companies when such affiliates are engaged in insurance-type activities; and
- securitization companies.

Those entities remain subject to the franchise tax unless otherwise exempt under Ohio Revised Code 5733.09, and they will not be subject to the CAT.

The phase-out applies to all other franchise taxpayers. During the phase-out, a corporation will pay either the minimum tax ($50 for small companies and $1,000 for large companies), or its computed tax, whichever is greater. In computing its corporation franchise tax, a corporation may take any nonrefundable credits first (except for the pass-through entity tax credit). The remaining liability is then reduced each year 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 (which is not subject to the phase-out), the manufacturer's grant 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 may continue to claim any unused net operating loss carry forwards on their franchise tax report during the phase-out period. However, 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. That portion of the net operating losses on which the taxpayer claims the CAT credit cannot be deducted on the franchise report. But net operating losses *not* in excess of $50 million can 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 may not claim their unused nonrefundable franchise tax credits or credit carry forwards 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.

## 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 (such as 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. 5709.65, 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 and Exclusions**). 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 (0.004). 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 (0.013). See Exhibit 1 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 and Exclusions**). The adjusted income is then allocated (nonbusiness income) or apportioned (business income) in and outside Ohio as follows:

- **Allocable Income (for taxable years ending after June 25, 2003)** – 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 (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)

**Franchise Tax Rates:**

**Net Worth** – Net worth taxable value is taxed at the rate of four mills (0.004). 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

## Exhibit 1
## Corporation Franchise Tax
## Net Worth Tax Base

**Ohio**
**Taxable = Net Value**
**Value of Stock[1] × [(Property factor ×.20)[2] + (Payroll factor ×.20)[2] + (Sales Factor × .60)][2]**

1 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.

2 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[1] | = | Business Income Apportioned to Ohio | + | Nonbusiness Income Allocated to Ohio | — | Ohio Net Operating Loss Carry Forward Deduction |
|---|---|---|---|---|---|---|

1. Net Income Apportionment Formula:

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

2. The factors are computed as follows[2]:

**Property Factor[3]** = $\dfrac{\textbf{Average cost of owned or rented real and tangible personal property used in business in Ohio}}{\textbf{Average cost of such property used everywhere}}$

**Payroll Factor[4]** = $\dfrac{\textbf{Total compensation paid in Ohio}}{\textbf{Total compensation paid everywhere}}$

**Sales Factor[5]** = $\dfrac{\textbf{Sales in Ohio}}{\textbf{Sales everywhere}}$

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1 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.

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

3 Excludes from both the numerator and the denominator the original cost of:
(a) property within Ohio with respect to which the state has issued an Air Pollution, Noise Pollution, or an Industrial Water Pollution Control Certificate; and
(b) 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.

4 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.

5 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.

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 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.

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

**Tier I litter tax** – 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 (0.00014) on the taxable value (adjusted net worth) of the corporation, or

**Net Income** – 0.11 percent (0.0011) on the first $50,000 of Ohio taxable income plus 0.22 percent (0.0022) 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** – 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 (0.00014) on the taxable value of the corporation, or

**Net Income** – 0.22 percent (0.0022) 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

**Corporations not Subject to the Franchise Tax** (R.C. 1733.43, 5733.01, 5733.04, 5733.06, 5733.09, and 5733.10):

- Nonprofit corporations (except certain agricultural and consumer 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):

- 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):

- 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 (beginning July 1, 2005; see R.C. section 5751.53(H)(3));
- 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 transactions with, and excess inventory costs paid to related members for taxable years ending after June 29, 2005; and
- 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 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.

**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. Amended Substitute House Bill 699 (see **Recent Legislation**) changed the definition of "full time employee" to include employees on active duty reserve or Ohio National Guard service and the definition of "new employee" and the conditions under which the Department of Development can reduce the taxpayer's credit percentage.

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 will apply is the 2008 report. The franchise tax credit then automatically converts 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:**

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. Because the taxable year for the 2007 franchise report and reports thereafter will end after July 1, 2005, only the grant is 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.

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 1/7 grant amounts are phasing out in the same years and by the same percentages as the franchise tax. The grant will end with the final (2009) franchise tax report because the unused 1/7 grant amounts cannot be applied against the CAT.

**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. Therefore, the credit carry forward period for this credit expires with the 2008 report.

**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 credits 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 expires 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 Credit** (R.C. 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 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.

**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 will apply is the 2008 report. The credit then automatically converts 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 can 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 can 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 can 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 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 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 twenty-four or sixty-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 their franchise tax, dealer in intangibles tax or income tax liability. 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

- 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. (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. (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 2007, 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 is 3.4 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 proportionate 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)

**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 a 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.

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 2007, the rate was 8.0 percent. The rate is also 8.0 percent in calendar year 2008.

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 through 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 will be 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

**Am. Sub. H.B. 119, 127th General Assembly (FY 2008-2009 biennium budget bill).**

- Extended the nonrefundable credit available to electric companies for burning Ohio coal to generate electricity. The credit now applies to Ohio coal burned before Jan. 1, 2010 (under prior law the credit applied to Ohio coal burned before Jan. 1, 2008). For tax years 2006, 2007, 2008 and 2009 electric companies compute the credit at the rate of $1 per ton of Ohio coal burned.

