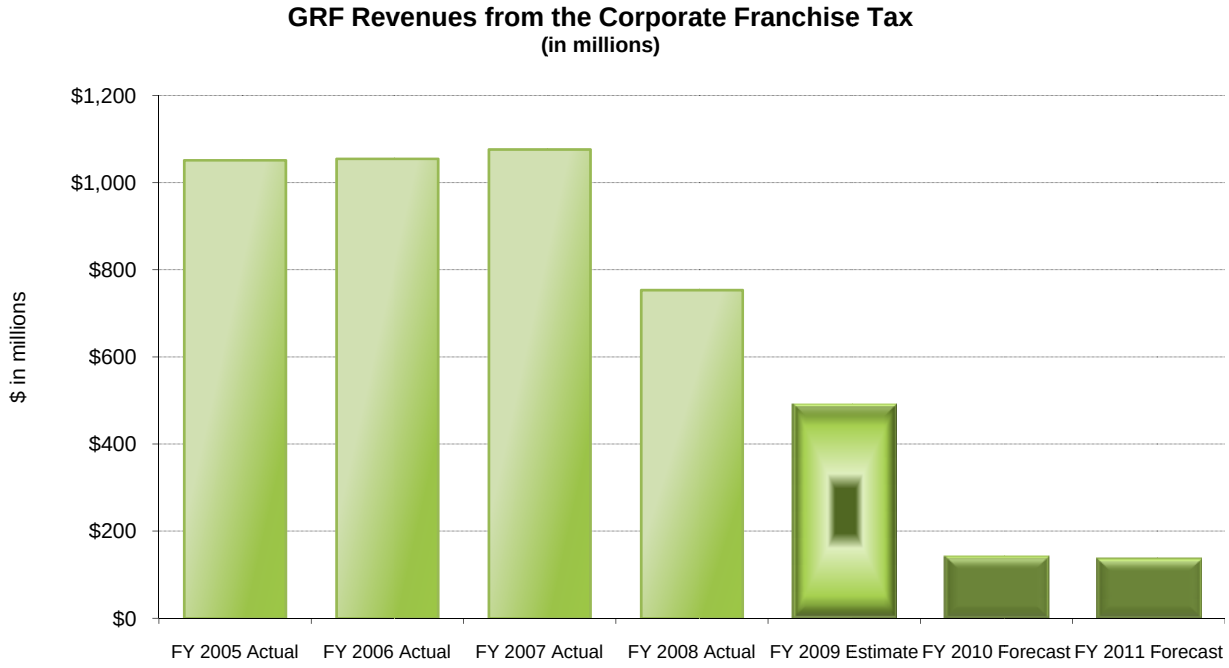
## Corporate Franchise Tax




| | FY 2005 Actual | FY 2006 Actual | FY 2007 Actual | FY 2008 Actual | FY 2009 Estimate | FY 2010 Forecast | FY 2011 Forecast |
|---|---|---|---|---|---|---|---|
| Revenue | $1,051.6 | $1,054.9 | $1,076.5 | $753.5 | $488.0 | $139.0 | $136.0 |
| Growth | 30.0% | 0.3% | 2.0% | -30.0% | -35.2% | -71.5% | -2.2% |

The phase-out of the corporate franchise tax (CFT) for nonfinancial corporations which started in FY 2006 (Am. Sub. H.B. 66, 126th General Assembly) will be completed in FY 2010. Nonfinancial corporations are paying 20% of their tax liability in FY 2009 (this will be the last tax report). The tax liability is calculated on 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). A nonfinancial corporate taxpayer calculates its 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 nonfinancial corporation, is calculated by multiplying the adjusted Ohio net worth base by the net worth rate of four mills (0.4%). The 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.

LSC derives its estimate of baseline CFT revenues primarily from projections of U.S. corporate profits. Then, some adjustments are made for legislated tax changes. The estimate generally reflects the previous calendar year corporate profits. The growth in CFT revenues from FY 2005 to FY 2007 mirrored the improvement in corporate profits since the recession of 2001. Adopting the UDITPA[2] standards also provided a boost in receipts starting in FY 2005. As a result of both the phase-out and slower growth of corporate profits, revenues were expected to fall in FY 2006 and FY 2007. However, receipts increased from taxpayers' response to lower net income rates. The reported tax liability of Ohio nonfinancial corporations increased 23% and 19% in 2006 and 2007, respectively. 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 estimate for FY 2009.

Starting in FY 2010, the tax is eliminated for nonfinancial corporations and the CFT becomes essentially a tax on financial institutions. Financial corporations are not subject to the tax on net income basis and the cap on net worth tax liability does not apply. The tax liability is determined by multiplying the adjusted net worth (net value of stock) by the taxpayer's Ohio apportionment ratio and by the rate of 13 mills. For multistate banks, the apportionment ratio is based on the shares of the taxpayer's property, payroll, and sales in Ohio. The forecast is based on trend analysis of historical tax liabilities reported by banks and savings and loans. The on-going crisis in the financial markets, which has already led to several bank failures, creates a substantial risk to the forecast for the next biennium. Taxpayers may recognize substantial write-downs and large decreases in their net worth which would affect tax receipts. Funds provided by the federal government to certain financial institutions to alleviate the existing financial crisis will shore up their balance sheets, and possibly, the tax base. Finally, mergers and acquisitions, which are continuing, change the apportionment ratios used by multistate financial institutions in the calculation of the tax and increase the opportunities for tax planning and reduced tax payments.

[2] Am. Sub. H.B. 95 (125th General Assembly) adopted significant franchise tax changes pertaining to the allocation and apportionment of the income of multistate corporations to Ohio. The bill also changed the definition of income. These changes expanded the corporation franchise net income tax base and substantially increased revenues in FY 2005 and in subsequent years.