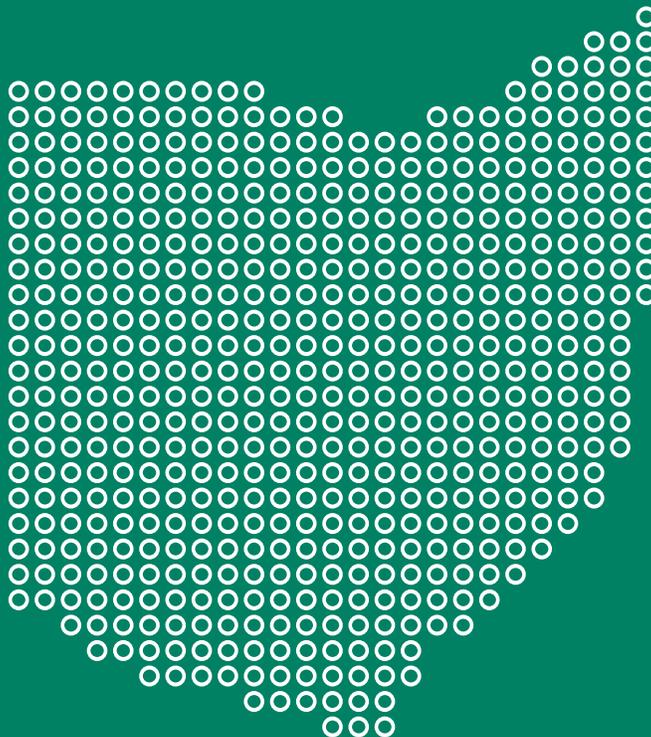


# Ohio tax reform: Year 2 in review

**Lowering the burden for families and businesses.  
Raising the standard of living for all Ohioans.**



## **A message from Ohio Business Roundtable Chairman Michael G. Morris**

Three years ago, Ohio's business and elected leaders joined hands to collaborate on the most sweeping tax reform in our state's history. The vision was simple but compelling — overhaul the tax code so Ohio companies could become more competitive globally, invest more in our state and, thereby, fuel our economic growth.

In the second year of a five-year rollout, it is rewarding to see accelerating business investment and an ever strengthening spirit of accomplishment create job growth in Ohio. Indeed, for the second straight year, *Site Selection* magazine has awarded Ohio the Governor's Cup for the most new and expanded large-scale capital projects — beating out Illinois, Tennessee, North Carolina and Texas for the top spot.

All evidence supports that Ohio's tax reform is working as planned. Elimination of taxes on capital investment, inventory, sales of goods and services to customers outside of Ohio, as well as corporate income and franchise taxes, combine to help make Ohio the ideal location to build a successful global business. In addition, reducing personal income tax by 21% helps Ohio citizens afford an even more fulfilling life.

In Ohio, collaboration between private and public sector leaders is the approach we take to continually improve our business climate and standard of living — leading to education reform, tort reform and then tax reform. And we are now collaborating to strengthen math and science education, further improve our higher education system and make college more affordable, while we also tackle one of the defining and most complex issues of our time — access, quality and cost of health care.

The Ohio Business Roundtable is proud to be a part of this collaboration, and we sincerely thank Governor Strickland, Lieutenant Governor Fisher, Senate President Harris, House Speaker Husted and their colleagues in the General Assembly for their leadership in navigating Ohio's ship of state across these turbulent economic waters.

We applaud these leaders for their continued bipartisan commitment to the tax reforms enacted three years ago. It is this commitment to working together that helps set Ohio apart from other states. It is a key reason why the CEOs of Ohio's major businesses who are our members are proud to call Ohio, "home."

As BRT Chairman, I have the privilege of reporting on the results and impact of work started by my predecessor chairs. The progress outlined in this brief booklet would not have been possible without the steady hand of John Barrett, who personally led our tax reform effort. I invite you to read about its success and encourage your renewed commitment to work together on behalf of the citizens of our great state.



30 June 2008



# The view from Ohio's leaders

## Tax reform means capital investment, an improved business climate and a growing economy for Ohio

"Ohio has won the (Governor's) cup two years in a row. Not by opinion polls or historical databases, but rather by objective, tough-to-convince, hard-nosed business executives who don't like to make mistakes when it comes to large capital investments. These executives are seeing a fundamentally improved Ohio business climate. In 2005, Ohio enacted the most sweeping tax reform in 75 years; reform that made Ohio's new capital investment tax rates the lowest in the Midwest. These reforms are designed to make Ohio companies even more competitive in the global economy and will ensure that Ohio's economy continues to be robust and vibrant throughout the 21st century."

Governor Ted Strickland and Lieutenant Governor Lee Fisher  
Letter to the Editor of the *Wall Street Journal*, March 7, 2008

"We reformed our state tax code to reflect positive changes in the economy and to boost the state's ability to attract new companies and good-paying, high-tech jobs to Ohio. As we continue to implement these changes, employers throughout the nation are already taking notice of our state's more favorable tax climate, and we are becoming much more competitive in economic development. Through tax reform, we also provided for real tax relief to families, approving a 21 percent across-the-board income tax cut. This has allowed families to keep more of their hard-earned dollars and empowered them to spend it on their own priorities. In the years ahead, we must ensure this progress continues and that our tax reform plan is fully phased in."

Ohio Senate President Bill Harris

"The transformation and revitalization of Ohio's economy is vital to our success as a state. We laid the groundwork for that success with our historic tax reform package — providing Ohioans with a 21 percent across-the-board tax cut and moving to a lower rate, broader based tax for businesses, making Ohio a more attractive place for people to earn, invest, learn and live. Today, we are building on that foundation by investing even more in our most valued resource — our people. We have developed programs of educational excellence, invested in our children by focusing on the skill sets of tomorrow in science, technology, engineering and mathematics, and we are establishing partnerships with business to pair Ohio graduates with jobs right here in Ohio. Our investments today will help Ohioans gain the skills they need to compete tomorrow — not just with those from Indiana, but those from Indonesia and India as well."

Ohio House Speaker Jon Husted

## Making Ohio companies more competitive in the global economy

Ohio's private and public leadership collaborated to effect the most sweeping tax reforms in 75 years — modernizing the tax code, providing welcome tax relief for Ohio citizens and helping grow the economy. This tax reform helps Ohio companies provide an even stronger value proposition to the world's consumers by lowering operating costs and helps employees better achieve their personal aspirations by increasing their disposable income.

The net impact of the reform is that Ohio now offers companies the lowest new capital investment tax structure in the Midwest.

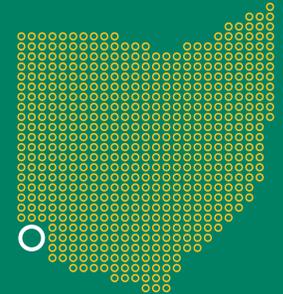
Unlike in other states, companies are no longer taxed for investing in capital improvements necessary to be competitive. Projects to modernize manufacturing lines and invest in machinery and equipment can now more easily move from the planning phase to execution.

The key to success in Ohio's tax reform is that it was designed around a set of principles agreed to by private and public sector leaders. The six guiding principles are:

1. Grow the talent base, which is a critical element in building businesses and growing the economy, by eliminating high tax burdens on individuals.
2. Foster new capital investment, especially in Ohio's globally renowned advanced manufacturing, advanced design and advanced materials industries.
3. Broaden the base to include all sectors of the economy and create a true risk sharing partnership between the public and private sectors.
4. Stimulate entrepreneurial and start-up activity, which is the bedrock of a growing economy.
5. Make the tax code fair, equitable and simple for taxpayers.
6. Enable the state to invest responsibly by providing a stable and sufficient revenue stream.

The net effect of the new tax code is to shift the burden away from taxing investment, profitability and wealth creation — toward taxing consumption. This strategy allows companies and individuals to invest in creating a stronger future.

### What business leaders think

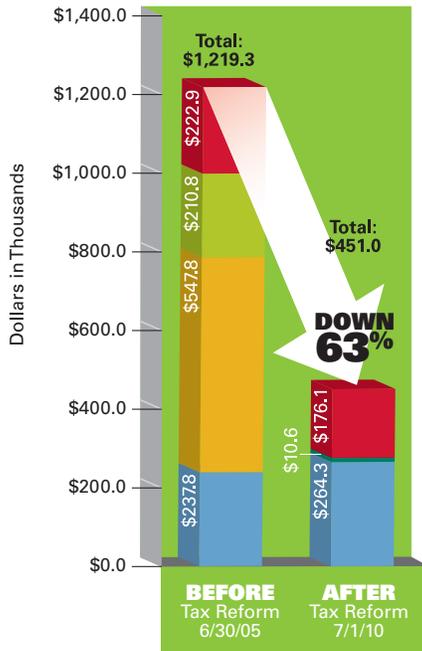


**"With our wealth of riches and assets as a state, we can now say that Ohio also has one of the most business-friendly tax codes in the country. Tax reform is now a reality in Ohio because the business community worked hard with our elected state leaders — not simply to level the competitive 'playing field' but to move Ohio to the head of the pack."**

**John Barrett**  
*Immediate Past Chairman*  
Ohio Business  
Roundtable

*Chairman and CEO*  
Western & Southern  
Financial Group  
Cincinnati

The real world impact is a reduction of up to 63% in Ohio's tax burden.



- State Personal Income Tax
- State Corporate Franchise Tax
- State Gross Receipts Tax
- Tangible Personal Property
- Real Property

- Based on:**
- A firm plans on investing \$32 million into a facility
    - Real Property = \$12 million
    - Tangible Personal Property = \$20 million
  - Plans to hire 200 employees
    - Average wage of \$35,000 per year
  - Total Expected Sales of \$50 million
  - Expected Exports of 90%
  - Net Income is \$5 million

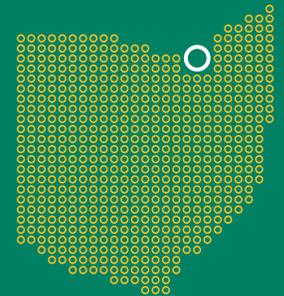
Source: Ohio Department of Development, Office of Strategic Research

The Ohio tax reform made significant changes in almost all major state and local taxes. The positive impact will grow through the five-year phase-in period and reach maximum impact in 2010. Based upon computer forecasts, the following provides an overview of the projected impact of this reform:

- Provide a cumulative, five-year tax reduction of \$10.6 billion, compared to forecasts of the taxes that would otherwise have been collected based on the tax system in place in 2005.
- Eliminate Ohio's corporate profits and net worth taxes, a reduction of roughly \$1.6 billion (2010 figure) a year in business taxes; subsidiaries of banks and insurance companies will still pay the tax.
- Eliminate local property taxes on inventory, machinery and equipment, and furniture and fixtures for an annual savings of roughly \$1.6 billion in business taxes.
- Lower sales taxes by roughly \$770 million, compared to the sales tax rate that applied in 2005.
- Offset part of these revenue reductions through an increase in cigarette taxes and adoption of a low-rate, broad-based gross receipts tax on virtually all types of businesses. The cigarette tax increase will generate roughly \$398 million in 2010. The gross receipts tax will generate roughly \$1.6 billion.

Specialized econometric models, built for the Ohio Business Roundtable by Ernst & Young, project that by 2010 the reforms will grow Ohio's economy by increasing gross state product by \$5.6 billion and personal income by \$3.6 billion. It also will inject an additional \$6.3 billion of new capital investment in Ohio's economy. There is every indication that we are well on our way to achieving this target as evidenced by the data reflected on page 15 in this booklet.

What business leaders think



**"The new tax code creates a much more business- and investment-friendly climate in our state. I am especially delighted that the Greater Cleveland Partnership was able to partner with the Ohio Business Roundtable in this accomplishment."**

Alexander M. Cutler  
Past Chairman  
Greater Cleveland  
Partnership

Chairman and CEO  
Eaton Corporation  
Cleveland

## Tax reform at a glance\*

TAX YEAR	COMMERCIAL ACTIVITY TAX	TANGIBLE PERSONAL PROPERTY (TPP) TAX			CORPORATION FRANCHISE TAX***	INDIVIDUAL INCOME TAX
		INVENTORY	MANUFACTURING MACHINERY & EQUIPMENT (M&E)	FURNITURE & FIXTURES		
2005	7/1 - 12/31 .06% 23% x .26%	23% **	Existing—25% **	25% **	100% x tax liability	4.2% cut across all brackets from 2004 rates
2006	1/1 - 3/31 23% x .26% 4/1 - 12/31 40% x .26%	18.75%	New M&E: not taxable Existing—18.75%	18.75%	80% x tax liability	8.4% cut from 2004 rates
2007	1/1 - 3/31 40% x .26% 4/1 - 12/31 60% x .26%	12.5%	New M&E: not taxable Existing—12.5%	12.5%	60% x tax liability	12.6% cut from 2004 rates
2008	1/1 - 3/31 60% x .26% 4/1 - 12/31 80% x .26%	6.25%	New M&E: not taxable Existing—6.25%	6.25%	40% x tax liability	16.8% cut from 2004 rates
2009	1/1 - 3/31 80% x .26% 4/1 - 12/31 .26%	No tax	No tax	No tax	20% x tax liability	21% cut from 2004 rates
2010	.26%	No tax	No tax	No tax	No tax	21% cut from 2004 rates

Source: Ohio Department of Taxation

\*This chart is not a comprehensive summary of all tax changes. \*\*Same as 2004 rates.