- Created a credit for selling alternative fuel in Ohio (see **Credits and Grants**).
- Amended the job retention credit. Capital investment project payments made by a developer that is not related to the "eligible business" will count toward the eligible business's $100 million or $200 million of required payments for the project if (1) the developer leases project site property to the eligible business for a term of not less than twenty years and (2) the project is a mixed use development project that includes the eligible business's headquarters operations and at least two of the following: office, hotel, research and development, or retail facilities. If the eligible business leases project site property from the developer, the term of the credit cannot exceed the lesser of fifteen years or one-half the term of the lease, including any permitted renewal periods. (Whether payments for the capital investment project must equal or exceed $100 million or $200 million depends on the average wage of all full-time employment positions at the project site.)
- Amended the new jobs credit by providing that a pass-through entity (PTE) can claim the credit itself (against the PTE's CAT liability) or, if the PTE elects, pass through the credit to the PTE's owners in the same proportion as income is distributed. Prior law required PTEs to pass through the credit to the PTE's owners in the same proportion as income is distributed. The election, if made, is irrevocable.
- Amended the definition of "full-time employee" to include an individual who is employed for consideration and who otherwise meets the definition of "full-time employee" but is on family or medical leave under the federal Family and Medical Leave Act.

**Sub. H.B. 149, 126th General Assembly (effective April 4, 2007).**

Granted a refundable credit to owners of historic buildings for the expenditures paid or incurred to rehabilitate certain historic buildings in Ohio (see **Credits and Grants**).

**Am. Sub. H.B. 699, 126th General Assembly (effective March 29, 2007).**

- Extended the job training credit through franchise tax year 2008.
- For the job retention credit, changed the definition of "full-time employment position" to include employees on active duty reserve or Ohio National Guard service, and the conditions under which the Ohio Department of Development can reduce the taxpayer's credit percentage.

**Am. Sub. H.B. 157, 127th General Assembly (I.R.C. Conformity provision).**

This new law amended the R.C. 5701.11 definition of "Internal Revenue Code as amended" and thereby adopted all the changes to the Internal Revenue Code enacted by Congress from Dec. 28, 2006 through Dec. 21, 2007, which was the effective date of House Bill 157's amendment of R.C. 5701.11. Due to this amendment, franchise tax taxpayers may or may not have "miscellaneous federal tax adjustments," depending on their taxable year ending date.

**Am. Sub. 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 during that five years, but will pay a smaller percentage of the tax computed each year until the tax is totally phased out in 2010. Financial institutions and their affiliates engaged in financial institution-type activities, as well as affiliates of insurance companies engaged in insurance-type activities, and securitization companies are not subject to the phase-out.

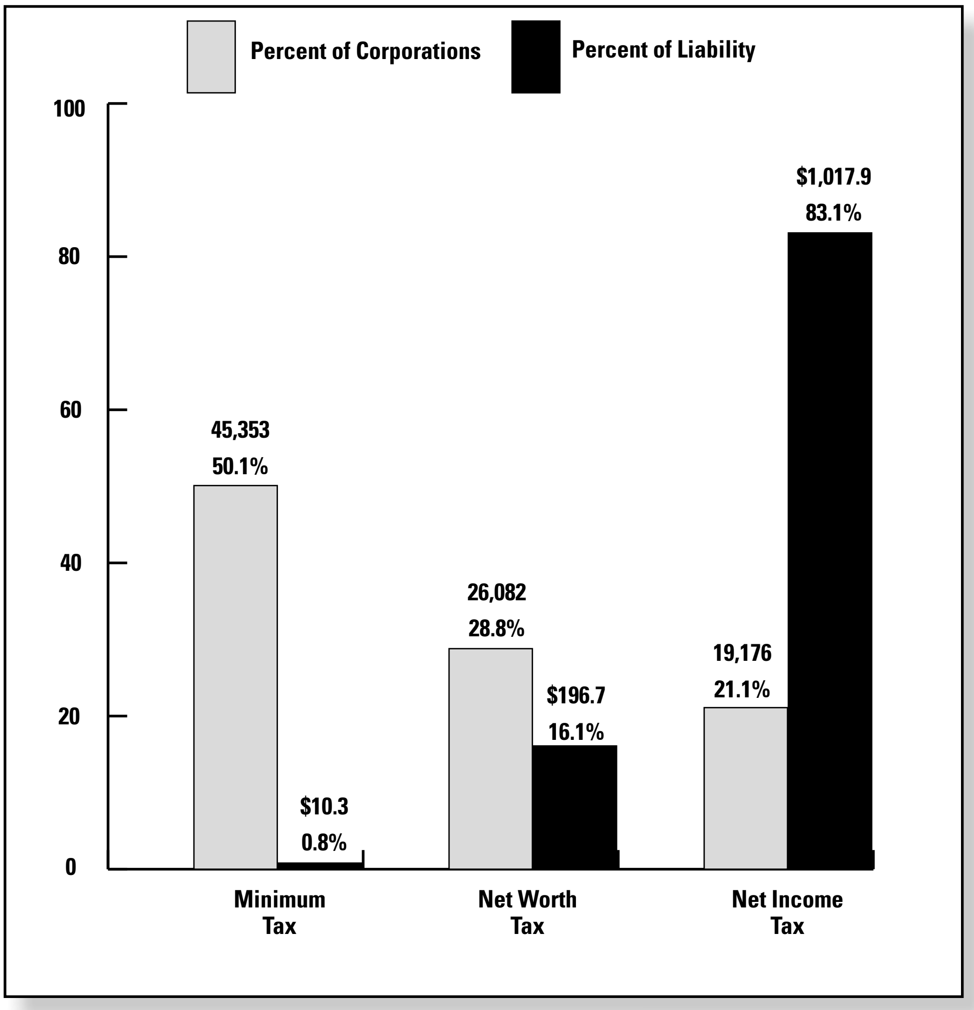
**Credit for Losses on Loans to the Ohio Venture Capital Program –**

