



# State & Local Tax Guide

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This is a comparative summary of major state and local taxes for the fifteen-county Cincinnati USA area (Brown, Butler, Clermont, Hamilton, and Warren counties in Ohio; Boone, Bracken, Campbell, Gallatin, Grant, Kenton, and Pendleton counties in Kentucky; and Dearborn, Franklin, and Ohio counties in Indiana). The summary is based on the most current tax laws and rates available as of October 2005. Tax laws and rates are subject to change. The information presented here is of a general nature. The taxes vary among jurisdictions in respect to scope and coverage; therefore, a simple comparison of rates is not necessarily an accurate basis for comparing tax costs. You should consult your tax advisor or the relevant taxing authority in respect to specific tax rules and specific applications of these taxes.

*A publication of the Cincinnati USA Regional Partnership, the economic development initiative for the three-state, 15-County Cincinnati USA region.*

*Prepared by Ernst & Young LLP for the Cincinnati USA Regional Chamber*

# I. CORPORATE FRANCHISE / STATE INCOME TAX

*(Excluding financial institutions)*

## OHIO

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On June 30, 2005, Ohio Governor Taft signed Amended Substitute House Bill 66 ("House Bill 66"), Ohio's biennial budget bill. House Bill 66 dramatically restructures Ohio's tax system for most business taxpayers. The centerpiece of the legislation is the phase out over four years of the Tangible Personal Property tax and, for most corporations, the phase out over five years of the Franchise tax. These taxes will be replaced with a Commercial Activity Tax (CAT) that will be phased-in over a five year period.

### Franchise Tax

The Franchise Tax will be phased out for most general corporate taxpayers over the next five years. The phase out will be accomplished by computing the Franchise Tax liability, applying available credits, and then applying the following imposition percentages:

Tax Year	Imposition Percentage of Franchise Tax
2005	100%
2006	80%
2007	60%
2008	40%
2009	20%
2010 and forward	No Tax

Ohio taxpayers are still required to compute their corporate income tax liability on both a net worth and net income basis, and pay the greater of the two taxes.

- **Net Worth Basis:** 0.4% on net worth (assets minus liabilities).
  - **Maximum Tax:** \$150,000
- **Net Income Basis:** 5.1% on first \$50,000 of Ohio taxable income plus 8.5% on Ohio net income in excess of \$50,000.

The amount of net worth and net income subject to tax in Ohio is calculated according to the following apportionment formula:

$$(\text{Property} \times 20\%) + (\text{Payroll} \times 20\%) + (\text{Sales} \times 60\%)$$

- **Tier One Litter Control Tax:** Additional 0.11% on first \$50,000 of taxable income plus 0.22% on net income in excess of \$50,000, or 0.014% on net worth. Maximum tax charged is \$5,000.
- **Tier Two Litter Control Tax:** Taxpayers that manufacture or sell litter stream products are subject to an additional litter control tax of 0.22% on taxable income in excess of \$50,000, or 0.014% on net worth. Maximum tax charged is \$5,000.

For further information contact the Ohio Department of Taxation's Corporate Franchise Tax Division at (614) 433-7617 or the Cincinnati Taxpayer Services Division at (513) 852-3433.

## KENTUCKY

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Kentucky levies both a corporate income tax and a corporation license tax.

For tax years beginning on or after January 1, 2005, corporations pay the greater of:

**(1)**

4% on the first \$50,000 of taxable net income;  
5% on the amount of taxable net income in excess of \$50,000  
up to \$100,000; and  
7% of the amount of taxable net income in excess of \$100,000

**(2)** the alternative minimum calculation of the lesser of: 9.5¢ (\$0.095) per \$100 of the corporation's gross receipts (numerator of the sales factor under Ky. Rev. Stat. Ann. § 141.120(8)(c) ) or 75¢ (\$0.75) per \$100 of the corporation's Kentucky gross profits; [ Ky. Rev. Stat. Ann. § 141.040(5)(b) ]; or

**(3)** the \$175 minimum tax.

- The corporate license tax is repealed for tax periods ending on or after December 31, 2005. For all tax periods ending prior to December 31, 2005, returns must be filed and required reports made. The corporation license tax rate is 0.21% of capital employed in the business that is apportioned to Kentucky. The minimum tax is \$30. Corporations with annual gross income of \$500,000 or less are allowed a credit of 0.14% on the first \$350,000 of capital employed (Maximum credit = \$490).

