

# The Columbus Dispatch

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## Many big companies pay lowest state tax Loopholes, credits qualify businesses for minimum corporate franchise levy

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Although their sales topped \$1.5 billion apiece, only four of Ohio's 10 largest companies paid more than the state's \$1,000 minimum corporate franchise tax last year.

Two got money back from the state after tax credits.

More than a third of the top 50 companies paid the minimum in the state's main business tax or got money back, according to Ohio Department of Taxation data requested by The Dispatch. Company names weren't released.

"At a time when we're charging people to go to parks and cutting people off Medicaid, certainly the largest corporations ought to be paying more than they are," said Zach Schiller, research director of Cleveland-based Policy Matters Ohio.

The Taft administration acknowledges that some companies aren't paying their fair share of taxes for the state services they use, which is one reason Taft has proposed scrapping the corporate franchise tax in favor a new tax on a company's annual sales.

Schiller and others say a better approach is to keep the corporate franchise tax but modify it or eliminate the loopholes.

The issue has emerged as a key element in the debate over Taft's proposed changes in the tax code as part of the state's \$51.3 billion, two-year budget.

Companies pay franchise tax based on their net worth or Ohio profits, whichever generates the larger tax. But many firms are able to lower their tax through legal accounting moves, such as shifting income to other states where they operate, officials say.

Businesses also may receive state-approved credits against the franchise tax for investing in machinery and for other economic-development reasons.

As a result, Taft says the corporate franchise tax has high rates compared with other states but low collections. That's why he's proposing a commercial-activity tax with a low rate that all nonfinancial companies would pay.

Critics of the governor's plan oppose a commercial-activity tax, saying it should be tied to a company's ability to pay. They also say it's not accurate to suggest companies aren't paying their fair share if they have little or no profits or take advantage of tax credits.

"Fair share is in the eye of the beholder," said Dan Navin, managing director of legislative affairs for the Ohio Chamber of Commerce.

Ford Motor Co., for example, said it had several years of losses and thus has paid minimal corporate franchise tax. But the automaker said it paid more in other taxes during the past 10 years than it earned in Ohio taxable income.

The chamber has proposed an alternative plan that keeps the franchise tax but also imposes a minimum tax on businesses based on their annual sales for the services they use.

But state officials say that plan wouldn't generate enough money to balance the budget. They also note many of the other taxes that businesses have been paying besides the corporate franchise tax would be eliminated or reduced under

### Chart

- [Paying the minimum](#)

Taft's plan.

"There is a reason why, in the business community, some companies are supporting the corporate franchise tax," Lt. Gov. Bruce E. Johnson said this week. "That's because they don't have to pay it."

Also, state officials say tax credits have been needed to encourage development because of the high rates, and small and medium-sized businesses that can't use the credits or avoid the tax face a higher burden. "Why not fix the whole system?" asked Ohio Tax Commissioner William Wilkins. Since 1989, Ohio's collections of corporate franchise tax as a percentage of gross state product have declined by 54 percent — compared with a national average decline of 40 percent, according to a recent study. The study, conducted by the labor-funded research organization Citizens for Tax Justice with the Institute on Taxation and Economic Policy, concluded that taxes are being shifted from large companies to individuals and smaller businesses — and that shift is a national trend.

The purpose of a business tax is to compensate the state for services provided, and when you can "game" the system and receive benefits without paying, it frustrates that purpose, said Harley Duncan, executive director, of the Federation of Tax Administrators.

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