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.

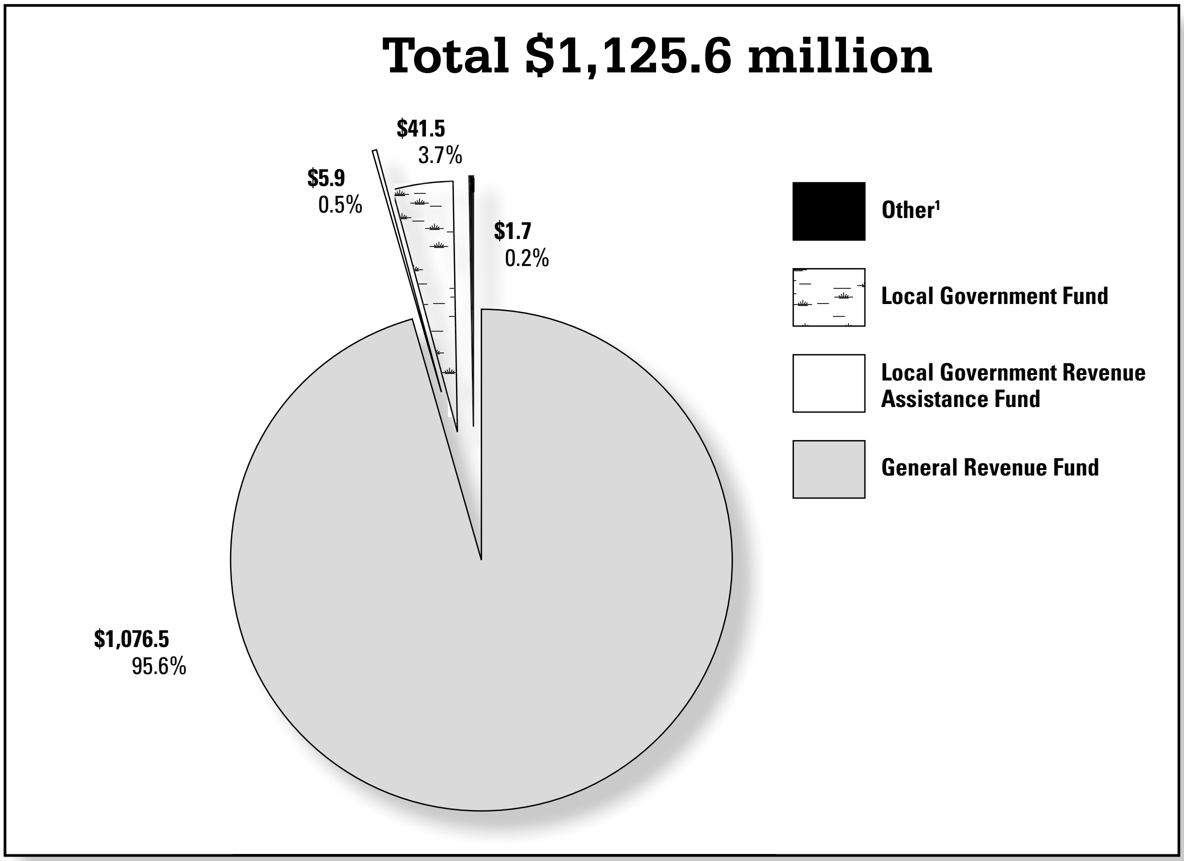
# Chart 1
# Percentage of Corporations and Tax Liability by Tax Base: Tax Year 2006

Total Number of Corporations: 90,611
Total Reported Tax Liability, Before Credits and Manufacturing Grants: $1,224.8
(figures in millions)
(excludes litter tax)
(excludes financial institutions)



## Chart 2
## Distribution of Revenue from Corporation Franchise Tax: Fiscal Year 2007

(figures in millions)




1 Includes litter fund and Attorney General revenues.

## Table 1
## Corporation Franchise Tax Collections: Fiscal Years 2003 - 2007

| Fiscal Year | Gross Tax Collections | Refunds | Net Tax Collections |
|---|---|---|---|
| 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 |
| 2006 | 1,309,521,936 | 203,658,836 | 1,105,863,100 |
| 2007 | 1,302,582,440 | 176,928,156 | 1,125,654,284 |

