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Business

Study: Ohio loses corporate taxes

State collects less than half of potential revenue

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COLUMBUS | Ohio lost 56.9 percent of potential corporate tax collections to business tax shelters in fiscal 2001, a loss rate second nationally only to West Virginia's 57.8 percent, according to a national study released this week.

Gov. Bob Taft said Wednesday the results reaffirm what Tax Commissioner Tom Zaino told legislators this year in a futile attempt to close what Zaino identified as business tax loopholes.

"We proposed some reforms and recommendations to the legislature to address that, which were not accepted and not adopted as part of the budget," said Taft. He took questions at a news conference called to announce his appointment of Jonathan Allison as his new chief of staff.

The two-year, $48.8 billion state budget approved last month by the legislature and signed by Taft raised the state sales tax from 5 percent to 6 percent but included no major business tax increases that would have occurred through Taft's proposed loophole closings.

The study was conducted by the Multistate Tax Commission, a joint agency of state governments created in 1967 to study state tax issues and recommend uniform tax laws and regulations that apply to multistate and multinational enterprises.

The study defined tax shelters as behavior that reduces tax payments to below would what would occur if each corporation calculated its net income through methods recognized by tax authorities and reported income to each state in reasonable proportion to business activity in the state.

This corporate behavior shifts taxable corporate income to other states or other countries to reduce taxation, according to the study.

Daniel J. Navin, managing director of legislative affairs for the Ohio Chamber of Commerce, said that what the study characterized as "tax shelters" were "legitimate, market-based bona fide transactions."

Also, Navin said it was wrong for Taft or others to suggest that such transactions were responsible for Ohio's budget problems.

"This state and most other states have budget problems largely because they overspend, not because there's some nefarious alleged corporate tax sheltering going on," said Navin.

However, Zach Schiller, author of a 2002 study that found corporate franchise tax revenues in Ohio were at their lowest level in decades, disagreed. Schiller, research director for Policy Matters Ohio, a Cleveland-based nonprofit research institute, said he wouldn't have thought the loss rate was as high as the study found.

"We definitely need to overhaul our corporate franchise tax to try and deal with this issue," said Schiller.

Schiller's study found that the corporate franchise tax accounted for 16 percent of the state's general revenue in 1975, but just 4.6 percent in 2002.

Gary Gudmundson, spokesman for the Ohio Department of Taxation, said the department provided information for the study. He said that Ohio collected about $663 million in 2001 in corporate franchise taxes based on corporate profits. The state also collects corporate franchise taxes based on net worth, but those were not covered in the study, Gudmundson said.

The study found that Ohio lost $378 million to tax sheltering in fiscal 2001, which ran from July 1, 2000, to June 30, 2001. The figure included $258 million through domestic tax shelters, or shelters targeted at states, and $120 million through international tax shelters, or shelters that multinational businesses use to shift income out of the United States into off-shore "tax havens."

At the news conference, Taft said tax reform still is important but "the first tax we want to look at is the personal income tax to see if there is any way we can improve our personal income tax structure."

He said that the entire business tax burden should be examined, local property taxes paid by businesses as well as the corporate franchise tax.

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