\*\*\*Certain companies, such as financial institutions, will continue to pay the full net worth tax.

## Here's how Ohio's new tax structure impacts the bottom line for companies

### Bolster your productivity. Eliminate tax on machinery, equipment, furniture and fixtures.

Ohio's revised tax code eliminates tax on capital for new machinery and equipment, so you can invest in greater productivity with zero tax burden. Taxes on machinery and equipment placed in Ohio before January 1, 2005 will be reduced each year until the tax is eliminated in 2009. The tax on furniture and fixtures will also be reduced each year through 2008. Machinery and equipment placed in service after January 1, 2005 is exempt.

### Maximize your profits. Eliminate corporate income and franchise taxes.

Taxing profits hurts your company and hampers growth opportunities. These taxes will be eliminated completely in Ohio by tax year 2010.

### Boost your ROI. Eliminate tax on sales of goods and services to customers outside of Ohio.

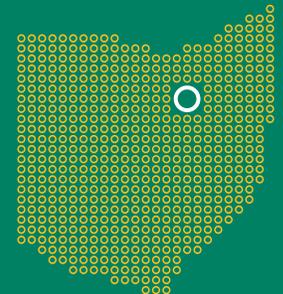
Only sales within the state are taxed at a flat rate of 0.0026, which translates to \$2.60 per \$1,000 of Ohio sales. You get a greater return on your investment dollar. Sales to or benefitting non-Ohio customers are completely exempt from the CAT.

### Reward your entrepreneurial ventures. No tax on first \$1 million in annual gross receipts.\*

This provides attractive relief for small businesses, especially those that transact most or all of their business in Ohio. Helps new businesses get established and show a profit sooner.

\*Gross receipts between \$0 and \$150,000 pay nothing, between \$150,001 and \$1,000,000 pay a \$150 fee.

## What business leaders think



**"Ohio's tax reform initiatives have simplified the tax system and improved both the state's business environment and the competitiveness of Ohio companies."**

**Tim Smucker**  
Chairman & Co-CEO  
The J.M. Smucker Company  
Orrville

**Slash your operating costs. Eliminate tax on inventory.**

Carrying inventory costs can be a heavy burden for your company, especially warehousing and distribution operations. Tax on inventory held in Ohio will be fully eliminated for inventory held after January 1, 2008.

**Attract the best talent; shrink labor costs. Reduce personal income tax by 21%.**

High personal income tax adversely affects your company's ability to attract and retain top-level managers and high-skilled workers. Lowering the state personal income tax makes Ohio a more attractive location for corporate executives to live and work.

**Enjoy a level playing field. All businesses are taxed at the same low rate.**

No unfair advantages. No favored competitors.

**Real world impact of tax reform on capital investor's decisions**

In August 2006, the Ohio Business Development Coalition sponsored a telephone survey among executives that chose Ohio for capital investment. The purpose of the study was to better understand the role Ohio's new tax structure played in their capital investment decision. A total of 62 interviews were completed.

**Demographics of responders**

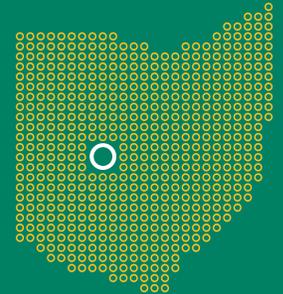
Characteristic	Data
Company Size in Annual Sales	43.5% < \$100M
	35.5% > \$100M
	20.1% refused to answer or didn't know
Job Title	40.3% C-level executive
	59.7% other executive

**Conclusion**

**C-level executives (CEO, CFO, COO, etc.) view Ohio's new tax structure as an important consideration in the capital investment decision.**

- Among C-level executives, 60% indicated it was a "somewhat to very important" consideration in selecting Ohio for capital investment.
- 83.9% of total respondents rated elimination of property tax on investments in machinery and equipment as appealing.
- 82.3% of total respondents rated no business tax on products sold to customers outside Ohio as appealing.
- 56% felt positive enough about the tax reform that they indicated they'd be willing to provide positive endorsements of Ohio's business climate.

**What business leaders think**



**"Success comes from teamwork, and Honda's partnership with Ohio has been rewarding for everyone involved. We're already looking forward to the next 25 years."**

**Tsuneo Tanai**  
*President & CEO*  
Honda of America  
Manufacturing, Inc.  
Marysville

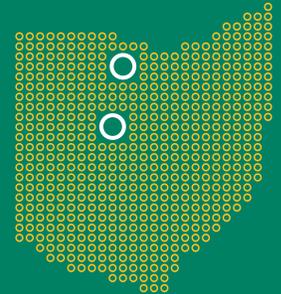
## Industry-specific examples of the impact of Ohio's tax reform

Ohio's new tax structure is designed to enable Ohio-based companies to be even more competitive in the global economy. The tax structure has been described as "profit friendly" and for good reason. For most industries, the new tax structure translates into a significant reduction in business tax liability. Working dollars that were previously expensed as taxes can now be redeployed to support capital investment and other company needs.

The specific impact of the new tax structure does vary by industry. The following pages share scenarios for a number of industries. The intent is simply to provide additional perspective for consideration. Capital investors can get a precise look at the impact of Ohio's new tax structure by requesting a customized analysis from the Office of Business Development at the Ohio Department of Development by calling 1-877-466-4551.

In the following cases, the tax structures for Michigan, Indiana, Illinois, Wisconsin and Minnesota reflect the tax law in place during calendar year 2007. When city data was required, the following city data was referenced — Monroe, Ohio; Springfield, Illinois; Indianapolis, Indiana; Eau Claire, Wisconsin; Rochester, Minnesota; and Ann Arbor, Michigan.

### What business leaders think



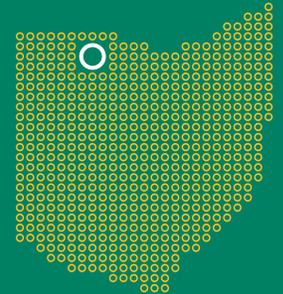
**"The global appliance industry is extremely competitive, and the improved business climate in Ohio, including the 2005 tax reform made the state far more attractive to do business. The end result was our decision to expand our laundry operations and allow our almost 9,000 Ohio employees to do what they do best, make the world's most innovative and energy efficient home appliances."**

Michael Todman  
Whirlpool North  
America President  
Whirlpool Corporation  
Clyde and Marion

# AGRIBUSINESS



## What business leaders think

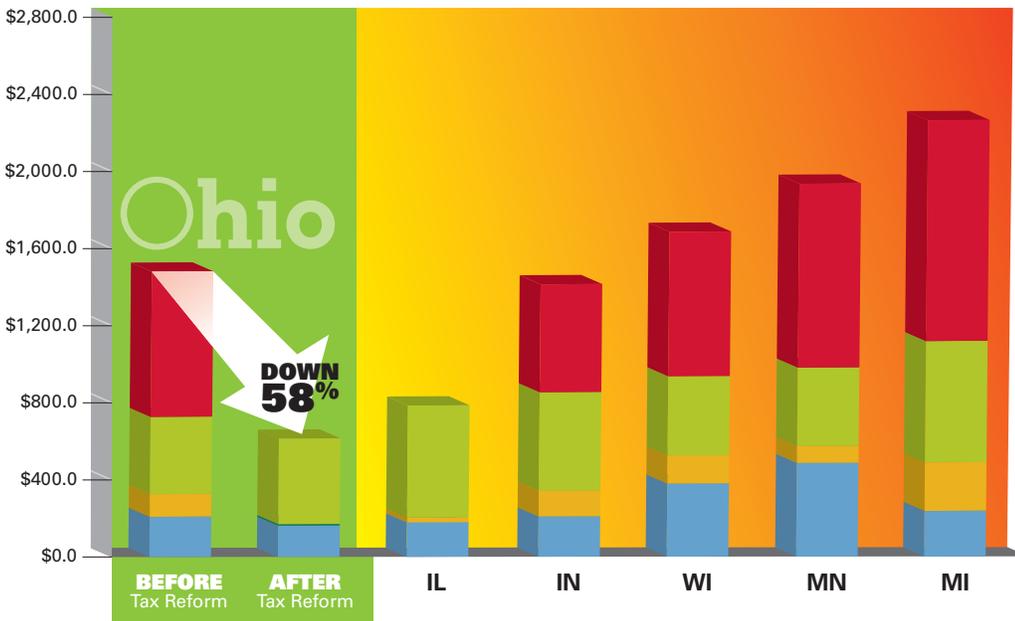


### Major State and Local Taxes: Ohio & Selected Locations

Before application of incentives and abatements

Focus on business tax liability

Dollars in thousands



**“Initially I was skeptical about tax reform — believing it would simply result in winners and losers. Now that the dust has cleared, it is quite evident to me that tax reform has been good for The Andersons, good for business and good for the people of Ohio.”**

**Richard P. Anderson**  
 Chairman  
 The Andersons  
 Maumee

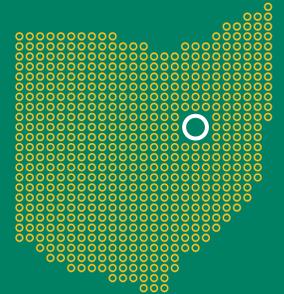
	Ohio		IL	IN	WI	MN	MI
	BEFORE Tax Reform	AFTER Tax Reform					
<b>Summary Total</b>	\$1,487.8	\$618.7	\$791.8	\$1,417.7	\$1,692.9	\$1,945.7	\$2,272.2
<i>Of that total:</i>							
Real Property Tax	402.9	447.7	582.7	509.2	413.6	485.3	632.7
Personal Property Tax	753.2	0.0	Exempt	556.0	749.2	882.9	1,146.1
<i>Of that total:</i>							
1) Market Value of Equipment	612.2	0.0	Exempt	556.0	749.2	882.9	1,146.1
2) Market Value of Furniture, etc.	0.0	0.0	Exempt	0.0	0.0	0.0	0.0
3) Market Value of Inventories	141.0	0.0	Exempt	Exempt	Exempt	Exempt	Exempt
State Corporate Income Tax	118.6	0.0	21.9	140.3	145.9	87.6	250.0
Business Privilege Taxes	0.0	2.8	n/a	n/a	n/a	n/a	n/a
Personal Tax Liability – State	213.1	168.3	187.2	212.2	384.2	489.8	243.4

Source: Ohio Department of Development, Policy, Research & Strategic Planning Office

# BIOTECH



What business leaders think

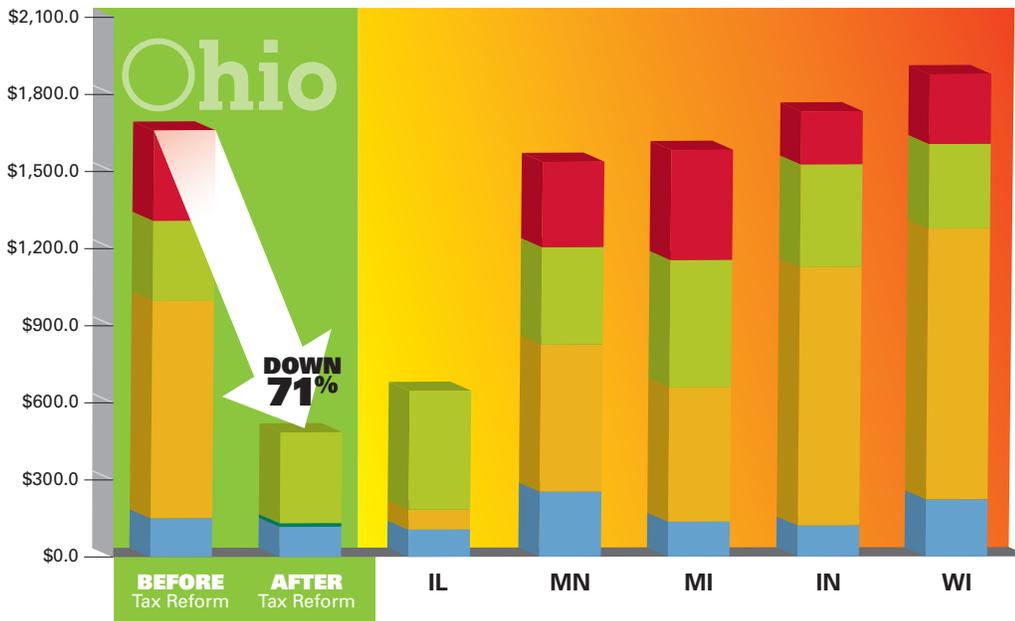


## Major State and Local Taxes: Ohio & Selected Locations

Before application of incentives and abatements

Focus on business tax liability

Dollars in thousands



“Although Dover Chemical has operations in several states, we decided in 2005 to invest approximately \$12 million into a new plant in Ohio. This decision was due in large part to the improving tax climate.”