# Table 2
# Corporation Franchise Tax
# Number Of Corporations by Tax Base and Industry: Tax Year 2006

| | Number of Corporations by Tax Base | | | |
|---|---|---|---|---|
| **Industry** | **Minimum** | **Net Worth** | **Net Income** | **Total** |
| Agriculture & Forestry | 560 | 471 | 312 | 1,343 |
| Mining | 208 | 165 | 149 | 522 |
| Construction | 4,161 | 2,522 | 1,559 | 8,242 |
| Manufacturing | 3,566 | 3,578 | 2,327 | 9,471 |
| Transport, Communication, Utility | 2,690 | 1,256 | 1,114 | 5,060 |
| Wholesale Trade | 2,424 | 1,922 | 1,540 | 5,886 |
| Retail Trade | 6,969 | 5,676 | 3,866 | 16,511 |
| Finance, Insurance, Real Estate | 6,791 | 3,401 | 2,544 | 12,736 |
| Services | 15,479 | 6,598 | 5,267 | 27,344 |
| Unknown[1] | 2,505 | 493 | 498 | 3,496 |
| **TOTAL** | **45,353** | **26,082** | **19,176** | **90,611** |

1 Industry classification was not indicated by the taxpayer.

# Table 3
# Corporation Franchise Tax
# Number Of Corporations by Tax Base and Tax Liability Class: Tax Year 2006

| | | | Number of Corporations by Tax Base | | | |
|---|---|---|---|---|---|---|
| **Tax Liability Class** | | | **Net Minimum** | **Net Worth** | **Net Income** | **Total** |
| Minimum | | | 45,353 | -- | -- | 45,353 |
| $51 | - | 1,000 | -- | 13,798 | 5,979 | 19,777 |
| 1,001 | - | 2,000 | -- | 3,901 | 2,947 | 6,848 |
| 2,001 | - | 3,000 | -- | 1,947 | 1,712 | 3,659 |
| 3,001 | - | 4,000 | -- | 1,080 | 866 | 1,946 |
| 4,001 | - | 5,000 | -- | 724 | 694 | 1,418 |
| 5,001 | - | 10,000 | -- | 1,570 | 1,916 | 3,486 |
| 10,001 | - | 15,000 | -- | 650 | 927 | 1,577 |
| 15,001 | - | 20,000 | -- | 400 | 598 | 998 |
| 20,001 | - | 25,000 | -- | 258 | 432 | 690 |
| 25,001 | - | 30,000 | -- | 196 | 314 | 510 |
| 30,001 | - | 35,000 | -- | 156 | 253 | 409 |
| 35,001 | - | 50,000 | -- | 341 | 529 | 870 |
| 50,001 | - | 100,000 | -- | 455 | 748 | 1,203 |
| 100,001 | - | 200,000 | -- | 606 | 559 | 1,165 |
| 200,001 | - | 500,000 | -- | -- | 404 | 404 |
| 500,001 | - | 1,000,000 | -- | -- | 152 | 152 |
| Over | | $1,000,000 | -- | -- | 146 | 146 |
| | | **TOTAL** | **45,353** | **26,082** | **19,176** | **90,611** |

# Table 4
# Corporation Franchise Tax
# Reported Tax Liability by Tax Base and Industry: Tax Year 2006

| | Before 20% Reduction Factor Applicable To Most Taxpayers | | | | | | | After 20% Reduction Factor | |
|---|---|---|---|---|---|---|---|---|---|
| | Tax Liability Before Litter Tax and Credits, By Tax Base | | | | | | | | |
| Industry | Minimum | Net Worth | Net Income | Total | Litter Tax[1] | Total Liability Before Credits and Grant | Total Non-Refundable and Refundable Tax Credits[2] | Manufacturing Grant | Tax Liability After Tax Credits and Grant[2] |
| Agriculture & Forestry | $70,750 | $783,694 | $2,448,604 | $3,303,048 | $60,324 | $3,363,372 | $288,689 | $1,367 | $2,469,549 |
| Mining | 40,800 | 1,471,875 | 5,554,052 | 7,066,727 | 124,422 | 7,191,149 | 1,142,717 | 1,133,484 | 3,713,898 |
| Construction | 797,050 | 7,422,589 | 25,917,814 | 34,137,453 | 557,611 | 34,695,064 | 482,113 | 452,978 | 27,069,093 |
| Manufacturing | 1,224,250 | 54,555,870 | 353,868,628 | 409,648,748 | 3,554,994 | 413,203,742 | 53,279,054 | 27,833,742 | 256,943,927 |
| Transport, Communication, Utility | 816,600 | 12,109,800 | 180,647,837 | 193,574,237 | 925,580 | 194,499,817 | 45,146,507 | 925,302 | 116,991,409 |
| Wholesale Trade | 695,000 | 12,798,713 | 83,554,200 | 97,047,913 | 1,290,899 | 98,338,812 | 10,639,193 | 1,414,600 | 68,572,676 |
| Retail Trade | 2,024,250 | 46,358,834 | 188,768,285 | 237,151,369 | 3,430,687 | 240,582,056 | 19,754,009 | 6,152,115 | 169,075,739 |
| Finance, Insurance, Real Estate | 1,330,400 | 25,506,329 | 59,241,568 | 86,078,297 | 1,457,871 | 87,536,167 | 6,427,892 | 2,113,128 | 63,114,899 |
| Services | 2,845,900 | 31,114,070 | 111,467,839 | 145,427,809 | 2,261,905 | 147,689,714 | 6,506,791 | 1,822,974 | 111,652,750 |
| Unknown[3] | 436,850 | 4,552,038 | 6,424,562 | 11,413,450 | 247,319 | 11,660,769 | 1,571,011 | 150,480 | 7,803,190 |
| **TOTAL** | **$10,281,850** | **$196,673,812** | **$1,017,893,389** | **$1,224,849,051** | **$13,911,612** | **$1,238,760,662** | **$145,237,976** | **$42,000,170** | **$827,407,131** |

