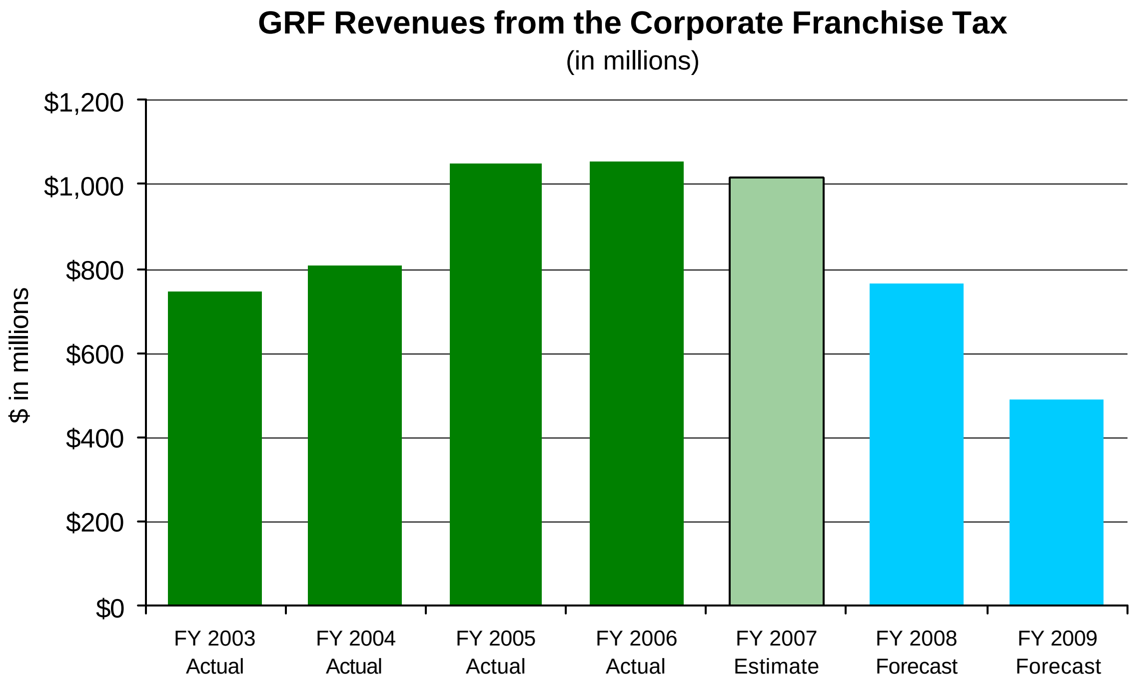
Corporate Franchise Tax



	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Estimate	FY 2008 Forecast	FY 2009 Forecast
Revenue	$747.2	$809.2	$1,051.6	$1,054.9	$1,018.7	$766.8	$488.0
Growth	4.9%	8.3%	30.0%	0.3%	-3.4%	-24.7%	-36.4%

The corporate franchise tax (CFT) is levied on corporations doing business in Ohio. The CFT has two bases: the net worth base (generally determined as book net worth minus items excluded by statute) and the net income base (generally, the Ohio portion of federal taxable income with exclusions and additions as required by statute). The corporate taxpayer calculates its Ohio tax liability under the two bases and pays the higher of the two tax liabilities. Different rules apply to financial institutions, "qualifying" holding companies, and certain "high-technology" start-up companies. Differing tax rates apply to each tax base. The net worth tax, which is capped at $150,000 for each corporation, is calculated by multiplying the adjusted Ohio net worth base by the net worth rate of four mills (0.4%). Corporate net income is taxed at the rate of 5.1% on the first $50,000 of Ohio taxable income, and 8.5% on Ohio taxable income above $50,000.

The phase-out of the CFT for nonfinancial corporations, which started in FY 2006 (Am. Sub. H.B. 66, 126th General Assembly) will continue into the next biennium. Nonfinancial corporations will pay a smaller share of the tax computed each year until the tax is totally phased out in FY 2010. These corporations will reduce their tax liability

40% in FY 2007, 60% in FY 2008, and 80% in FY 2009. Financial corporations will continue to pay the CFT. Although corporate profits are expected to grow, the phase-out will reduce CFT revenues this year and the next biennium.

LSC derives its forecasts of baseline CFT revenues primarily from projections of U.S. corporate profits. Then, some adjustments are made for legislated tax changes in the last few years. CFT revenues in a fiscal year generally reflect the previous calendar year corporate profits. The growth in CFT revenues in the last few years mirrors the improvement in corporate profits since the recession of calendar year (CY) 2001. Adopting the UDITPA[1] standards also provided a boost in receipts starting in FY 2005. CFT revenues will decrease in FY 2008 and FY 2009 as a result of both the phase-out and slower growth of corporate profits. Estimates of before-tax corporate profits from Global Insight (a national forecasting firm) and the Governor's Council of Economic Advisers were the basis for the CFT forecast.

[1] Am. Sub. H.B. 95 (125th General Assembly) enacted significant franchise tax changes pertaining to the allocation and apportionment of the income of multistate corporations to Ohio. Prior to Am. Sub. H.B. 95, a company would allocate certain types of statutory-listed income whether or not the income was part of the company's active trade or business. Am. Sub. H.B. 95 adopted the distinction between "business" and "nonbusiness" income used by many other states in the Uniform Division of Income for Tax Purposes Act. These changes expanded the corporation franchise net income tax base and substantially increased CFT revenues in FY 2005 and in subsequent years.