Darren Schwede  
CFO  
Dover Chemical Corporation  
Dover

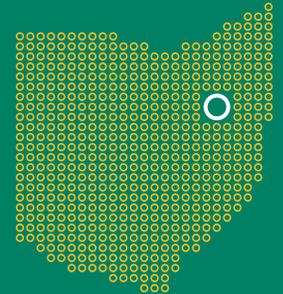
	Ohio		IL	MN	MI	IN	WI
	BEFORE Tax Reform	AFTER Tax Reform					
<b>Summary Total</b>	\$1,662.4	\$489.2	\$649.3	\$1,542.4	\$1,587.4	\$1,739.8	\$1,883.5
<i>Of that total:</i>							
Real Property Tax	316.3	351.5	457.4	381.0	496.7	399.8	324.7
Personal Property Tax	348.7	0.0	Exempt	331.1	429.8	208.5	281.0
<i>Of that total:</i>							
1) Market Value of Equipment	220.0	0.0	Exempt	317.8	412.6	200.2	269.7
2) Market Value of Furniture, etc.	9.2	0.0	Exempt	13.2	17.2	8.3	11.2
3) Market Value of Inventories	119.5	0.0	Exempt	Exempt	Exempt	Exempt	Exempt
State Corporate Income Tax	844.7	0.0	82.4	573.0	518.7	1,007.4	1,047.7
Business Privilege Taxes	0.0	17.1	n/a	n/a	n/a	n/a	n/a
Personal Tax Liability – State	152.7	120.6	109.5	257.3	142.4	124.1	230.1

Source: Ohio Department of Development, Policy, Research & Strategic Planning Office

# MANUFACTURING



## What business leaders think

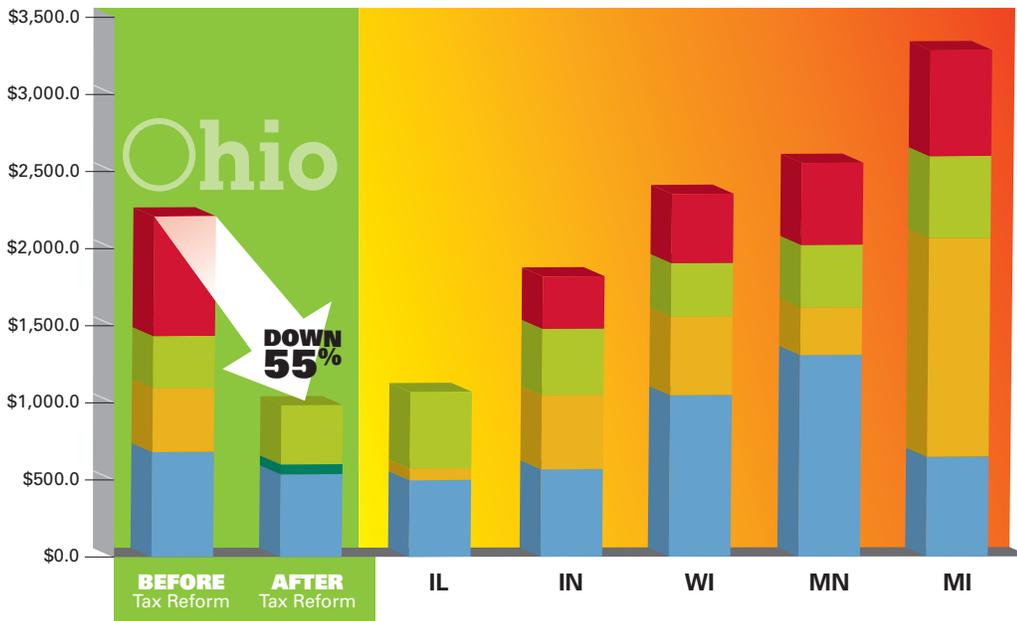


### Major State and Local Taxes: Ohio & Selected Locations

Before application of incentives and abatements

Focus on business tax liability

Dollars in thousands



**“With all the challenges in business today, it’s important to have an active, pro-business ally to help commerce turn smoothly. For Timken, Ohio has been that ally.”**

**Tim Timken**  
 Chairman  
 The Timken Company  
 Canton

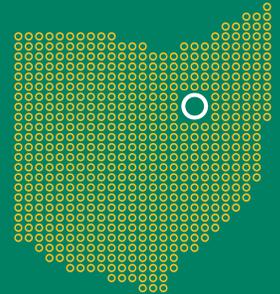
	Ohio		IL	IN	WI	MN	MI
	BEFORE Tax Reform	AFTER Tax Reform					
<b>Summary Total</b>	\$2,216.8	\$987.1	\$1,073.7	\$1,822.2	\$2,359.9	\$2,560.9	\$3,294.7
<i>Of that total:</i>							
Real Property Tax	342.5	380.6	495.3	432.9	351.6	412.5	537.8
Personal Property Tax	773.5	0.0	Exempt	333.6	449.5	529.7	687.6
<i>Of that total:</i>							
1) Market Value of Equipment	348.7	0.0	Exempt	316.9	427.1	503.3	653.3
2) Market Value of Furniture, etc.	18.4	0.0	Exempt	16.7	22.5	26.5	34.4
3) Market Value of Inventories	406.5	0.0	Exempt	Exempt	Exempt	Exempt	Exempt
State Corporate Income Tax	415.4	0.0	75.9	486.2	505.6	303.7	1,416.0
Business Privilege Taxes	0.0	65.2	n/a	n/a	n/a	n/a	n/a
Personal Tax Liability – State	685.4	541.4	502.5	569.5	1,053.1	1,314.9	653.3

Source: Ohio Department of Development, Policy, Research & Strategic Planning Office

# POLYMERS & CHEMICALS



## What business leaders think

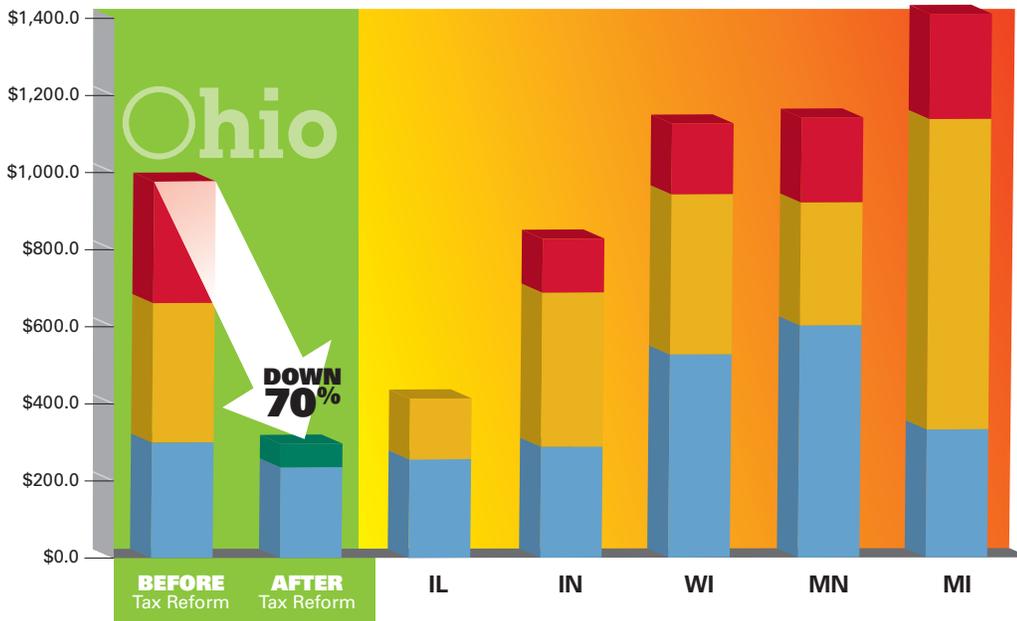


### Major State and Local Taxes: Ohio & Selected Locations

Before application of incentives and abatements

Focus on business tax liability

Dollars in thousands



“The timing of Ohio’s tax reform couldn’t have come at a better time as Polymer Packaging searched for a suitable location to expand its operations. The elimination of the personal property tax at a time when we are going to invest so much in equipment and inventory will result in considerable savings that will help offset our increased working capital needs.”

Jeff Davis  
CFO  
Polymer Packaging, Inc.  
Massillon

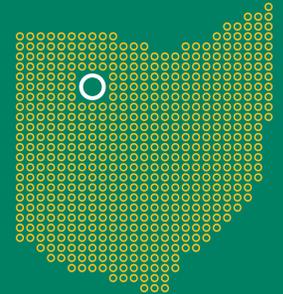
	Ohio		IL	IN	WI	MN	MI
	BEFORE Tax Reform	AFTER Tax Reform					
<b>Summary Total</b>	\$979.0	\$297.9	\$415.1	\$828.5	\$1,130.9	\$1,146.0	\$1,428.1
<i>Of that total:</i>							
Real Property Tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Personal Property Tax	315.3	0.0	Exempt	139.0	187.3	220.7	286.5
<i>Of that total:</i>							
1) Market Value of Equipment	147.9	0.0	Exempt	134.8	181.7	214.1	277.9
2) Market Value of Furniture, etc.	4.6	0.0	Exempt	4.2	5.6	6.6	8.6
3) Market Value of Inventories	162.7	0.0	Exempt	Exempt	Exempt	Exempt	Exempt
State Corporate Income Tax	362.4	0.0	157.7	397.8	413.7	320.3	806.9
Business Privilege Taxes	0.0	60.0	n/a	n/a	n/a	n/a	n/a
Personal Tax Liability – State	301.3	238.0	257.4	291.7	529.9	604.9	334.6

Source: Ohio Department of Development, Policy, Research & Strategic Planning Office

# AUTOMOTIVE



What business leaders think

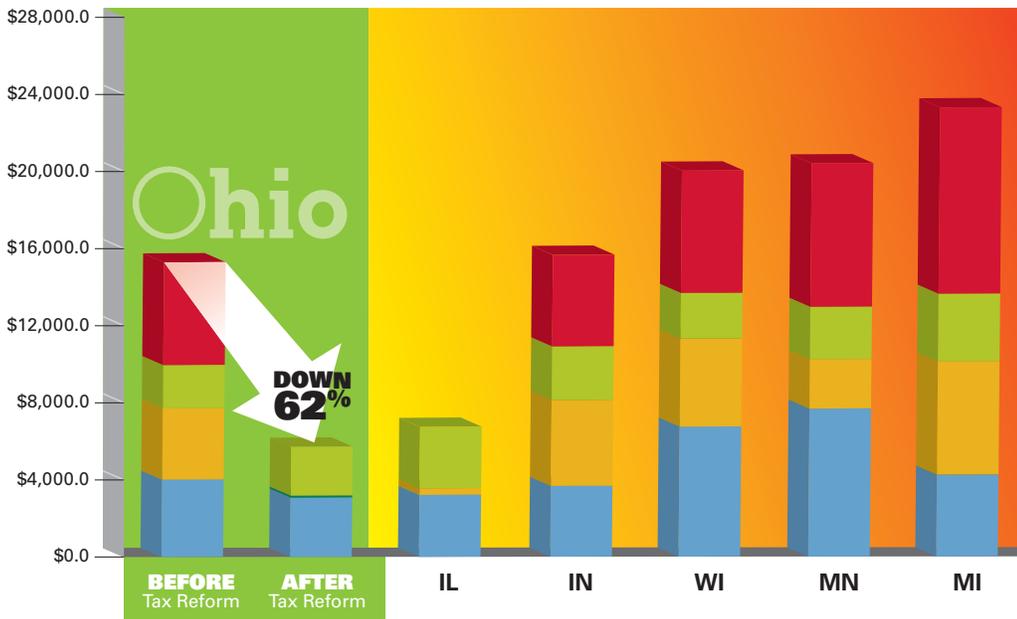


## Major State and Local Taxes: Ohio & Selected Locations

Before application of incentives and abatements

Focus on business tax liability

Dollars in thousands



“As Cooper continues to grow in a global market, we appreciate the efforts Ohio has made to enhance business opportunities in the state.”