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 non-refundable credit for taxes paid by qualifying pass-through entities.

3 Industry classification was not indicated by taxpayer. The liability of corporations appearing in the Unknown category has been reduced from previous years due to updated industry code data.

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 20 percent reduction in effect for tax year 2006.

# Table 5
# Corporation Franchise Tax
# Reported Tax Liability by Tax Base and Tax Liability Class: Tax Year 2006

| Tax Liability Class | Before 20% Reduction Factor Applicable to Most Taxpayers | | | | | | | After 20% Reduction Factor Applicable to Most Taxpayers | |
|---|---|---|---|---|---|---|---|---|---|
| | Tax Liability Before Litter Tax and Credits By Tax Base | | | | | | | | |
| | Minimum | Net Worth | Net Income | Total | Litter Tax[1] | Total Liability Before Credits and Grant | Total Nonrefundable and Refundable Tax Credits[2] | Manufacturing Grant | Tax Liability After Tax Credits and Grant[2] |
| Minimum | $10,281,850 | -- | -- | $10,281,850 | -- | $10,281,850 | $3,048,755 | $480 | $7,231,439 |
| $51 - 1,000 | -- | $4,907,372 | $2,453,347 | 7,360,719 | $233,207 | 7,593,925 | 284,737 | 24,086 | 5,892,948 |
| 1,001 - 2,000 | -- | 5,574,570 | 4,284,312 | 9,858,882 | 281,695 | 10,140,577 | 220,806 | 73,240 | 7,821,615 |
| 2,001 - 3,000 | -- | 4,761,443 | 4,120,761 | 8,882,204 | 262,184 | 9,144,388 | 435,334 | 103,875 | 6,804,810 |
| 3,001 - 4,000 | -- | 3,723,929 | 3,020,612 | 6,744,541 | 196,956 | 6,941,497 | 160,893 | 95,022 | 5,317,933 |
| 4,001 - 5,000 | -- | 3,243,008 | 3,120,930 | 6,363,938 | 183,071 | 6,547,009 | 205,679 | 109,708 | 4,953,680 |
| 5,001 - 10,000 | -- | 11,082,544 | 13,712,884 | 24,795,428 | 699,176 | 25,494,604 | 2,696,868 | 461,804 | 17,389,780 |
| 10,001 - 15,000 | -- | 8,005,475 | 11,403,425 | 19,408,900 | 539,178 | 19,948,078 | 1,785,632 | 465,907 | 13,849,732 |
| 15,001 - 20,000 | -- | 6,917,619 | 10,338,842 | 17,256,461 | 477,120 | 17,733,581 | 1,281,808 | 421,508 | 12,641,956 |
| 20,001 - 25,000 | -- | 5,752,809 | 9,644,582 | 15,397,391 | 423,091 | 15,820,482 | 669,641 | 415,532 | 11,679,620 |
| 25,001 - 30,000 | -- | 5,358,450 | 8,586,311 | 13,944,761 | 379,592 | 14,324,353 | 898,763 | 552,019 | 10,168,201 |
| 30,001 - 35,000 | -- | 5,031,715 | 8,225,795 | 13,257,510 | 358,033 | 13,615,543 | 1,148,221 | 473,539 | 9,427,720 |
| 35,001 - 50,000 | -- | 14,248,849 | 22,093,105 | 36,341,954 | 973,289 | 37,315,243 | 4,849,727 | 1,435,364 | 23,981,095 |
| 50,001 - 100,000 | -- | 32,189,797 | 53,549,639 | 85,739,436 | 2,194,763 | 87,934,199 | 6,140,333 | 3,468,702 | 61,771,739 |
| 100,001 - 200,000 | -- | 85,876,232 | 79,507,882 | 165,384,114 | 3,875,644 | 169,259,758 | 28,710,360 | 10,476,347 | 99,818,192 |
| 200,001 - 500,000 | -- | -- | 125,472,764 | 125,472,764 | 1,703,691 | 127,176,455 | 13,246,650 | 6,183,884 | 84,347,426 |
| 500,001 - 1,000,000 | -- | -- | 105,354,630 | 105,354,630 | 570,738 | 105,925,368 | 12,103,625 | 4,533,504 | 69,937,622 |
| Over $1,000,000 | -- | -- | 553,003,568 | 553,003,568 | 560,184 | 553,563,752 | 67,350,144 | 12,705,647 | 374,371,621 |
| **TOTAL** | **$10,281,850** | **$196,673,812** | **$1,017,893,389** | **$1,224,849,051** | **$13,911,612** | **$1,238,760,662** | **$145,237,976** | **$42,000,170** | **$827,407,131** |

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.

