

Ohio's Competitive Tax Structure-

In 2005, the Ohio General Assembly and Governor Bob Taft worked with business associations to revise Ohio tax structure to encourage new business investment and the creation of new jobs in Ohio. The result was a change to every major State tax. These tax reforms were included in House Bill 66, the biennial state budget bill for fiscal years 2006-2007, into signed into law on June 30, 2005. The bill became effective July 1, 2005.

It is anticipated that the total taxes received from businesses will not increase but that reduced taxes from existing Ohio companies will be offset by new capital investment in the State, new income taxes generated by new job growth and by taxes received from businesses located out of the State that sell products and services to Ohio companies.

Personal Income Tax

The changes included in the Tax Reform package included a reduction on **personal income taxes** resulting in an across-the-board 21% tax rate reduction over 5 years-

2005 Taxable Year: 4.2% reduction
2006 Taxable Year: 8.4% reduction
2007 Taxable Year: 12.6% reduction
2008 Taxable Year: 16.8% reduction
2009 Taxable Year: 21% reduction
In 2009, highest rate of taxation on personal income will be **5.925%**

Property Taxes

Tax Reform measures included a **phase-out of property taxes on machinery, equipment and inventory** (tangible personal property)-

New machinery and equipment acquired during 2005 and after is exempt from any property taxes.

Existing machinery, equipment, furniture and fixtures are now taxed based on 25% of the assessed value. These property taxes will be phased-out over four years.

2006 Taxes – 18.75% assessment
2007 Taxes – 12.5% assessment
2008 Taxes – 6.25% assessment
2009 Taxes – 0% assessment

Corporate Income Taxes

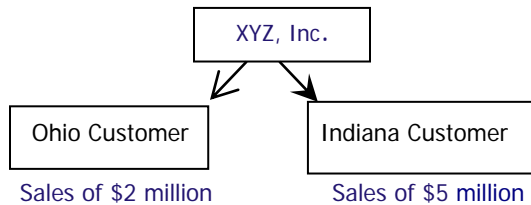
Ohio has implemented a new and unique form of taxation for corporations to benefit new investments and job growth in Manufacturing. Ohio's Corporate Franchise Tax is being phased out and a new broad-based tax for Ohio's businesses called the **Commercial Activity Tax (CAT Tax)** is being implemented. Financial institutions, corporate affiliates of banks and insurance

companies remain subject to the Corporate Franchise Tax. The changes benefit manufacturers and service providers that provide services to non-Ohio customers. Corporate headquarters and division operations also benefit. The tax will generate revenue for the State by equalizing taxes across all business sectors and by generating revenues from outside of the State.

The CAT is an annual privilege tax measured by gross receipts on business activities in this state. This tax applies to all types of businesses (such as retail, distribution, manufacturing and service providers) and to all types of business entities including all types of corporations, partnerships and sole proprietorships.) The CAT generally applies whether the business is operated in this state or is located outside of Ohio.

Once the Ohio Commercial Activity Tax (CAT) is fully implemented and the Net Worth and Net Income Corporate Franchise Taxes are phased out, only gross receipts generated from sales **in Ohio** will be taxable.

By spreading the tax across all business sectors, the rate is very small- .26% - and there is a flat rate of only \$150 on the first \$1,000,000 of sales in Ohio.



If XYZ, Inc. was located in Ohio, the tax would be only on sales in Ohio. The tax would be \$150 on the first \$1,000,000 and .26% on the second \$1,000,000 (\$2,600) for a total of **\$2,750**.

If XYZ, Inc. was located in Indiana, the company would pay corporate the Commercial Activity Tax in Ohio and income tax to the State of Indiana.

In Addition- The Ohio Job Creation Tax Credit Program provides a credit against the Corporate Franchise Tax and the Commercial Activity Tax for companies making new capital investments that result in the creation of at least 25 jobs (if the wages equal or exceed 400% of federal minimum wage, projects that create 10 jobs are eligible.) These credits are negotiated on a case by case basis and approved by the Ohio Job Creation Tax Credit Authority prior to a final decision on locating an operation in Ohio. The Credit can equal or exceed 50% of the Ohio corporate tax liability.