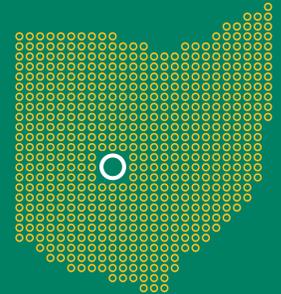
Roy Armes  
Chairman,  
President & CEO  
Cooper Tire & Rubber  
Company  
Findlay

	Ohio		IL	IN	WI	MN	MI
	BEFORE Tax Reform	AFTER Tax Reform					
<b>Summary Total</b>	\$15,327.3	\$5,759.7	\$6,870.6	\$15,730.4	\$20,108.4	\$20,469.5	\$23,403.6
<i>Of that total:</i>							
Real Property Tax	2,216.2	2,462.4	3,204.6	2,800.8	2,274.9	2,669.3	3,479.9
Personal Property Tax	5,349.8	0.0	Exempt	4,726.0	6,368.5	7,504.7	9,741.6
<i>Of that total:</i>							
1) Market Value of Equipment	5,055.6	0.0	Exempt	4,587.0	6,181.2	7,284.0	9,455.1
2) Market Value of Furniture, etc.	153.2	0.0	Exempt	139.0	187.3	220.7	286.5
3) Market Value of Inventories	141.0	0.0	Exempt	Exempt	Exempt	Exempt	Exempt
State Corporate Income Tax	3,747.8	0.0	365.0	4,462.5	4,641.0	2,538.2	5,890.9
Business Privilege Taxes	0.0	127.6	n/a	n/a	n/a	n/a	n/a
Personal Tax Liability – State	4,013.4	3,169.7	3,301.0	3,741.1	6,824.0	7,757.3	4,291.2

Source: Ohio Department of Development, Policy, Research & Strategic Planning Office

# PROFESSIONAL SERVICES

What business leaders think

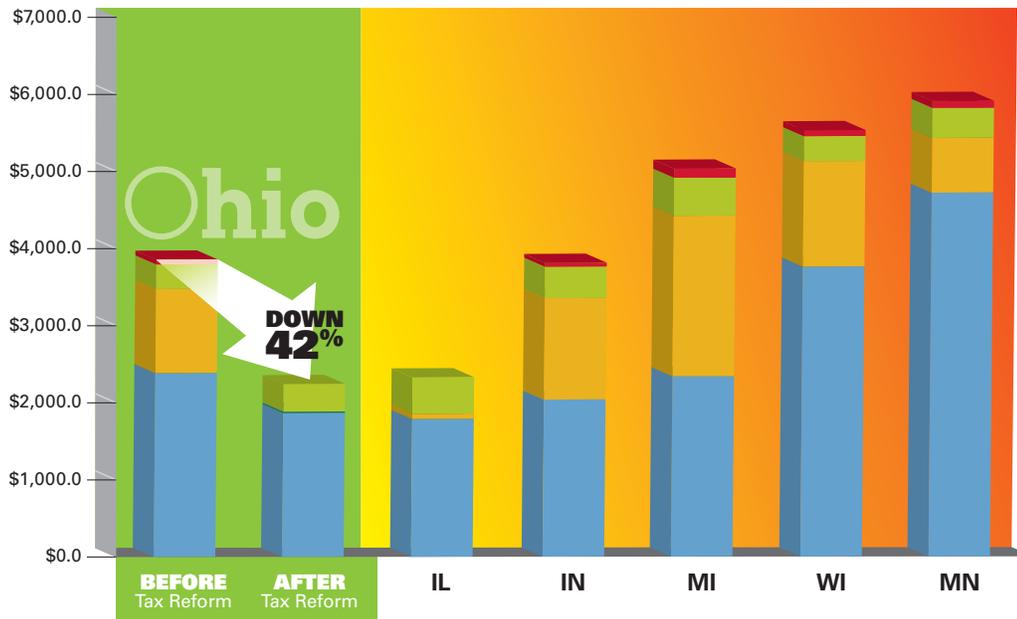


## Major State and Local Taxes: Ohio & Selected Locations

Before application of incentives and abatements

Focus on business tax liability

Dollars in thousands



“Ohio’s new tax reforms will be a great benefit to our business and to many of our financial services customers as well.”

Nancy V. Kelly  
Executive Vice President  
Huntington National Bank  
Columbus

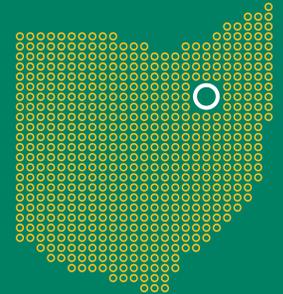
	Ohio		IL	IN	MI	WI	MN
	BEFORE Tax Reform	AFTER Tax Reform					
<b>Summary Total</b>	\$3,868.7	\$2,258.4	\$2,341.4	\$3,827.1	\$5,054.3	\$5,549.7	\$5,927.3
<i>Of that total:</i>							
Real Property Tax	322.4	358.2	466.1	407.4	506.2	330.9	388.3
Personal Property Tax	60.6	0.0	Exempt	55.6	114.6	74.9	88.3
<i>Of that total:</i>							
1) Market Value of Equipment	60.6	0.0	Exempt	55.6	114.6	74.9	88.3
2) Market Value of Furniture, etc.	0.0	0.0	Exempt	0.0	0.0	0.0	0.0
3) Market Value of Inventories	0.0	0.0	Exempt	Exempt	Exempt	Exempt	Exempt
State Corporate Income Tax	1,091.7	0.0	65.7	1,313.3	2,081.1	1,365.8	715.6
Business Privilege Taxes	0.0	9.3	n/a	n/a	n/a	n/a	n/a
Personal Tax Liability – State	2,394.0	1,890.9	1,809.6	2,050.9	2,352.5	3,778.2	4,735.1

Source: Ohio Department of Development, Policy, Research & Strategic Planning Office

# LOGISTICS



## What business leaders think

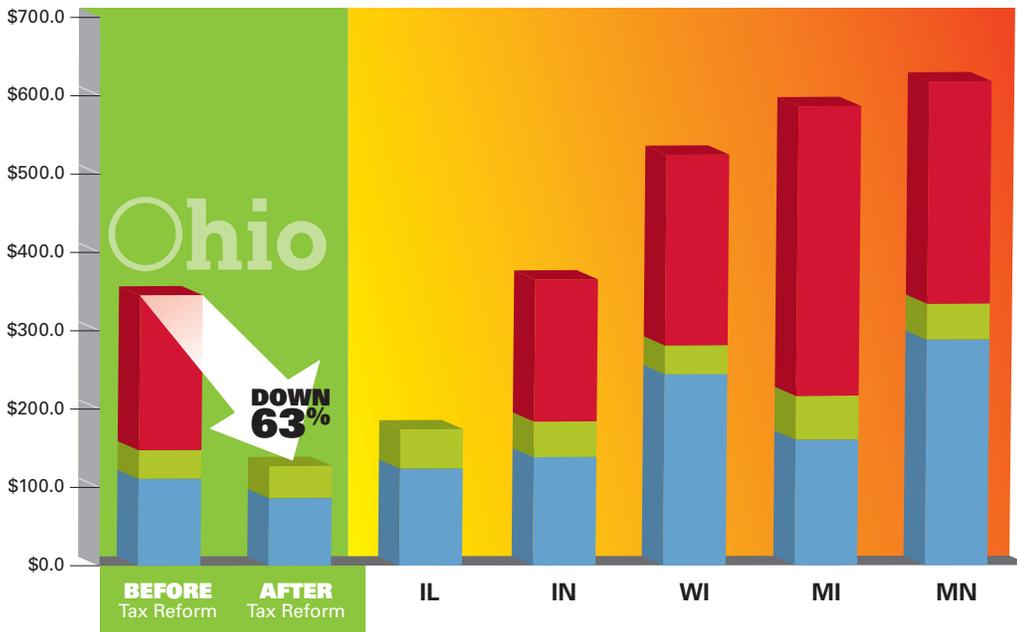


### Major State and Local Taxes: Ohio & Selected Locations

Before application of incentives and abatements

Focus on business tax liability

Dollars in thousands



“We believe in strong partnerships with our customers, helping them maximize their opportunities at every touch point. Ohio’s pro-business philosophy maximizes our opportunities in the same way.”

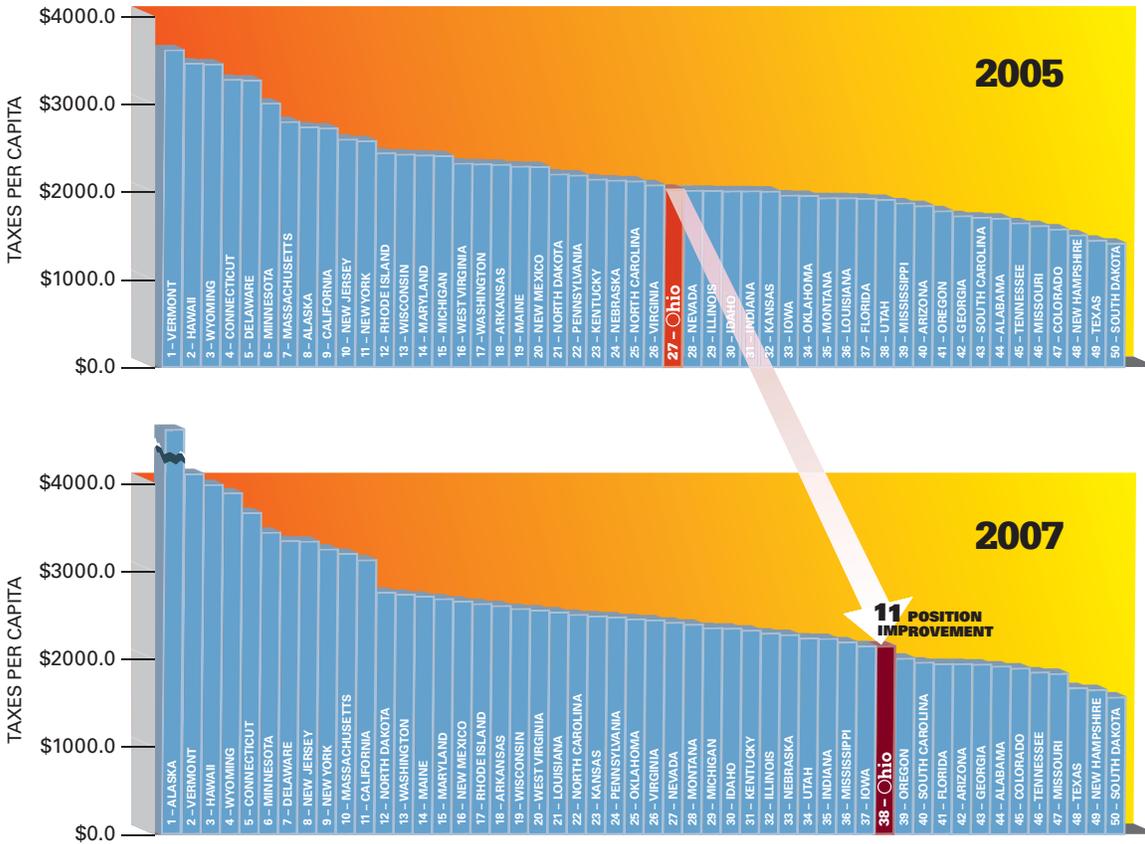
André Thornton  
President & CEO  
ASW Global  
Mogadore

	Ohio		IL	IN	WI	MI	MN
	BEFORE Tax Reform	AFTER Tax Reform					
<b>Summary Total</b>	\$346.1	\$128.7	\$175.7	\$365.7	\$524.3	\$588.6	\$619.5
<i>Of that total:</i>							
Real Property Tax	36.3	40.3	52.4	45.8	37.2	56.9	43.7
Personal Property Tax	197.9	0.0	Exempt	180.1	242.8	371.3	286.1
<i>Of that total:</i>							
1) Market Value of Equipment	197.9	0.0	Exempt	180.1	242.8	371.3	286.1
2) Market Value of Furniture, etc.	0.0	0.0	Exempt	0.0	0.0	0.0	0.0
3) Market Value of Inventories	0.0	0.0	Exempt	Exempt	Exempt	Exempt	Exempt
State Corporate Income Tax	Company classified as LLC		Company classified as LLC				
Business Privilege Taxes	0.0	0.0	n/a	n/a	n/a	n/a	n/a
Personal Tax Liability – State	111.9	88.4	123.3	139.7	244.3	160.3	289.8

Source: Ohio Department of Development, Policy, Research & Strategic Planning Office

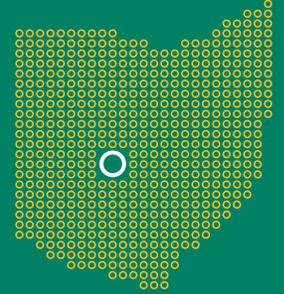
# Lightening Ohio's state tax burden

Just two years into a five-year rollout, Ohio has already improved its standing among all 50 states by 11 positions (from the 27th position in 2005 to the 38th lowest tax state in 2007.)