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 20 percent reduction in effect for tax year 2006.

# Table 6
# Corporation Franchise Tax
# Number of Manufacturing Corporations by Tax Base and Industry: Tax Year 2006

| | Number of Corporations by Tax Base | | | |
|---|---|---|---|---|
| Industry | Minimum | Net Worth | Net Income | Total |
| Food | 197 | 182 | 150 | 529 |
| Tobacco Manufacturers | 5 | 0 | 6 | 11 |
| Apparel and Other Textiles | 77 | 45 | 24 | 146 |
| Lumber and Wood Products | 100 | 111 | 57 | 268 |
| Paper | 79 | 96 | 35 | 210 |
| Printing and Publishing | 185 | 186 | 77 | 448 |
| Chemicals | 271 | 255 | 195 | 721 |
| Petroleum and Coal | 44 | 30 | 33 | 107 |
| Rubber and Plastics | 220 | 238 | 144 | 602 |
| Leather Products | 10 | 7 | 5 | 22 |
| Stone, Clay & Glass Products | 102 | 111 | 82 | 295 |
| Primary Metal | 134 | 167 | 107 | 408 |
| Fabricated Metal | 733 | 877 | 554 | 2,164 |
| Machinery (non-electrical) | 412 | 360 | 224 | 996 |
| Electrical Machinery | 316 | 280 | 180 | 776 |
| Transportation Equipment | 137 | 142 | 101 | 380 |
| Miscellaneous Manufacturing | 544 | 491 | 353 | 1,388 |
| **TOTAL** | **3,566** | **3,578** | **2,327** | **9,471** |

# Table 7
# Corporation Franchise Tax
# Number of Manufacturing Corporations by Tax Base and Tax Liability Class: Tax Year 2006

| | | Number of Corporations by Tax Base | | |
|---|---|---|---|---|
| Tax Liability Class | Minimum | Net Worth | Net Income | Total |
| Minimum | 3,566 | -- | -- | 3,566 |
| $51 - 1,000 | -- | 1,238 | 342 | 1,580 |
| 1,001 - 2,000 | -- | 574 | 282 | 856 |
| 2,001 - 3,000 | -- | 319 | 178 | 497 |
| 3,001 - 4,000 | -- | 205 | 94 | 299 |
| 4,001 - 5,000 | -- | 133 | 84 | 217 |
| 5,001 - 10,000 | -- | 297 | 295 | 592 |
| 10,001 - 15,000 | -- | 146 | 135 | 281 |
| 15,001 - 20,000 | -- | 96 | 117 | 213 |
| 20,001 - 25,000 | -- | 62 | 69 | 131 |
| 25,001 - 30,000 | -- | 36 | 53 | 89 |
| 30,001 - 35,000 | -- | 45 | 42 | 87 |
| 35,001 - 50,000 | -- | 98 | 104 | 202 |
| 50,001 - 100,000 | -- | 132 | 162 | 294 |
| 100,001 - 200,000 | -- | 197 | 135 | 332 |
| 200,001 - 500,000 | -- | -- | 126 | 126 |
| 500,001 - 1,000,000 | -- | -- | 55 | 55 |
| Over $1,000,000 | -- | -- | 54 | 54 |
| **TOTAL** | **3,566** | **3,578** | **2,327** | **9,471** |

# Table 8
# Corporation Franchise Tax
# Reported Tax Liability for Manufacturing Corporations by Tax Base and Industry Classifications: Tax Year 2006