Understanding the Corporate Franchise Tax

Most of the States in the Midwest have this type of corporate taxing system which taxes companies not only on their income but also on their investment and employment in the State. Ohio's Corporate Franchise Tax, as with many other Midwest States were developed over fifty years ago.

The Ohio Corporate Franchise Tax is based on either the company's Net Worth or the company's net income. If a company is not making a great deal of income, they would pay the Net Worth tax based on their investment and employment in the State.

Net Worth- Net Worth taxable value is taxed at the rate of four mills (.004). The Maximum tax on the net worth base is \$150,000 per taxpayer.

Net Income- Net income is taxed at the rate of 5.1% on the first \$50,000 of Ohio taxable income and 8.5% on Ohio taxable income in excess of \$50,000. There are 16 deductions.

Exhibit 1 — Corporation Franchise Tax Net Worth Tax Base

Ohio Taxable = Net Value
Value of Stock * X [(Property factor x .20)** + (Payroll Factor x .20)** + (Sales Factor x .60)]**

* Excludes value of pollution control, coal conversion, and energy conversion facilities property, qualified property in an enterprise zone, and land devoted exclusively to agriculture. See **Exhibit 2** for explanation of factors.
 ** Net income base apportionment ratio adjusted to include nonbusiness property, payroll, and sales excluded from the net income base apportionment factors.

Exhibit 2 — Corporation Franchise Tax Net Income Tax Base (does not apply to financial institutions)

Ohio Taxable Income*	=	Business Income Apportioned to Ohio	+	Nonbusiness Income Allocated to Ohio	–	Ohio Net Operating Loss Carry forward Deduction
-----------------------------	----------	--	----------	---	----------	--

* Also includes income (or deducts a loss) from a transferor corporation and includes positive adjustments (or deducts negative adjustments) for related entities and related members.

1. Net Income Apportionment Formula:
Ohio Apportioned Net Income = Apportionable Income x [(Property Factor x.20) + (Payroll Factor x.20) + (Sales Factor x.60)]

2. The factors are computed as follows*:

Property Factor** =	Average cost of owned or rented real and tangible personal property used in business in Ohio Average cost of such property used everywhere
Payroll Factor *** =	Total compensation paid in Ohio Total compensation paid everywhere
Sales Factor**** =	Sales in Ohio Sales everywhere

Who Pays

The following chart shows the number of corporations that pay based on Net Worth or Net Income.

Industry	Number of Corporations by Tax Base			
	Minimum	Net Worth	Net Income	Total
Agriculture & Forestry	392	541	273	1,206
Mining	260	318	76	654
Construction	2,665	2,919	1,549	7,133
Manufacturing	3,136	5,057	2,108	10,301
Transport, Communication, Utility	1,527	1,334	711	3,572
Wholesale Trade	1,739	2,708	1,422	5,869
Retail Trade	3,113	3,783	2,000	8,896
Finance, Insurance, Real Estate	4,407	3,417	2,206	10,030
Services	11,324	7,161	4,582	23,067
Unknown*	17,323	5,973	5,199	28,495
TOTAL	45,886	33,211	20,126	99,223

* Industry classification was not indicated by the taxpayer.

Phasing Out the Corporate Franchise Tax

The Corporate Franchise Tax in Ohio will be phased out as follows:

2006 Report – pay 80% CFT
 2007 Report – pay 60% CFT
 2008 Report – pay 40% CFT
 2009 Report – pay 20% CFT
 2010 Report – pay 0% CFT

CAT Tax Phase-in percentages:	
July 1, 2005 – March 31, 2006:	23%
April 1, 2006 – March 31, 2007:	40%
April 1, 2007 – March 31, 2008:	60%
April 1, 2008 – March 31, 2009:	80%
On or after April 1, 2009:	100%

The legislation creating the Commercial Activity Tax contains provisions to adjust the rate of the CAT, currently .26%, based on the amount of taxes collected by the State. Revenue projections are currently significantly above the initial projections. If this trend continues, there is the possibility that the rate will be decreased to an even lower level.