Source: Analysis of statistics from the U.S. Census Bureau by the Federation of Tax Administrators.

## What business leaders think



**"We've grown and flourished in Ohio's business climate. The future looks brighter than ever."**

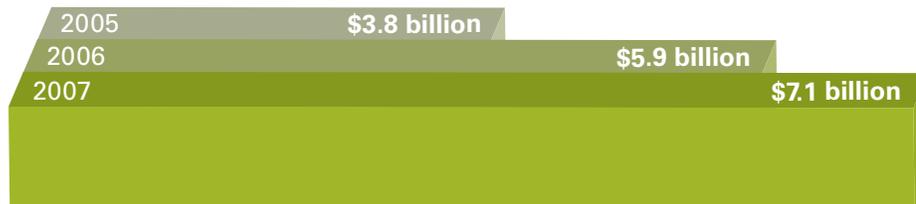
**Kate Bailey**  
 Vice President,  
 General Merchandise  
 Manager, Direct  
 DSW, Inc.  
 Columbus

## The 20 largest private investment projects in Ohio announced or started last year

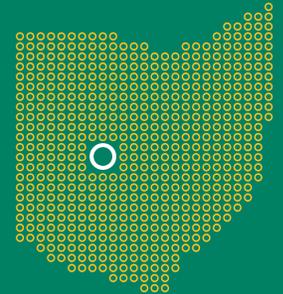
Company	Location	In millions	Project
1. Goodyear Tire & Rubber Co.	Akron	\$890	New headquarters
2. American Electric Power	Coshocton	\$430	Electric power plant
3. Amylin Pharmaceuticals	West Chester Twp.	\$400	New plant
4. General Motors Corp.	Toledo	\$332	Upgrade to transmission plant
5. Buckeye Biofuels LLC	Toledo	\$220	Ethanol plant
6. Ford Motor Co.	Sharonville	\$200	Upgrade to transmission plant
7. Altra Inc.	Marion Twp.	\$174	Ethanol plant
8. Cleveland Clinic	Mayfield Hts.	\$163	Hillcrest Hospital improvements
9. Poet Biorefining	Marion Twp.	\$130	Ethanol plant
10. Titan Tire Corp.	Bryan	\$125	Tire plant expansion
11. Avon Products Inc.	Washington Twp.	\$115	Cosmetics distribution/warehouse
12. Appleton Papers	West Carrollton	\$100	Coated papers plant
13. Aqua Paradise Waterpark	Lodi	\$100	Waterpark, hotel
14. Zinc Ox Resources	York Twp.	\$94.8	Zinc products plant
15. General Electric Co. Aviation	Peebles	\$90	Aircraft engine R&D
16. Ohio Renewable Fuels	Fremont	\$87	Ethanol plant
17. Humana Insurance Co.	Cincinnati	\$86	Insurance office
18. FedEx Ground	Perrysburg Twp.	\$80	Distribution hub
19. Banks Intermodal Transit Center	Cincinnati	\$76	Transportation hub
20. Whirlpool/Penske Logistics	Columbus	\$75	Appliance distribution/warehouse

Source: Ohio Department of Development Office of Strategic Research

## New private investment growing in Ohio



### What business leaders think



**“We believe there is no better business to be in than ours and no better place to call home than Ohio.”**

**James Hagedorn**  
*Chairman & CEO*  
 The Scotts Miracle-Gro Company  
 Marysville

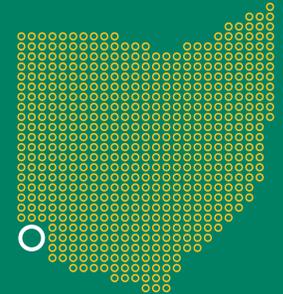
# Companies that chose Ohio for expansion and/or investment

4over Inc  
A&A Safety/Quattro  
A&B Foundry & Machining  
A.M. Leonard  
ABC Manufacturing  
Advanced Engineering Solutions  
Advantage Powder Coating  
Aerosport Modeling  
AIDA Dayton Technologies  
AIDCO International  
AK Athletics  
AK Steel  
Akro-Mils  
Al Neyer  
Alcoa Inc  
All Pro Freight Systems  
Allen Aircraft  
Alpha Technologies  
Altra Inc  
American Augers  
American Electric Power  
American Punch Co  
American Stone  
American Tank and Fabricating  
American Trim  
Amerimulch  
Ampac Packaging LLC  
Amylin Pharmaceuticals  
Anchor Companies  
Appleton Papers  
Applied Medical Technology  
Aqua Paradise Waterpark  
ARES Inc  
Armor Holdings  
Artco Group  
Ashtabula City Ind Park  
A-Stamp  
ATK Space Systems  
Avon Products Inc  
B&B Plastics Recycling  
Ball Metal Corp  
Baltic Avenue Enterprises  
Banks Intermodal Transit Center  
Banner Service Corp  
Barberton Citizens Hospital  
Bare Escentuals  
Bateman Road  
Batesville Logistics  
BDC Management Group  
Bear Creek Capital  
Bear Creek/Harry & David  
BEAR Materials/Renegade  
Bedrock Group  
Benchmark Group  
Berk Enterprises  
Bestway Motor Lines  
Bettcher Industries  
Bicron/St Gobain  
Bilco Co  
Biltrite Industries  
BJ Alan  
Blanchard Valley Health System  
Bob Evans  
Boeing Co  
Boltaron Performance Products  
Bosch Rexroth AG  
Brilix Industries  
Brown-Campbell  
Buckeye Biofuels LLC  
Buckeye Ethanol/McGinnis

Bucyrus Community Hospital  
Budenheim USA  
Bullen Ultrasonics  
Bunge North America  
CAMACO Inc  
Cambria Manufacturing  
Cambria Suites  
Candlewood Suites  
Cardinal Health  
Casto Deerfield Ltd  
Celina Hospitality  
Cellucom Outlet Inc  
Cellular Technology  
Center Point Dev LLC  
Central Park of Gahanna  
Charles River Laboratories  
Checked Express  
Chemcentral  
Chemtron  
Cincinnati Children's Hospital  
Circleville CIC  
Clark State  
Cleveland Clinic  
Cleveland Clinic/Hillcrest  
Cleveland Hopkins Airport  
Cleveland Wire Cloth  
Clovervale Farms Inc  
Coastal Pet Products  
Cole Realty  
Coleys Inc  
Collins Ink  
Columbia Chemical Corp  
Comfort Inn & Suites  
Computer Sciences Corp  
Continental Airlines  
Cooper Farms  
Cornwell Quality Tools  
Corridor D Bridge  
Country Inn & Suites  
Covert  
Covington Capital  
Crafts Americana Group  
Crate & Barrel  
Creative Cabinets Systems Inc  
Crown Battery  
Crown Equipment  
Crown Partners LLC  
Crowne Plaza  
Crucible Materials Corp  
Custom Manufacturing Solutions  
Cutting Systems Inc  
Daimler Group  
Dannon Co  
Dayton International Airport  
Dayton Origin  
Delta Systems  
DermaMed Coatings Co  
DHL  
Diagnostics Hybrids Inc  
DP Partners  
Dublin Building Systems  
Duke Realty  
DuPont  
DuPont/Liqui-Box  
Durable Corp  
Dyna Flex Inc  
Eagle Machinery & Supply  
EchoStar  
Elixir LLC  
Elyria Foundry

Embassy Suites - Airport  
Enterprise Information Mgmt  
Enterprise Rent-a-Car  
Enviro-Flow  
EPD Inc  
EPS  
Equity Administrative Services  
ERetailing  
Exel/Dannon  
Expediting Co Inc  
Extudex Corp  
EZ Grout Corp  
F&P America  
FedEx Ground  
Ferriot Inc  
Finton Equipment  
FirstEnergy Corp  
FirstGroup America  
Fisher & Paykel  
Florida Production Engineering  
Ford Motor Co  
Foundations Children's Products  
Freeman Schwabe Machinery  
Frontier Steel Co  
G&M Media Packaging  
Galion Community Hospital  
Galion Municipal Airport  
GE Aviation  
GE Transportation Systems  
Geis Cos  
General Aluminum Mfg Co  
General Dynamics  
General Films  
GI Physicians  
Global Contact Services  
Glunt Industries Inc  
GM Corp  
GM Corp/James Group  
Golden Heritage Foods  
Goodyear Tire & Rubber Co  
Grandview Hospital  
Great Lakes Brewing Co  
Green Investment Group  
Green Source Products  
Greene Memorial Hospital  
GSW Manufacturing  
Guardian Glass  
H&S Tool  
Hampton Inn  
Hancock Wood Electric  
Harco Manufacturing  
Headwaters Resources  
Health Plan Services  
Heart Institute of NW Ohio  
Heartland Refinery Group  
HEF USA  
Hendrickson USA  
Heritage Stone  
Hexion Specialty Chemicals Inc  
Hinkley Lighting  
Hirzel Canning Co  
Holiday Inn  
Holiday Inn Express  
Holophane Corp  
Homewood Suites  
Honda of America  
Hope Hotel  
Humana Insurance Co  
Hyland Software  
Hyperlogistics Group

## What business leaders think



**“There are many cities and towns around the world that P&G people call home, but Ohio has always been home to our corporate headquarters. We’re proud of our Ohio history and committed to a future of growth in Ohio.”**

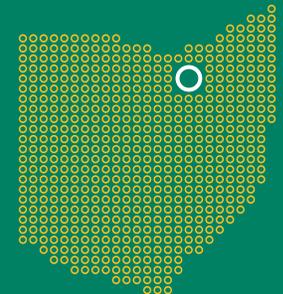
**A.G. Lafley**  
*Chairman of the Board and CEO*  
The Procter & Gamble Company  
Cincinnati

Imasen Bucyrus Technology  
 Industrial Developments Int'l  
 Industrial Partners LLC  
 Industrial Tool & Machine  
 Industrial Works Management  
 InfoCision Management  
 Infra-Metals Co  
 Inservco  
 Insurance.com Inc  
 Intechra LLC  
 Intellect Medical  
 International Automotive Components  
 Iwata Bolt USA  
 James H Gettles LLC  
 Jefferson Industries Corp  
 JK-CO LLC  
 JM Smucker  
 Johnson Brothers Rubber Co  
 Johnston Aviation Co  
 Joint Township District Hospital  
 Kalahari Resorts Inc  
 Kellogg Co  
 Kenan Advantage Group  
 Kendle International Inc  
 Kent Display  
 Key Resin Co  
 Khempco  
 King's Command Foods  
 Kirco Development LLC  
 Kiser Enterprises  
 Koch Foods  
 Kowit & Passov  
 Kraft Power Co  
 Lake Hospital System  
 Lastar Inc  
 Laszeray Technologies  
 Lima Memorial Health System  
 Lincoln Electric Co  
 Logistics Support Management  
 Luxottica / Cole Vision  
 Lyondell Chemical  
 Mack Industries  
 Macomb Group  
 Macy's  
 Mane Inc  
 Marathon Petroleum Co  
 Marietta College  
 Marion Industries  
 Marriott Courtyard  
 Mattingly Foods Inc  
 Maui Sands Resort  
 Mercer Landmark  
 Mercy Hospital  
 Meritex Columbus LLC  
 Metalworks 95 Inc  
 MEVA Framework Systems  
 Miami University  
 Microtel Inn  
 Mid-States Packaging  
 Millat Industries  
 Miller Brewing Co  
 Miller Valentine  
 Mills-Morgan Development  
 Morning Pride  
 Morton Salt  
 Multi-Color Corp  
 Myers Industries / Akro-Mils  
 National Biological Corp  
 NDT Ltd  
 Nelson Manufacturing  
 Nuturen America  
 Newman Technology  
 Next Generation  
 Neyer Properties  
 Nibco Inc  
 Nissin Brake  
 Nissin Brake Ohio  
 Norfolk Southern