For those corporations having property or payroll both within and outside Kentucky, the apportionment factor for allocating net income and capital is calculated according to the following formula:

$$[\text{Payroll Factor} + \text{Property Factor} + 2(\text{Sales Factor})]/4$$

For further information contact the Kentucky Revenue Cabinet's Corporation Income Tax Section at (502) 564-4581 or the Northern Kentucky Taxpayer Service Center at (859) 371-9049.

## INDIANA

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Indiana corporation income tax is computed as follows:

- 8.5% of Indiana adjusted gross income (modified federal taxable income)

For those corporations deriving income from operations both within and outside Indiana, the apportionment factor for allocating net income is calculated according to the following formula:

$$[\text{Payroll Factor} + \text{Property Factor} + 2(\text{Sales Factor})] / 4$$

For further information contact the Indiana Department of Revenue's Corporation Tax Section at (317) 615-2662.

## II. INDIVIDUAL STATE INCOME TAX

### OHIO

Ohio personal income tax rates will decrease 4.2% per year or 21% over 5 years beginning with taxable years 2005 through 2009. The top marginal rates will decrease from the 2004 rate of 7.5%, to 5.925% for taxable year 2009 as follows:

TAX YEAR	RATE
2005	7.185%
2006	6.870%
2007	6.555%
2008	6.240%
2009	5.925%

Ohio Rev. Code §5747.02(A)(2)-(A)(6).

Ohio levies an income tax on modified federal adjusted gross income (AGI). The same rate applies to both separate and joint returns; however, a joint filing credit is allowed on a joint return if each spouse has earned income of \$500 or more. The joint filing credit ranges from 20% of the tax (if Ohio taxable income is \$25,000 or less) to 5% of the tax (if Ohio taxable income is more than \$75,000), not to exceed \$650. Personal and dependency exemptions are \$1,300 with an additional credit of \$20 per exemption. There are no itemized deductions and there is no deduction for federal income tax. The Ohio rate schedule is as follows:

Ohio Taxable Income	Tax
\$ 0-5,000	0.712% of Ohio taxable income
\$ 5,000-10,000	\$35.60 plus 1.424% of excess over \$5,000
\$ 10,000-15,000	\$106.80 plus 2.847% of excess over \$10,000
\$ 15,000-20,000	\$249.15 plus 3.559% of excess over \$15,000
\$ 20,000-40,000	\$427.10 plus 4.27% of excess over \$20,000
\$ 40,000-80,000	\$1,281.10 plus 4.983% of excess over \$40,000
\$ 80,000-100,000	\$3,274.30 plus 5.693% of excess over \$80,000
\$ 100,000-200,000	\$4,412.90 plus 6.61% of excess over \$100,000
Over \$200,000	\$11,022.90 plus 7.185% of excess over \$200,000

For additional information contact the Ohio Department of Taxation's Income Tax Division at (513) 852-3300.

## **KENTUCKY**

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Kentucky income tax is levied on modified federal taxable income. Itemized deductions are allowed and generally follow federal rules. Non-itemizers receive a standard deduction of \$1,870. Personal and dependency credits are \$20. Married taxpayers may file a joint return or separate returns. The Kentucky tax rate schedule is as follows:

<b>Kentucky Taxable Income</b>	<b>Tax</b>
\$ 0 - 3,000	2% of income
\$ 3,001 - 4,000	\$ 60 plus 3% of excess over \$ 3,000
\$ 4,001 - 5,000	\$ 90 plus 4% of excess over \$ 4,000
\$ 5,001 - 8,000	\$ 130 plus 5% of excess over \$ 5,000
\$ 8,001 - 75,000	\$ 280 plus 5.8% of excess over \$ 8,000
Over \$ 75,000	\$ 4380 plus 6% of excess over \$ 75,000

For additional information contact the Kentucky Revenue Cabinet, Income Tax Division, (502) 564-4581.

