

# Ohio Corporation Franchise Tax Telephone Company Instructions for Supplemental Schedule A-1 Tax Year 2009

Because of their unique nature, telephone companies are subject to Ohio franchise tax deduction, add-back, apportionment and credit provisions that do not apply to other taxpayers. These supplemental franchise tax instructions along with supplemental schedule A-1, nonrefundable credits, reflect those franchise tax provisions that are unique to telephone companies.

The term "telephone company," as used throughout these instructions, means any person "primarily engaged in the business of providing local exchange telephone service, excluding cellular radio service, in this state" (see R.C. 5727.01).

Local exchange telephone companies were first subject to the Ohio Revised Code (R.C.) Chapter 5733 corporation franchise tax for tax year (privilege year) 2005. **As a result of the franchise tax phase-out telephone companies will not be subject to the franchise tax after tax year 2009** (see R.C. 5733.09(A)(3) and 5733.01(G)(2)).

**Except for those provisions that are specifically addressed in these instructions, please refer to the 2009 Ohio corporation franchise tax report (form FT 1120) and the 2009 franchise tax instructions. Please attach the completed supplemental schedule A-1 to form FT 1120 and indicate that the taxpayer is a telephone company as defined in R.C. 5727.01 by checking the appropriate box in the top right corner of page 1 of form FT 1120. Form FT 1120, the franchise tax instructions and supplemental schedule A-1 are all available on our Web site:**

**tax.ohio.gov**

- Telephone companies are allowed a net income base "book-tax difference" adjustment equal to the difference between the net book value of the company's assets on Dec. 31, 2003 and the federal adjusted basis of those assets on that date. The adjustment is to be claimed equally in each of the ten franchise tax years 2010 through 2019.
- Telephone companies can claim three franchise tax credits that are not available to other taxpayers.

The book-tax difference adjustment and the telephone company credits are explained below.

### Book-Tax Difference Adjustment

**Note: Under current law, the franchise tax book-tax difference adjustment explained below will never apply because (i) the franchise tax is scheduled to be fully phased-out with the filing of the 2009 report (for those taxpayers, such as telephone companies, that are subject to the phase-out) and (ii) the book-tax difference adjustment does not begin to apply until tax year 2010.**

The term "book-tax difference" means the difference, if any, between (i) an asset's net book value as shown on a qualifying telephone company's books and records on Dec. 31, 2003, in accordance with generally accepted accounting principles, and (ii) such asset's adjusted basis on Dec. 31, 2003. The book-tax difference may be either a positive number or a negative number.

- The R.C. 5733.0511 book-tax difference adjustment for telephone companies applies only if (i) the telephone company was subject to R.C. 5727.30 public utility tax for gross receipts received during the period from July 1, 2003 to June 30, 2004 and (ii) for tax years 2003 through 2006 the telephone company's property subject to taxation under Chapter 5727 of the Revised Code was assessed using the true value percentages provided for in R.C. 5727.111(B).
- If as of Dec. 31, 2003 the net book value of the telephone company's assets exceeds the federal adjusted basis of the assets, then in each of the ten tax years 2010 through 2019 the telephone company must reduce net income by 1/10 of the book-tax difference. On the other hand, if as of Dec. 31, 2003 the federal adjusted basis of the telephone company's assets exceeds the net book value of its assets, then in each of the ten years beginning with tax year 2010 the telephone company must increase net income by 1/10 of the absolute value of the book-tax difference.
- The book-tax difference adjustment applies regardless of when the telephone company disposes of its Dec. 31, 2003 assets. But, as noted above, under current law the book-tax difference adjustment will never apply to telephone companies because the franchise tax will have phased out before the adjustment is scheduled to begin.

**Apportionment and allocation of income.** Telephone companies must apportion business income and allocate nonbusiness income by applying the same apportionment and allocation provisions applicable to other taxpayers. Thus, for sales factor purposes a telephone company's proceeds from sales of telecommunications services are situsable to Ohio in proportion to the purchaser's benefit, with respect to the sale, in Ohio to the purchaser's benefit, with respect to the sale, everywhere.