North American Bus Industries  
 Northgate Commerce Center  
 Northwest Industrial Bypass  
 Now Software  
 Ohio Northern University  
 Ohio Renewable Fuels  
 Okamoto Industries  
 OKS-Ameridial Inc  
 Omincare/Westhaven  
 OmniSource Corp  
 OMYA Industries  
 Opus North Corp  
 OrthoHelix Surgical Designs  
 Otterbein Retirement  
 Owens Community College  
 Owens Corning  
 PAC National / Compartir  
 Pacejet Logistics  
 Pacific Fuel Cell Corp  
 Pandora Manufacturing Co  
 Parker Hannifin  
 PartsSource LLC  
 PatentHealth Inc  
 Payless Shoe Source  
 PCC Airfoils LLC  
 Philips Medical  
 Pilot Plastics  
 Pizzuti Development  
 PJAX Freight System  
 PlanetSpace  
 Plastic Recycling Technology  
 Plastikos Corp  
 Plus Management Services  
 Poet Biorefining  
 Polymer Machinery  
 Power Direct  
 PPG  
 Preble County Medical Center  
 Premier Development Partners  
 Prime Technology  
 Primerose Retirement  
 Printing Concepts Inc  
 Procter & Gamble  
 ProQuip Inc  
 Qbase Inc  
 Quadax Inc  
 Quality Electro Dynamics  
 Quality Machining  
 Quick Clinic  
 RAS Manufacturing  
 Red Roof Inns  
 Reduction Engineering Inc  
 Reiter Dairy  
 Renegade Materials Corp  
 Renewable Agricultural Energy  
 Republic Engineered Products  
 Rescentris Inc  
 Residence Inn  
 Resource Ventures  
 Restaurant Depot  
 Restoration Hardware Inc  
 Ricerca Biosciences LLC  
 Rickenbacker Int'l Airport  
 Rieter Automotive  
 Riffle Machine Works  
 Ring Container  
 Risk International  
 River's Bend HealthCare  
 Road Runner Sports  
 Rookwood Corp  
 Ross Casting & Innovation Inc  
 Ross Products/Abbott  
 Route 7  
 S&G Manufacturing Group  
 Saehwa Machinery Co  
 Sandridge Food Co  
 Sanson Co  
 SBC

Schindler Elevator Corp  
 Schipper Group  
 Schumacher Dugan  
 SDC / Steven Douglas Corp  
 Sedgwick CMS  
 Sensus LLC  
 Sewer projects  
 SEW-Eurodrive  
 Shafer Redi-Mix  
 Shearer's Foods Inc  
 Shiloh  
 Signet Enterprises  
 Silgan Plastics  
 Simon Roofing & Sheet Metal  
 Sinclair Community College  
 Smyth Automotive  
 Sogeti USA LLC  
 Sonoco Products Co  
 Spader Freight  
 Spartan Chemical  
 Specialty Metal Processing  
 SpeedFC Inc  
 SpineMatrix Inc  
 Springhill Suites  
 Spunfab  
 Stage Stores/Specialty Retailers  
 Starr Manufacturing  
 Staybridge Suites  
 Stress Engineering  
 Struthers Metal Service  
 Style Crest Products  
 Suavely Building Co  
 Summer Garden Food Mfg  
 Sun Chemical  
 Switchback Group  
 Tata America / TCS  
 TCP Inc  
 TeleTech  
 Tenneco Automotive  
 Teradata Corp  
 Therics LLC  
 ThermaFab Alloy  
 THK Manufacturing  
 Timken Co  
 Titan Tire Corp  
 Toledo Riverview Hotel  
 Towne Place Suites  
 Tropical Fruit & Nut  
 Trust Technologies/Kilroy  
 TTI Floor Care  
 Union Rural Electric  
 Universal Tire Molds  
 University Inn  
 University of Northwestern Ohio  
 USF Holland/Roadway  
 Valley Metal Works  
 Value Place Hotel  
 Verizon Wireless  
 Veyance Technologies  
 Viking International  
 VNC Bearing Inc  
 Volunteer Energy  
 Wannemacher Enterprises  
 Wave Development LLC  
 Wellington Orthopaedic  
 Wellman Products  
 Wheeling Pittsburgh Steel  
 Whirlpool Corp  
 Whirlpool/Penske Logistics  
 Wingate Inn  
 Woodbine Products  
 Woolpert LLP  
 Workflow.com  
 Wright Distribution Centers  
 Wright Materials Research Co  
 Yachiyo of America  
 ZincOx Resources plc  
 Zyvex Performance Materials

## What business leaders think



**“Creating value for our shareholders is one of RPM's primary goals. Ohio's business-friendly environment helps us remain a very attractive investment year after year.”**

**Frank C. Sullivan**  
 President & CEO  
 RPM International, Inc.  
 Medina

# A conversation about the impact of Ohio tax reform...

Two years into the implementation phase of tax reform, Tom Zaino, Member in Charge of the Columbus office of McDonald Hopkins and former Tax Commissioner of the State of Ohio, asked two corporate tax directors and a small business owner to provide their thoughts and assess progress. The respondents are: **Tom Kemen**, Associate Director, Economic Development & Tangible Taxes, Tax Division, The Procter & Gamble Company; **Vince Magnacca**, Manager, State & Local Tax, Goodyear Tire & Rubber Company; and **Michael Bass**, President & CEO, Hy-Ko Products Company.

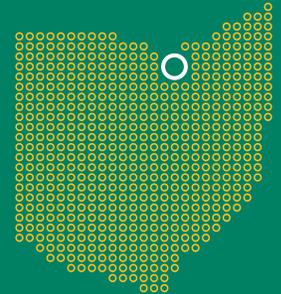
**Zaino: One key goal of the tax reform was to provide Ohio-based companies an advantage when competing in the global economy. What has the 2005 Ohio tax reform meant for your business?**

**Kemen:** The new tax act phased out two tax structures that severely penalized in-state businesses... the corporate income/franchise tax and the business personal property tax. Both of these tax structures placed a larger tax burden on in-state businesses that had already made significant commitments to Ohio through capital investment and job creation within Ohio. There should be no question the tax reform will achieve its purposeful goal, which is to enhance Ohio's ability to attract new business and encourage existing businesses to expand.

Our company continues to invest capital in our existing Ohio locations. P&G's manufacturing plant in Lima, OH is a good example. This plant competes internally versus several other North American sites to be the low cost provider of P&G's liquid detergent business. Within the last three years, P&G has invested over \$150 million in capital at the Lima plant to expand its production capacity, provide additional warehouse capacity, and lower operating costs. The expansion is expected to create about 70 additional jobs.



## What business leaders think

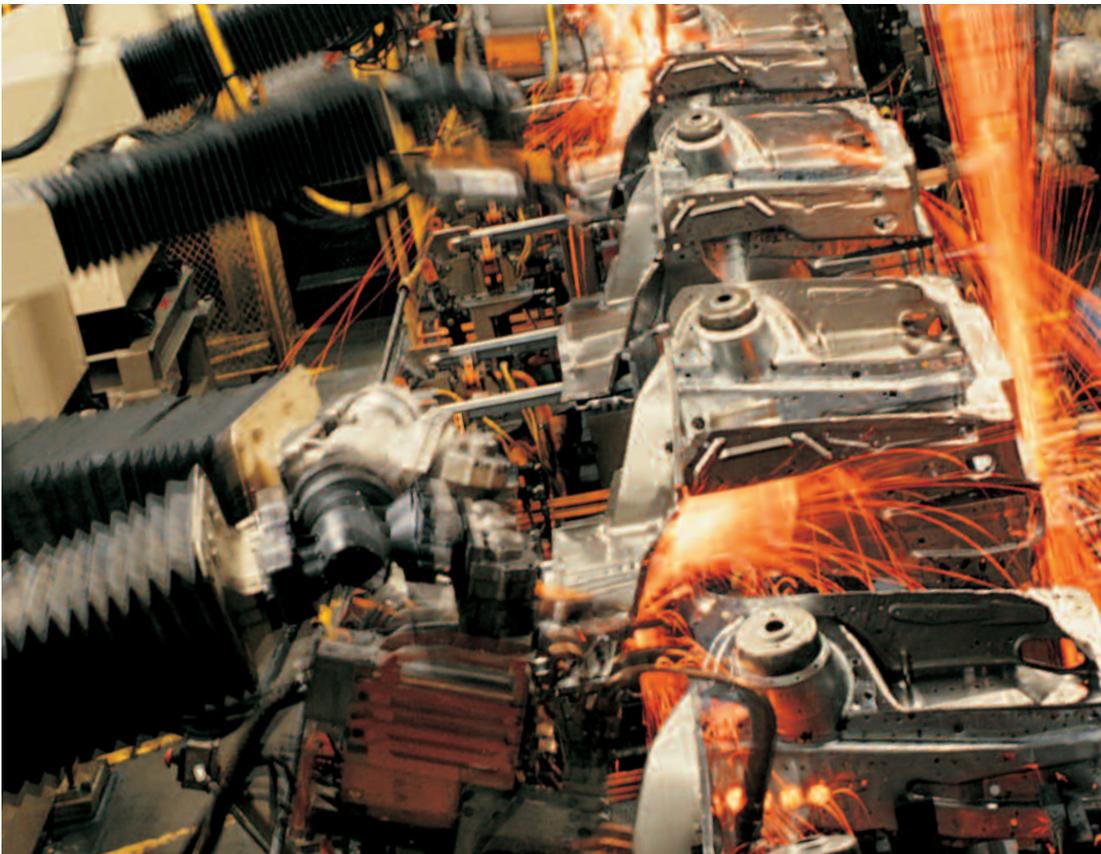


**"From our headquarters in Ohio, Invacare has become the world leader in the manufacture and distribution of home medical products. The state's new tax laws will help us continue to grow."**

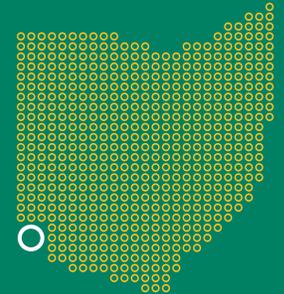
**A. Malachi Mixon, III**  
*Chairman & CEO*  
Invacare Corporation  
Elyria

**Bass:** As a manufacturing and distribution company based in Ohio for over 50 years, the elimination of the personal property tax on equipment and inventory provides a distinct competitive advantage by lowering our cost of maintaining our core operations in Ohio. In addition, the significant reduction of income taxes with the replacement of the CAT tax also is a benefit, because a significant amount of our sales occurs outside of Ohio. Realizing these savings gives us additional capital to redeploy and reinvest into our equipment and new inventories. These are exciting opportunities for us to expand our core business.

**Magnacca:** The phasing out/elimination of the personal property tax will spur economic investment of both inventory/distribution center type businesses and increase manufacturing and related jobs in Ohio. Eventual elimination of Ohio Corporate Income/Franchise taxes also provides similar incentive for businesses to locate here or stay here. Our recent announcement to build a new Akron Corporate Headquarter Campus and, thus, stay in Akron was based in part on the 2005 reform. For Goodyear, our total Ohio tax liability has stayed about the same after the 2005 Ohio tax reform, but we now believe that our tax payments will be more stable in the future. Stability and predictability are important to Goodyear, and the Ohio reforms helped solidify the tax burden.



## What business leaders think



**“COBCO Enterprises has called Ohio home for almost eight years and has seen great success. Ohio’s pro-business environment and tax reform have been extremely instrumental and I look forward to the years to come.”**

**Cynthia Booth**  
*President & CEO*  
COBCO Enterprises  
Cincinnati

## Ohio tax reform: Year 2 in review

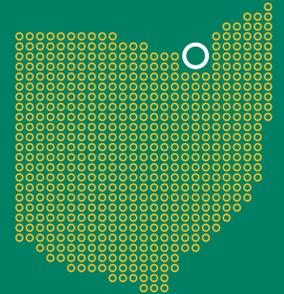
**Zaino:** How would you assess the impact of the reforms on new capital investment in Ohio? Do you think the new tax structure encourages a closer look at Ohio as a viable location option?