## **INDIANA**

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Indiana levies a flat 3.4% income tax on modified adjusted gross income (AGI). Personal and dependency exemptions are \$1,000. Married taxpayers may file joint return or separate returns. Federal income tax is not deductible.

For additional information contact Indiana Department of Taxation, (317) 232-2240.

### **III. UNEMPLOYMENT INSURANCE**

#### **OHIO**

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0.2% to 8% (experienced rate) of the first \$ 9,000 of wages paid to each employee. The new business rate for all employers, except those engaged in the construction industry is 2.7%. For employers engaged in construction, the new business rate is the average rate for the industry, or 3.7% for the calendar year 2005. For further information contact Ohio Department of Job & Family Services, Compliance Department (513) 852-3126 or Contribution Department (614) 466-2319.

#### **KENTUCKY**

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0.3% to 9.5% (experienced rate) of the first \$ 8,000 of wages paid to each employee. The new business rate (per yearly tax rate schedule) for the contract construction industry is 9% and 2.7% for all other industries. For further information contact Kentucky Human Resources Cabinet, (502) 564-2900 or Tax Division (502) 564-2272.

#### **INDIANA**

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0.1% to 5.6% (experienced rate) of the first \$ 7,000 of wages paid to each employee. The new business rate is 2.7%. For further information contact Indiana Employment Security Office, (317) 232-7436.

## IV. INCORPORATION FEES

### OHIO

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Initial Articles of Incorporation = \$125 plus the following fees if more than 1,500 shares are issued.

<u>Shares</u>	<u>Rate Per Share</u>
First 1,000	\$ 0.10
1,001 - 10,000	\$ 0.05
10,001 - 50,000	\$ 0.02
50,001 - 100,000	\$ 0.01
100,001 - 500,000	\$ 0.0050
More than 500,000	\$ 0.0025
Minimum Fee	\$ 125.00

### KENTUCKY

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Articles of Incorporation Filing Fee= \$40.00 plus Organization Tax based on shares:

<u>Shares</u>	<u>Rate Per Share</u>
Up to 20,000	\$ 0.01
Next 180,000	\$ 0.005
Remaining	\$ 0.002
Minimum Fee for 1,000 Shares or Less	\$ 10.00

### INDIANA

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<u>Description</u>	<u>Fee</u>
Articles of Incorporation (Domestic & Foreign)	\$ 90

## V. SALES TAX

### Combined State and Local Sales Tax Rates

<b><u>6.0%</u></b>	<b><u>6.5%</u></b>	<b><u>6.75%</u></b>
Boone County, KY Bracken County, KY Campbell County, KY Gallatin County, KY Grant County, KY Kenton County, KY Pendleton County, KY Dearborn County, IN Franklin County, IN Ohio County, IN	Butler County, OH Clermont County, OH Hamilton County, OH Warren County, OH	Brown County, OH

## VI. PROPERTY TAX

### OHIO

- Ohio property rates are 2004 rates, payable in 2005.
- Ohio's real property assessment ratio is 35%. The assessment ratio for inventory is 23% for tax year 2005 and the assessment ratio for tangible personal property is 25% for tax year 2005. The assessment ratio for both inventory and tangible personal property decreases to 18.75%, 12.5%, 6.25%, and 0% for tax years 2006, 2007, 2008 and 2009, respectively. All types of tangible personal property are taxed at the same rate. Tangible personal property is depreciated based on class life method. Intangible property is not taxed in Ohio.
- Tax on real property is reduced by a factor, which varies from district to district and varies between residential/agricultural property and commercial/industrial property. The reduction factors do not apply to the tax on other types of property.
- The value of inventories is assessed at the end of each month, the annual assessment being the average of the 12 monthly figures.
- The first \$10,000 of valuation of tangible personal property is exempt from taxation.
- Beginning in tax year 2004, taxpayers having taxable tangible personal property with a taxable value of less than \$10,000 will not be required to file an informational return.