| Industry | Tax Liability Before Litter Tax and Credits, by Tax Base: Minimum | Net Worth | Net Income | Total | Litter Tax[1] | Total Liability Before Credits and Grant | Total Nonrefundable and Refundable Tax Credits[2] | Manufacturing Grant | Tax Liability After Tax Credits and Grants[2] |
|---|---|---|---|---|---|---|---|---|---|
| Food | $73,500 | $3,602,457 | $28,886,156 | $32,562,113 | $330,667 | $32,892,780 | $3,864,371 | $2,343,793 | $20,701,282 |
| Tobacco Manufacturers | 1,200 | 0 | 11,051,723 | 11,052,923 | 34,261 | 11,087,184 | 800,000 | 56,525 | 8,033,462 |
| Apparel and Other Textiles | 31,400 | 386,236 | 1,152,969 | 1,570,605 | 30,020 | 1,600,625 | 4,015 | 46,860 | 1,237,369 |
| Lumber and Wood Products | 32,550 | 749,879 | 2,299,138 | 3,081,567 | 66,309 | 3,147,876 | 616,441 | 285,469 | 1,732,926 |
| Paper | 35,300 | 2,519,200 | 1,851,722 | 4,406,222 | 83,425 | 4,489,647 | 2,716,563 | 300,506 | 752,973 |
| Printing and Publishing | 42,500 | 906,999 | 3,097,630 | 4,047,129 | 89,208 | 4,136,337 | 916,796 | 241,493 | 2,333,915 |
| Chemicals | 127,550 | 9,165,030 | 99,760,486 | 109,053,066 | 511,282 | 109,564,348 | 4,646,337 | 3,089,244 | 80,769,804 |
| Petroleum and Coal | 16,450 | 834,963 | 79,561,790 | 80,413,203 | 62,010 | 80,475,213 | 415,767 | 7,999,087 | 55,999,413 |
| Rubber and Plastics | 86,050 | 3,394,507 | 7,313,376 | 10,793,933 | 246,742 | 11,040,675 | 2,202,508 | 857,593 | 6,166,250 |
| Leather Products | 2,400 | 99,830 | 209,654 | 311,884 | 8,871 | 320,755 | 0 | 0 | 257,084 |
| Stone, Clay & Glass Products | 26,950 | 2,096,948 | 6,754,936 | 8,878,834 | 143,080 | 9,021,914 | 2,233,061 | 1,856,360 | 3,553,836 |
| Primary Metal | 38,050 | 3,854,460 | 17,717,276 | 21,609,786 | 218,877 | 21,828,663 | 8,207,445 | 1,669,960 | 8,396,468 |
| Fabricated Metal | 174,400 | 5,102,515 | 24,503,645 | 29,780,560 | 491,357 | 30,271,917 | 4,191,310 | 2,200,168 | 18,474,482 |
| Machinery (non-electrical) | 157,400 | 4,376,474 | 7,800,065 | 12,333,939 | 243,953 | 12,577,892 | 2,089,260 | 825,858 | 7,483,243 |
| Electrical Machinery | 131,700 | 5,716,513 | 13,469,232 | 19,317,445 | 297,792 | 19,615,237 | 2,144,637 | 2,337,712 | 11,597,001 |
| Transportation Equipment | 66,700 | 5,510,883 | 26,083,578 | 31,661,161 | 302,775 | 31,963,936 | 15,021,093 | 1,589,200 | 11,003,978 |
| Miscellaneous Manufacturing | 180,150 | 6,238,976 | 22,355,252 | 28,774,378 | 394,365 | 29,168,743 | 3,209,450 | 2,133,914 | 18,450,441 |
| **TOTAL** | **$1,224,250** | **$54,555,870** | **$353,868,628** | **$409,648,748** | **$3,554,994** | **$413,203,742** | **$53,279,054** | **$27,833,742** | **$256,943,927** |

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.

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 20 percent reduction in effect for tax year 2006.

# Table 9
# Corporation Franchise Tax
# Reported Tax Liability For Manufacturing Corporations by Tax Base and Tax Liability Class: Tax Year 2006

| | Before 20% Reduction Factor Applicable to Most Taxpayers | | | | | | | After 20% Reduction Factor Applicable to Most Taxpayers | |
|---|---|---|---|---|---|---|---|---|---|
| | Tax Liability Before Litter Tax and Credits, By Tax Base | | | | | | | | |
| Tax Liability Class | Minimum | Net Worth | Net Income | Total | Litter Tax[1] | Total Liability Before Credits and Grant | Total Nonrefundable and Refundable Tax Credits[2] | Manufacturing Grant | Tax Liability After Tax Crediits and Grant[2] |
| Minimum ($50 or $1,000) | $1,224,250 | -- | -- | $1,224,250 | -- | $1,224,250 | $273,116 | $60 | $948,917 |
| $51 - 1,000 | -- | $503,336 | $151,861 | 655,197 | $21,757 | 676,954 | 59,442 | 14,757 | 487,077 |
| 1,001 - 2,000 | -- | 820,641 | 424,317 | 1,244,958 | 36,885 | 1,281,843 | 112,684 | 47,555 | 881,423 |
| 2,001 - 3,000 | -- | 780,674 | 429,531 | 1,210,205 | 36,449 | 1,246,654 | 132,558 | 58,333 | 824,572 |
| 3,001 - 4,000 | -- | 710,647 | 325,285 | 1,035,932 | 33,077 | 1,069,009 | 99,761 | 67,926 | 707,769 |
| 4,001 - 5,000 | -- | 598,843 | 379,682 | 978,525 | 28,916 | 1,007,441 | 124,595 | 59,236 | 644,411 |
| 5,001 - 10,000 | -- | 2,096,130 | 2,126,263 | 4,222,393 | 121,931 | 4,344,324 | 558,170 | 256,374 | 2,729,523 |
| 10,001 - 15,000 | -- | 1,775,531 | 1,673,922 | 3,449,453 | 98,580 | 3,548,033 | 344,435 | 232,127 | 2,322,414 |
| 15,001 - 20,000 | -- | 1,678,472 | 2,015,352 | 3,693,824 | 105,238 | 3,799,062 | 834,352 | 164,001 | 2,129,466 |
| 20,001 - 25,000 | -- | 1,391,400 | 1,542,240 | 2,933,640 | 82,771 | 3,016,411 | 313,923 | 260,511 | 1,888,549 |
| 25,001 - 30,000 | -- | 984,983 | 1,442,975 | 2,427,958 | 69,087 | 2,497,045 | 345,762 | 251,146 | 1,469,931 |
| 30,001 - 35,000 | -- | 1,453,503 | 1,363,294 | 2,816,797 | 83,914 | 2,900,711 | 312,996 | 260,649 | 1,809,613 |
| 35,001 - 50,000 | -- | 4,090,860 | 4,332,048 | 8,422,908 | 235,129 | 8,658,037 | 1,991,481 | 691,339 | 4,450,296 |
| 50,001 - 100,000 | -- | 9,743,934 | 11,570,630 | 21,314,564 | 563,527 | 21,878,091 | 3,075,362 | 1,596,864 | 13,284,957 |
| 100,001 - 200,000 | -- | 27,926,916 | 19,489,517 | 47,416,433 | 1,126,932 | 48,543,365 | 16,916,665 | 5,998,548 | 17,528,035 |
| 200,001 - 500,000 | -- | -- | 38,680,408 | 38,680,408 | 499,885 | 39,180,293 | 7,465,764 | 4,246,430 | 20,866,820 |
| 500,001 - 1,000,000 | -- | -- | 38,392,813 | 38,392,813 | 190,252 | 38,583,065 | 7,176,365 | 3,393,658 | 21,312,639 |
| Over $1,000,000 | -- | -- | 229,528,490 | 229,528,490 | 220,664 | 229,749,154 | 13,141,623 | 10,234,228 | 162,657,516 |
| **TOTAL** | **$1,224,250** | **$54,555,870** | **$353,868,628** | **$409,648,748** | **$3,554,994** | **$413,203,742** | **$53,279,054** | **$27,833,742** | **$256,943,927** |