**Kemen:** Ohio's tax structure would certainly encourage a closer look because it no longer penalizes businesses with a large in-state physical presence.

**Bass:** Our company is building sales in certain product lines where we act as a distributor of products made in Asia. With the tax reforms that are now operating in Ohio, we are building strategic alliances with foreign entities to set up manufacturing closer to our Ohio operations. This should diminish our costs by cutting down the amount of logistical time to fill our supply chain, thereby reducing our levels of inventory, increasing turns and improving our ROI.

**Magnacca:** Ohio-based companies should benefit from Ohio tax reform since, for the most part, Ohio investment and Ohio taxable income are now made or earned "tax-free" for Ohio purposes. Only Ohio sales/gross receipts are taxable under the CAT tax.

## What business leaders think



**"Ohio has been our partner in providing premier customer service, steady growth and financial performance from which we serve customers in towns and cities across the world."**

**Don Washkewicz**  
*Chairman & CEO*  
Parker Hannifin  
Corporation  
Cleveland



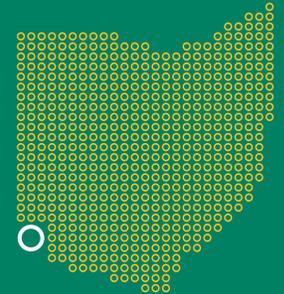
**Zaino:** The new tax structure is expected to help encourage increased exports from Ohio-based companies. If you were CEO of a company with non-U.S. customers, does the new tax structure offer you an advantage to profitably increase your business?

**Bass:** During the last three years, our company has begun exporting to Mexico. With the elimination of the personal property tax and restructuring of the corporate income taxes, we can manufacture in Ohio and move product down to Mexico quicker and with no duties (NAFTA). With modern logistics, getting product from Ohio to anywhere in North America is quite easy and allows us to keep our executives and management teams centrally located, while being able to support sales activities virtually anywhere. The costs of doing business in Ohio are lower, which discourages us from looking elsewhere because of tax overhead decision-making.

**Magnacca:** Goodyear is a major exporter, of course, and with our thousands of non-U.S. customers, these reforms are helping to increase our business.



## What business leaders think



**“As we’ve grown, Ohio has been an important business partner. Recent tax reforms have created opportunities for even greater success in the years to come.”**

**Scott Farmer**  
*CEO*  
Cintas Corporation  
Cincinnati

## Ohio tax reform: Year 2 in review

**Zaino:** In addition to helping to grow Ohio's economy, among the guiding principles of the tax reform initiative were fairness, equity and simplicity. How would you assess the results of tax reform from those three perspectives?

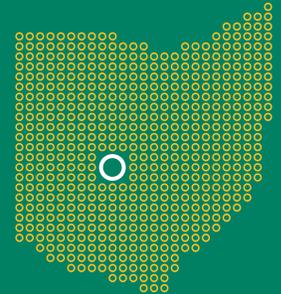
**Kemen:** Ohio's tax reform has clearly helped most in-state businesses, as it has shifted the tax burden to companies that earn income from their sales within Ohio but may not have a large physical presence in the state. Clearly, the tax reform has drastically reduced our company's Ohio tax compliance efforts. We spent almost four months of a full-time tax manager's time in the tax compliance effort to complete our Ohio multi-county property tax return and corporate franchise tax return. The new CAT requires minimal effort each month to extract the data and submit our return, and the work is now being done by administrative resources versus tax technical experts.



**Bass:** Now that the state is closing in on the four- or five-year phase-in cycle, manufacturers are seeing the “daylight” to the administrative burdens which we’re all worried about. We are trusting our legislators to maintain the simplicity of CAT and not add additional just when the “eureka” is achieved.

**Magnacca:** There can be no doubt that the Ohio tax reforms have leveled the playing field on fairness, equity and simplicity. Everyone (in particular former companies outside of Ohio that may be paying little or no Ohio tax) should be paying the CAT. As it is currently set up, there is no hiding from it, and with the low tax rate; the CAT alone should not be a hindrance for companies to do business in or with Ohio companies. As long as the rate stays low, equity and fairness will be possible.

## What business leaders think



**“The two aspects of the tax reform that are of greatest interest to entrepreneurs are 1) no tax on the first \$1 million in annual gross receipts and 2) the elimination of taxes on the sales of goods and services to customers outside of Ohio.”**

**Tim Tsao**  
*Vice President*  
*Sales & Marketing*  
Kahiki Foods, Inc.  
Columbus

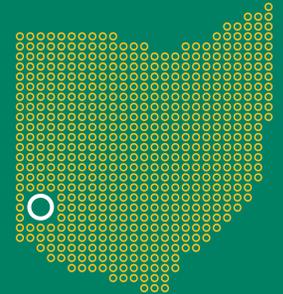
**Zaino:** Some policymakers and business people are advocating a “wait and see” attitude before proposing any more changes to the state tax code. How important is it that the assumptions underpinning the new tax structure are playing out as valid two years into implementation of the new tax structure? Is tax reform working, in your view?

**Kemen:** Businesses require a stable tax environment. Therefore, it is very critical that we adopt a “wait and see” mentality before considering any further changes. Revenues raised by the CAT tax since its inception have met or exceeded initial projections, which indicates the assumptions made at the time of the tax reform were valid. The fact that revenues have exceeded initial estimates may be an indication that the tax reform is, in fact, accomplishing its objective of increasing Ohio’s business opportunities. A good gauge of the tax reform’s success will be measured by the ability to sustain a relatively low CAT tax rate over an extended period.



**Bass:** As a business manager in the United States, everyone expects us to be credible, honorable and trustworthy in our agreements and projections. Financial institutions, governmental agencies and customers are all pressuring us to adhere to their strict policies and regulations. From our perspective, all of these constrictions are roadblocks to doing business and managing costs downward. In the tax and fiscal area of a company’s budgetary process, we’ve been duped too often at the federal, state and local levels where legislation is passed and never given enough operational cycle to stabilize a businessman’s planning process. We’ve become suspicious of how legislators change the rules of the game too quickly and too often. Instead of the “wait and see” attitude, we need a “prove it to me” mindset before passing judgment. My hope is that Ohio implemented its CAT tax reform for all of the right reasons, and it will let the process function for a considerable length of time to show everyone how effective it truly is in helping Ohio compete.

## What business leaders think



**“Ohio’s tax reform was extremely instrumental in our investment in the facility in Butler County. In our business, it is very important to make wise decisions about where to locate a facility and why. The tax reform benefits absolutely put Ohio at the forefront of attractive locations, and we definitely made the right choice.”**

**Ron Ricotta**  
*President & CEO*  
Century Mold Co., Inc.  
Middletown

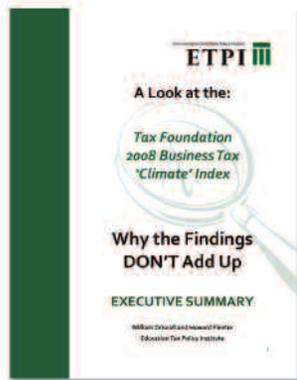
# A look at the Tax Foundation 2008 Business Tax “Climate” Index

## Why the numbers DON'T add up

### Executive Summary

William Driscoll and Howard Fleeter

Education Tax Policy Institute



The Tax Foundation released its 2008 business tax climate index in the Fall of 2007. Ohio ranked 46th out of 50 states where the ranking proceeds from #1 as best to #50 as worst.

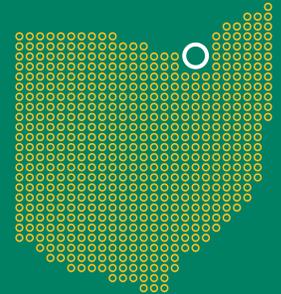
The Tax Foundation report assigns a score to each state. The report claims that the score quantifies the state’s business tax climate. Each state’s final score results from the creation of scores from five areas of tax policy — corporate tax, personal income tax, sales and excise tax, property tax and unemployment compensation tax. A separate “index”

for each of these tax types results from two scores developed from the sub-indexes of rate structure and tax base for each of the five areas.

The deeply flawed nature of the “research” behind the index appears in many ways:

1. The ranking system involves a process of assigning arbitrary weights to different aspects of each state's tax system. Not only does no research support the assignment of these weights, but the report does not even show the full distribution of those weights among the various parts of each tax system. As a result, readers have no opportunity to assess the details underlying the index.
2. The Tax Foundation explicitly endorses anecdotal “evidence” as a sound basis for tax research.
3. The ranking system intentionally excludes the one method of comparison used by other assessments of tax climates: relative per capita or per income tax burdens. Such comparisons of tax burdens rely upon objective measures of taxes rather than a subjective scoring system with its opportunities for manipulation.

## What business leaders think



**“Lincoln Electric built its business on innovative products and management. Ohio’s business-friendly tax environment encourages and stimulates innovation, growth and expansion.”**

**John M. Stropki**  
*Chairman*  
*President & CEO*  
Lincoln Electric  
Cleveland

4. Four faults characterize the Tax Foundation index:

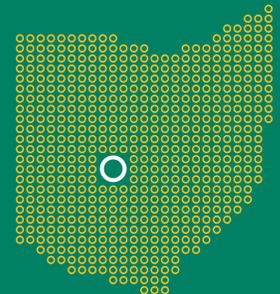
**A. Reduction of a Principle to Absurdity**

The business climate index rests upon the principle that the best taxes have a broad base and a low rate. In fact, most tax experts agree with this principle, but the Tax Foundation takes this general guideline to extreme lengths. For example, its comparison of state income taxes emphasizes rate structures. The comparison method rewards states with flat rates and penalizes those with graduated rate structures. This rating method scores Oregon as a better tax climate state than Ohio because Oregon has fewer rate brackets, and its highest rate engages at a much lower level of income compared to Ohio. The absurdity of Oregon's higher score appears in a comparison of the actual tax burdens imposed in the two states. At every income level, Oregon taxpayers pay higher income taxes than Ohioans. At incomes between \$40,000 and \$120,000, Oregon income taxes equal about one and one-half times the amount of Ohio income tax burdens. A simple rate structure has value. However, the amount of actual taxes paid is unquestionably the most important aspect of tax climate. To its detriment, the Tax Foundation index relies on the rate structure principles and ignores actual tax burdens.

**B. Arbitrary Benchmarks**

The method used to rank state tax climates assigns different percentage weights to different parts of each tax system — corporate taxes, income taxes, sales taxes, property taxes and unemployment taxes. Each of these parts of the tax system is divided into a tax rate division and a tax base division. The two divisions weigh equally. However, the application of this method to Ohio's property tax system shows how arbitrarily the method works. The "rate" division of the property tax actually compares per capita property taxes and property taxes as a percent of income. The property tax base division assigns a score based on whether a state does or does not levy seven specific kinds of taxes, such as intangible property taxes, inventory taxes or estate taxes. The ranking index punishes a state for imposition of one or more of these taxes. Ohio does impose some of these taxes, but their total burden equals about \$1 billion. In contrast, the taxes considered in the property tax rate division raise \$13 billion. Yet, the Tax Foundation ranking method assigns equal weight to both divisions.

**What business leaders think**



**“Strategically, we see serving the global market as a key to future growth. Ohio's new tax structure promises to be a wonderful enabler for us. The fact that revenues generated outside of Ohio are not taxed is a great benefit.”**

**Paul Kolada**  
*Principal & Founder*  
Priority Designs  
Columbus

### C. Emphasis on Some Principles While Ignoring Others

The business climate index claims to follow the principle that taxes should employ low rates on the broadest possible base. However, the ranking method does not extend this principle beyond each individual tax to the whole tax structure of a state. Instead, it does the opposite. The ranking method rewards states for avoiding the use of a particular tax. For example, Oregon gets the highest possible sales tax score because it does not have a sales tax. Washington gets the highest possible income tax score because it does not have an income tax. Both states have relatively unbalanced systems in which the omission of one tax from the tax structure tends to require over-reliance on another tax. Washington has relatively high sales taxes, and Oregon has relatively high income taxes. In fact, public finance experts recommend revenue systems in which a state balances reliance on different sources of revenue: consumption (sales and excise taxes), income, and wealth (property and estate taxes). Ohio's tax structure follows this principle. Indeed, the principle amounts to an extension of the notion that taxes should apply at low rates to a broad base. However, the Tax Foundation index punishes states like Ohio for following this principle.