For further information contact the County Auditor where located or the Ohio Department of Taxation, Property Tax Division (513) 852-3365 or (614) 466-8122.

BROWN COUNTY, OH				BUTLER COUNTY, OH			
	Tax Rate Per \$1,000	Assess Ratio	Effective Tax Rate		Tax Rate Per \$1,000	Assess Ratio	Effective Tax Rate
Ranges:				Ranges:			
Real Property	37.35 - 68.2			Real Property	33.65 - 57.8		
Personal Property	37.35 - 68.2			Personal Property	39.69 - 98.64		
Averages:				Averages:			
Real Property	49.85			Real Property	41.66		
Personal Property	49.85			Personal Property	63.68		
Real Property:				Real Property:			
Land & Building	49.85	35%	17.45	Land & Building	41.66	35%	14.58
Tangible Personal Property				Tangible Personal Property			
Finished Goods Inventory	49.85	23%	11.96	Finished Goods Inventory	63.68	23%	15.28
Work In Process	49.85	23%	11.96	Work In Process	63.68	23%	15.28
Raw Materials	49.85	23%	11.96	Raw Materials	63.68	23%	15.28
Manufacturing Machinery	49.85	25%	12.46	Manufacturing Machinery	63.68	25%	15.92
Other Tangible Personal Property	49.85	25%	12.46	Other Tangible Personal Property	63.68	25%	15.92
Property Stored at Public Warehouses	49.85	25%	12.46	Property Stored at Public Warehouses	63.68	25%	15.92
Intangible Property (not including dealers of intangibles)			N/A	Intangible Property (not including dealers of intangibles)			N/A

CLERMONT COUNTY, OH				HAMILTON COUNTY, OH			
	Tax Rate Per \$1,000	Assess. Ratio	Effective Tax Rate		Tax Rate Per \$1,000	Assess. Ratio	Effective Tax Rate
Ranges:				Ranges:			
Real Property	34.22 - 138.73			Real Property	41.64 - 105.32		
Personal Property	50.65 - 108.58			Personal Property	71.52 - 138.73		
Averages:				Averages:			
Real Property	48.74			Real Property	63.46		
Personal Property	71.97			Personal Property	95.96		
Real Property:				Real Property:			
Land & Building	48.74	35%	17.06	Land & Building	63.46	35%	22.21
Tangible Personal Property				Tangible Personal Property			
Finished Goods Inventory	71.97	23%	16.55	Finished Goods Inventory	95.96	23%	22.07
Work In Process	71.97	23%	16.55	Work In Process	95.96	23%	22.07
Raw Materials	71.97	23%	16.55	Raw Materials	95.96	23%	22.07
Manufacturing Machinery	71.97	25%	17.99	Manufacturing Machinery	95.96	25%	23.99
Other Tangible Personal Property	71.97	25%	17.99	Other Tangible Personal Property	95.96	25%	23.99
Property Stored at Public Warehouses	71.97	25%	17.99	Property Stored at Public Warehouses	95.96	25%	23.99
Intangible Property (not including dealers of intangibles)			N/A	Intangible Property (not including dealers of intangibles)			N/A

WARREN COUNTY, OH			
	Tax Rate Per \$1,000	Assess. Ratio	Effective Tax Rate
Ranges:			
Real Property	34.03 - 67.09		
Personal Property	50.78 - 100.39		
Averages:			
Real Property	47.66		
Personal Property	71.50		
Real Property:			
Land & Building	47.66	35%	16.68
Tangible Personal Property			
Finished Goods Inventory	71.50	23%	16.45
Work In Process	71.50	23%	16.45
Raw Materials	71.50	23%	16.45
Manufacturing Machinery	71.50	25%	17.88
Other Tangible Personal Property	71.50	25%	17.88
Property Stored at Public Warehouses	71.50	25%	17.88
Intangible Property (not including dealers of intangibles)			N/A