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.

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 20 percent reduction in effect for tax year 2006.

# Table 10
# Corporation Franchise Tax
# Numbers of Financial Institutions and Reported Tax Liability by Type of Institution: Tax Year 2006

| Tax Liability Class | Number of Corporations By Type | | | | Tax Liability Before Credits By Type | | | | Refundable & Non-Refundable Tax Credits |
|---|---|---|---|---|---|---|---|---|---|
| | Banks | Savings & Loans | Other[1] | Total | Banks | Savings & Loans | Other[1] | Total | |
| Minimum ($50 or $1000) | 13 | 2 | 12 | 27 | $10,050 | $100 | $9,150 | $19,300 | $950 |
| $51 - 1,000 | 7 | 1 | 13 | 21 | 1,319 | 50 | 1,642 | 3,011 | -- |
| 1,001 - 2,000 | 2 | -- | 3 | 5 | 3,151 | -- | 5,548 | 8,699 | -- |
| 2,001 - 3,000 | 3 | -- | 1 | 4 | 6,969 | -- | 2,549 | 9,518 | -- |
| 3,001 - 4,000 | -- | 2 | -- | 2 | -- | 6,370 | -- | 6,370 | -- |
| 4,001 - 5,000 | 3 | -- | 1 | 4 | 13,659 | -- | 4,788 | 18,447 | -- |
| 5,001 - 10,000 | 9 | 1 | -- | 10 | 74,823 | 7,859 | -- | 82,682 | -- |
| 10,001 - 15,000 | 7 | -- | 1 | 8 | 78,443 | -- | 12,388 | 90,831 | -- |
| 15,001 - 20,000 | 3 | 1 | -- | 4 | 53,120 | 18,163 | -- | 71,283 | 3,420 |
| 20,001 - 25,000 | 5 | 1 | 1 | 7 | 109,057 | 21,931 | 24,180 | 155,168 | 3,397 |
| 25,001 - 30,000 | 2 | -- | 4 | 6 | 56,782 | -- | 106,945 | 163,727 | 26,622 |
| 30,001 - 35,000 | 4 | 1 | -- | 5 | 131,230 | 30,014 | -- | 161,244 | 3,729 |
| 35,001 - 50,000 | 13 | 6 | 3 | 22 | 559,928 | 252,340 | 146,881 | 959,149 | 16,686 |
| 50,001 - 100,000 | 48 | 22 | 3 | 73 | 3,724,153 | 1,628,953 | 207,766 | 5,560,872 | 271,782 |
| 100,001 - 200,000 | 49 | 20 | 2 | 71 | 7,144,927 | 2,690,147 | 259,566 | 10,094,640 | 308,381 |
| 200,001 - 500,000 | 50 | 25 | 1 | 76 | 15,733,730 | 7,842,768 | 279,169 | 23,855,667 | 782,245 |
| 500,001 - 1,000,000 | 16 | 8 | 1 | 25 | 11,452,559 | 6,018,031 | 573,260 | 18,043,850 | 262,084 |
| Over $1,000,000 | 16 | 7 | 1 | 24 | 82,291,656 | 19,246,746 | 3,519,945 | 105,058,347 | 8,761,460 |
| **TOTAL** | **250** | **97** | **47** | **394** | **$121,445,556** | **$37,763,472** | **$5,153,777** | **$164,362,805** | **$10,440,756** |

1 Primarily credit agencies that accept deposits.