### D. Subjectivity of the Tax Climate Index

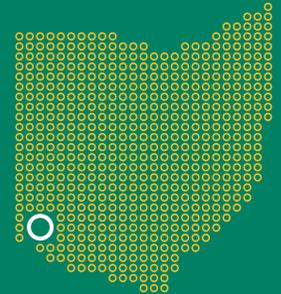
In 2004, the Tax Foundation ranked Ohio 29th in its tax climate index. For 2006, the organization changed its method by dropping a sub-index based on a state's fiscal balance in favor of a wealth tax sub-index. The change dropped Ohio's rank from 29th to 49th although no change had occurred in the Ohio tax structure itself. The changes in the ranking method from 2004 to 2006 show the extent to which the Foundation's subjective selection of categories for comparisons and the weights used in them can be manipulated to make dramatic changes in states' rankings without any changes in the underlying reality of state tax structures.

## Conclusion

The Tax Foundation business tax climate index provides a poor indication of Ohio's true tax situation:

- 1. The index focuses on tax structure rather than actual tax burdens.** A state with a more attractive tax structure (at least in the eyes of the Tax Foundation) but higher actual taxes can receive a more favorable ranking than a state with a less attractive structure but lower taxes. This is completely contradictory to universally accepted economic theory regarding consumer and producer behavior. While the Foundation proudly proclaims that they are not attempting to compare tax burdens across states, this admission is the study's fatal flaw, as this is the only valid comparison to be made.

## What business leaders think



**“The new tax structure is designed to help companies with a global book of business. The fact that new machinery and equipment is exempt from property tax encourages companies to upgrade and become more efficient. The fact that sales to customers outside of Ohio are not taxed helps companies be more competitive in pricing while maintaining margin.”**

**Eric Boltz**  
*President*  
Marathon Sensors Inc.  
West Chester

**2. The actual construction of the tax climate index is based wholly on subjective judgments made by the Tax Foundation regarding the relative role of different factors.** In some cases, different factors are weighted equally in a simple “check-off” fashion, creating a bias against states with more balanced tax systems. In other cases, factors are weighted on the basis of the variability across states rather than the actual revenue importance, as would be the case in a more standard interstate tax analysis. As a result, a state which performs unfavorably on a low revenue tax with a wide variance can score lower than a state which performs unfavorably on a high revenue tax with lower variance. In dollar terms, which are the only terms that influence consumer and producer behavior, the second state truly has the less favorable tax climate though the Tax Foundation methodology would lead to the opposite result.

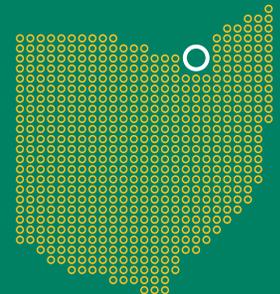
**3. The methodology is inconsistent, and arguably irresponsible, in the extent to which it takes future tax changes which have already been enacted into account in its rankings.** The Tax Foundation intentionally used the year 2008 in the title of this report, implying that readers should use the findings as they think ahead to future decisions. In light of this, the choice to not incorporate all known information about future tax changes which have already been enacted is both incomprehensible and indefensible.

**4. Modification of the Tax Foundation Methodology shows great fluctuation in state rankings.** The Tax Foundation has, perhaps inadvertently, performed a type of sensitivity analysis of its state ranking methodology. By modifying the methodology used to construct the rankings and then retrofitting the results to prior versions of the study, the Tax Foundation has shown that the old method and the new method lead to very different assessments of the same state tax systems. While the Foundation might argue that the new methodology is now superior to the old, the reality is that both the old and new methodologies are based upon subjective, though differing, judgments about what is important and how it should be weighted. Close scrutiny, however, shows that neither methodology provides a reliable or useful measure of relative state tax climate.

**Based upon the above considerations, policymakers would be well-advised to rely upon more traditional methods for assessing comparative state taxes provided by analysts driven by objective motives rather than by ideological beliefs.**

A more detailed analysis of the Tax Foundation’s business tax climate index appears at the Education Tax Policy Institute’s website: [www.etpi-ohio.org](http://www.etpi-ohio.org).

## What business leaders think



**“Our partnership with Ohio gives us a competitive edge in developing and commercializing new products. We are excited about bringing our company’s technology, global business and financial leadership together in Ohio.”**

**Craig S. Shular**  
*President & CEO*  
GrafTech  
International, Inc.  
Lakewood

## FAQ

### Why do the national rankings continue to rate Ohio as a high tax state?

Most of the rankings rely on analysis of national databases that report state level tax burden in a consistent manner. Unfortunately, these databases are typically two years in arrears. Consequently, the numbers do not yet reflect the positive impact Ohio companies and citizens are realizing from Ohio's tax reform. Additionally, the Ohio tax reform is being rolled out over a five-year period ending 2010. This means most databases will not accurately reflect the full impact of Ohio's tax reform until the 2012 rankings.

### Why does the Tax Foundation rank Ohio as a high tax burden state?

We respectfully disagree with the Tax Foundation's characterization of Ohio's tax burden. The Tax Foundation studies provide additional evidence on Ohio's non-competitiveness prior to reform. However, they provide no practical insight into the impacts of the new Ohio tax system. Their studies are looking backwards at the old system and, at best, only reflect the first year's impact of the reformed system. On a more fundamental basis, the Tax Foundation analysis is not based on actual dollars paid by businesses in state and local taxes. That is, in part, why the top states in the list tend to be states with no individual income taxes and/or no general sales tax. If you are interested in making a capital investment in Ohio, we would recommend that the best way to understand the real impact of Ohio's tax reform on your bottom line is to request a custom report from the Ohio Department of Development. They will take your projected data and provide an estimated tax figure. You can contact the Ohio Department of Development at their toll-free number (1-877-466-4551) and ask for a business development specialist.

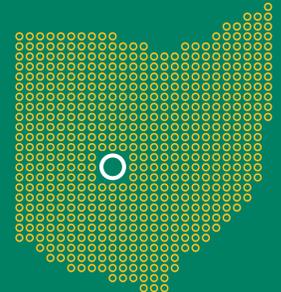
### Has CAT collection been consistent with the original forecast?

Actually, according to the Ohio Tax Department, CAT revenue is ahead of forecast. In FY '06, collection ran +27% ahead of forecast, and in FY '07, it ran +17% ahead of forecast. This is a very positive indicator and suggests the supporting financial projection of tax reform impact was appropriately conservative.

#### CAT revenue performance (\$ millions)

	FORECAST	ACTUAL	INDEX (%)
FY '06	214.4	273.4	127
FY '07	506.6	594.9	117

## What business leaders think



**"The new tax structure sends a clarion call to the investment community and business leaders across the country that Ohio, indeed, means business — breathing life into the defining vision the BRT established at the outset of its tax reform initiative: Ohio's tax climate will be viewed across the country as a distinctive public asset in our state's economic growth and standard of living; by the end of the decade, we will begin to see an upturn in business investment and job creation that is directly attributable to changes in state and local tax policy."**

**Richard A. Stoff**  
President  
Ohio Business  
Roundtable

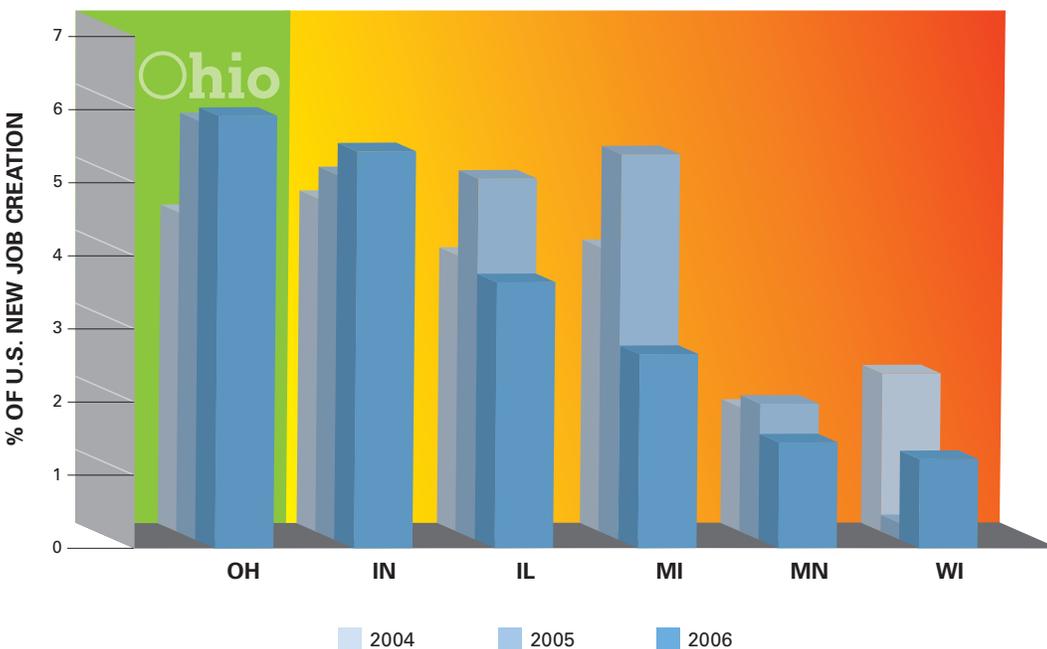
## Is there any confirmation that the new tax structure is actually resulting in a further improvement in the cost of doing business?

The new tax law is being implemented over a five-year period. But there are early important signs it is having a positive effect on the Ohio business climate.

**FIRST REASON TO BELIEVE** — The Milken Institute, an independent third party organization, produces a Cost-of-Doing-Business Index ([www.milkeninstitute.org](http://www.milkeninstitute.org)). In 2007, Ohio's overall ranking improved three places versus the last published report.

**SECOND REASON TO BELIEVE** — Another way to assess the impact is to look at how competitive Ohio is in new job creation. Ernst & Young compiles an annual assessment of new job creation by state and reports it in The U.S. Investment Monitor publication. In 2006, Ohio ranked best in the Midwest and 4th overall nationally. Ohio accounted for 5.9% of new job growth in America. This is an index of 103 versus 2005, and 136 versus 2004, suggesting a positive impact of tax reform on job creation.

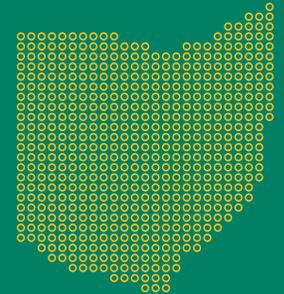
### New Job Growth Trend



**THIRD REASON TO BELIEVE** — A third way of triangulating an answer is to look at the number of capital investment projects completed. *Site Selection* magazine reports these data annually and awards the Governor's Cup to the state with the most completed projects. In both 2006 and 2007, Ohio won the prestigious Governor's Cup by leading the nation in the number of executed capital investment projects.

The above three independent indicators strongly suggest Ohio's tax reform is having a positive impact on the state economy. More and more capital investors are looking at Ohio as a great place to build a successful global business and enhance shareholder value.

## A postscript...



*Ohio's successful tax reform effort exemplifies "best-in-class" of the public-private partnership. This publication speaks through the voice of many of those public and private sector leaders – from the executive and legislative branches of state government to members of the Ohio Business Roundtable and other business and community leaders. Without diminishing any of this leadership, we especially acknowledge the sustained professionalism and outstanding technical support of the staffs of the Ohio Department of Taxation, Ohio Department of Development, the Ohio Legislative Service Commission and legislative caucuses in each chamber. Ohio's citizens are fortunate to have such talented and dedicated public servants working on their behalf.*

**Members of the Ohio Business Roundtable**



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The Ohio Business Roundtable is a partnership of the chief executive officers of the state's major business enterprises. Established in 1992, the BRT was created in the belief that business leaders in a pluralistic society should have an active and effective role in the formulation and evaluation of public policy. The BRT's mission is to apply the knowledge, experience and insight of its CEO members, working in partnership with public leaders, to solve complex problems affecting Ohio's overall social and economic vitality. The principal strength of the BRT is the extent of participation of the CEOs of the member firms, working together on specific issues where their business experience can make a significant contribution in effecting innovative change. In an effort to provide a broad base of information for the decision-making process, membership is diversified by industry sector and geographic location. Thus the CEOs, representing some 100 companies in all fields, can present a cross-section of thinking on critical statewide issues. The Ohio Business Roundtable is highly selective in the issues it addresses; a principal criterion is the impact on global competitiveness. The chief executives are committed to advocating public policies that foster vigorous, sustained economic growth and an improved standard of living for all Ohioans.

### **Ohio Business Roundtable, Inc.**

Michael G. Morris, Chairman  
Jerry Jurgensen, Vice Chairman  
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Richard A. Stoff, President

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