## KENTUCKY

- Kentucky property tax rates are 2004 rates, payable in 2005.
- The rates for Boone County include the cities of Florence, Union, and Walton. Bracken County includes city rates for Augusta, Brooksville, and Germantown. Campbell County includes city rates for Alexandria, Bellevue, California, Cold Spring, Crestview, Dayton, Fort Thomas, Highland Heights, Melbourne, Mentor, Newport, Silver Grove, Southgate, Wilder, and Woodlawn. Gallatin County includes city rates for Glencoe, Sparta, and Warsaw. Grant County includes city rates for Corinth, Crittenden, Dry Ridge, and Williamstown. Pendleton County includes city rates for Butler and Falmouth.
- Kentucky's assessment ratio for all real and tangible personal property is 100%. Work in process and raw materials are taxed at \$0.50/\$1,000 and manufacturing machinery is taxed at \$1.50/\$1,000. All other types of tangible personal property are taxed at the full rate. Intangible property is taxed at the state rate of \$.15/\$1,000.
- The value of inventory is assessed once a year as of January 1.

For further information contact the Property Value Administration Office where located or Kentucky Revenue Cabinet Department of Property Taxation (502) 564-4581.

BOONE COUNTY, KY				BRACKEN COUNTY, KY			
	Tax Rate Per \$1,000	Assess. Ratio	Effective Tax Rate		Tax Rate Per \$1,000	Assess. Ratio	Effective Tax Rate
Ranges:				Ranges:			
Real Property	4.6 - 96.6			Real Property	24.42 - 63.4		
Personal Property	10 - 96.6			Personal Property	0 - 93.2		
Averages:				Averages:			
Real Property	12.52			Real Property	12.90		
Personal Property	15.17			Personal Property	19.14		
Real Property:				Real Property:			
Land & Building	12.52	100%	12.52	Land & Building	12.90	100%	12.90
Tangible Personal Property				Tangible Personal Property			
Finished Goods Inventory	15.17	100%	15.17	Finished Goods Inventory	19.14	100%	19.14
Work In Process	0.50	100%	0.50	Work In Process	0.50	100%	0.50
Raw Materials	0.50	100%	0.50	Raw Materials	0.50	100%	0.50
Manufacturing Machinery	1.50	100%	1.50	Manufacturing Machinery	1.50	100%	1.50
Other Tangible Personal Property	15.17	100%	15.17	Other Tangible Personal Property	19.14	100%	19.14
Property Stored at Public Warehouses	15.17	100%	15.17	Property Stored at Public Warehouses	19.14	100%	19.14
Intangible Property (not including dealers of intangibles)			0.25%	Intangible Property (not including dealers of intangibles)			0.25%

CAMPBELL COUNTY, KY				GALLATIN COUNTY, KY			
	Tax Rate Per \$1,000	Assess. Ratio	Effective Tax Rate		Tax Rate Per \$1,000	Assess. Ratio	Effective Tax Rate
<b>Ranges:</b>				<b>Ranges:</b>			
Real Property	0.92 - 88.1			Real Property	10 - 52		
Personal Property	0 - 88.1			Personal Property	0 - 52		
<b>Averages:</b>				<b>Averages:</b>			
Real Property	13.19			Real Property	10.96		
Personal Property	13.71			Personal Property	10.96		
<b>Real Property:</b>				<b>Real Property:</b>			
Land & Building	13.19	100%	13.19	Land & Building	10.96	100%	10.96
<b>Tangible Personal Property</b>				<b>Tangible Personal Property</b>			
Finished Goods Inventory	13.71	100%	13.71	Finished Goods Inventory	10.96	100%	10.96
Work In Process	0.50	100%	0.50	Work In Process	0.50	100%	0.50
Raw Materials	0.50	100%	0.50	Raw Materials	0.50	100%	0.50
Manufacturing Machinery	1.50	100%	1.50	Manufacturing Machinery	1.50	100%	1.50
Other Tangible Personal Property	13.71	100%	13.71	Other Tangible Personal Property	10.96	100%	10.96
Property Stored at Public Warehouses	13.71	100%	13.71	Property Stored at Public Warehouses	10.96	100%	10.96
Intangible Property (not including dealers of intangibles)			0.25%	Intangible Property (not including dealers of intangibles)			0.25%