### Supplemental Schedule A-1 – Nonrefundable Credits

As noted above, in addition to the nonrefundable credits allowed other taxpayers, telephone companies may claim the following three nonrefundable credits:

1. The credit for small telephone companies with 25,000 or fewer access lines. See R.C. 5733.57 and Supplemental Schedule A-1, line 11;
2. The credit for eligible nonrecurring 9-1-1 charges. See R.C. 5733.55 and Supplemental Schedule A-1, line 12; and
3. The credit for providing programs to aid the communicatively impaired carried forward to 2009 from 2005. **Caution:** Except for the unused credit amounts carried forward from the 2005 report, this credit no longer applies. The R.C. 5733.56 credit for providing programs to aid the communicatively impaired could be claimed as a refundable credit only for report years 2006, 2007 and 2008. The credit is nonrefundable for report year 2005 and for unused amounts carried forward from 2005 to 2006, 2007, 2008 and/or 2009. See R.C. 5733.56 and Supplemental Schedule A-1, line 13.

Like all nonrefundable credits, the above credits must be claimed in the order required by R.C. 5733.98. That order is shown on supplemental schedule A-1.

**Line 11 – Credit for small telephone companies.** For report years 2005 through 2009 a “small telephone company” can claim a franchise tax credit equal to a percentage of the amount by which the telephone company’s franchise tax before credits exceeds the public utility gross receipts tax that would have been charged had the law not been changed. Specifically, the credit equals the “applicable percentage” for the tax year (see table below) multiplied by the difference between (1) the franchise tax (including the litter tax) for the tax year before all credits, and (2) the public utility gross receipts tax that would have been charged (had the law not been amended) for the measurement year that ended on June 30 of the calendar year prior to the franchise tax year.

A **small telephone company** is a telephone company that (i) existed on Jan. 1, 2003, (ii) had 25,000 or fewer access lines as shown on the company’s annual report filed with the public utilities commission for the calendar year preceding the tax year, and (iii) is an incumbent local exchange carrier under 47 U.S.C. 251(h).

**Applicable percentage.** The following table list the applicable percentage for the corresponding tax year:

Franchise Tax Year	Applicable %
2005	100%
2006	80%
2007	60%
2008	40%
2009	20%
2010 and thereafter	0%

Of course, there is no credit if the gross receipts tax (that would have been charged had the law not been changed) exceeds the franchise tax. Credit amounts not used in the year generated may not be carried forward or carried back to another year.

**Line 12(a) – Credit for eligible nonrecurring 9-1-1 charges.** A telephone company is allowed a nonrefundable franchise tax credit equal to the amount of the company’s eligible nonrecurring 9-1-1 charges as defined in R.C. 5733.55(A)(3). A telephone company must claim this credit for the company’s taxable year in which the 9-1-1 service for which it claims the credit becomes available for use. Credit amounts not used in the year generated can be carried forward until fully utilized. See R.C. 5733.55.

the franchise tax year in which that limit would be exceeded, each taxpayer claiming the credit will be allowed a uniform percentage of the credit claimed, so that the cumulative credit allowed does not exceed the \$15 million limit. The Department of Taxation will notify telephone companies (through these supplemental franchise tax instructions) of the year in which the department anticipates the limit will be reached.

The franchise tax credit for eligible nonrecurring 9-1-1 charges is substantially the same as the credit for eligible nonrecurring 9-1-1 charges granted under the public utility excise tax (compare R.C. 5733.55 to R.C. 5727.39).

**Line 12(b) – Carryforward of unused R.C. 5727.39 credit for eligible nonrecurring 9-1-1 charges.** Enter the taxpayer’s unused R.C. 5727.39 credit carryforward remaining after the taxpayer’s last public utility excise tax payment for the period of July 1, 2003 through June 30, 2004 that was not claimed as a credit on the taxpayer’s 2005 through 2008 franchise tax reports. A telephone company that was entitled to apply the R.C. 5727.39 credit carry forward against its public utility excise tax liability can claim the unused amount as a credit against its Chapter 5733 corporation franchise tax liability. Because the R.C. 5727.39 credit carryforward is not considered in determining the R.C. 5733.55 \$15 million credit limit, discussed in the instructions for line 12(a), taxpayers must separately list the R.C. 5727.39 credit carryforward on line 12(b).

**Line 13 – Credit for providing programs to aid the communicatively impaired. Unused carryforward from 2005.** If on its 2005 franchise tax report the taxpayer claimed this credit for costs incurred in providing the telephone service program during its taxable year ending in 2004 and the taxpayer was unable to utilize the credit or a portion of the credit on its 2005 report, the unused 2005 credit amount can be carried forward and claimed as a nonrefundable credit for 2006 and subsequent years. Do not claim the unused portion of the 2005 nonrefundable credit as a 2006, 2007, 2008 or 2009 refundable credit.

The cumulative sum of the 9-1-1 credit amounts allowed for all franchise taxpayers for all franchise tax years is limited to \$15 million. In