GRANT COUNTY, KY				KENTON COUNTY, KY			
	Tax Rate Per \$1,000	Assess. Ratio	Effective Tax Rate		Tax Rate Per \$1,000	Assess. Ratio	Effective Tax Rate
<b>Ranges:</b>				<b>Ranges:</b>			
Real Property	20.6 - 68.6			Real Property	0 - 92.5		
Personal Property	20.6 - 68.6			Personal Property	0 - 92.5		
<b>Averages:</b>				<b>Averages:</b>			
Real Property	10.88			Real Property	11.10		
Personal Property	11.67			Personal Property	11.98		
<b>Real Property:</b>				<b>Real Property:</b>			
Land & Building	10.88	100%	10.88	Land & Building	11.10	100%	11.10
<b>Tangible Personal Property</b>				<b>Tangible Personal Property</b>			
Finished Goods Inventory	11.67	100%	11.67	Finished Goods Inventory	11.98	100%	11.98
Work In Process	0.50	100%	0.50	Work In Process	0.50	100%	0.50
Raw Materials	0.50	100%	0.50	Raw Materials	0.50	100%	0.50
Manufacturing Machinery	1.50	100%	1.50	Manufacturing Machinery	1.50	100%	1.50
Other Tangible Personal Property	11.67	100%	11.67	Other Tangible Personal Property	11.98	100%	11.98
Property Stored at Public Warehouses	11.67	100%	11.67	Property Stored at Public Warehouses	11.98	100%	11.98
Intangible Property (not including dealers of intangibles)			0.25%	Intangible Property (not including dealers of intangibles)			0.25%

<b>PENDLETON COUNTY, KY</b>			
	Tax Rate		Effective
	Per	Assess.	Tax
	\$1,000	Ratio	Rate
<b>Ranges:</b>			
	11.5 -		
Real Property	49.2		
Personal Property	8.9 - 50.5		
<b>Averages:</b>			
Real Property	11.68		
Personal Property	12.53		
<b>Real Property:</b>			
Land & Building	11.68	100%	11.68
<b>Tangible Personal Property</b>			
Finished Goods Inventory	12.53	100%	12.53
Work In Process	0.50	100%	0.50
Raw Materials	0.50	100%	0.50
Manufacturing Machinery	1.50	100%	1.50
Other Tangible Personal Property	12.53	100%	12.53
Property Stored at Public Warehouses	12.53	100%	12.53
<b>Intangible Property</b>			
(not including dealers of intangibles)			0.25%

## INDIANA

- Indiana property tax rates are 2005 rates.
- Indiana's assessment ratio is now 100% for tangible personal property. All types of tangible personal property are taxed at the same rate. Indiana does not tax intangible property.
- The value of inventory is assessed once a year as of March 1.
- Indiana's system of real estate assessment has changed effective for the 2002 general reassessment.
- Past assessment rates have no relation to new assessment rates.
- New assessment rates for Dearborn and Franklin County have not yet been approved.

OHIO COUNTY, IN			
	Tax Rate Per \$1,000	Assess. Ratio	Effective Tax Rate
Ranges:			
Real Property	38.55 - 41.5		
Personal Property	25.07 - 29.29		
Averages:			
Real Property	40.79		
Personal Property	28.29		
Real Property:			
Land & Building	40.79	100%	40.79
Tangible Personal Property			
Finished Goods Inventory	28.29	100%	28.29
Work In Process	28.29	100%	28.29
Raw Materials	28.29	100%	28.29
Manufacturing Machinery	28.29	100%	28.29
Other Tangible Personal Property	28.29	100%	28.29
Property Stored at Public Warehouses	28.29	100%	28.29
Intangible Property			
(not including dealers of intangibles)			N/A

For further information visit [www.in.gov/dlgf](http://www.in.gov/dlgf).