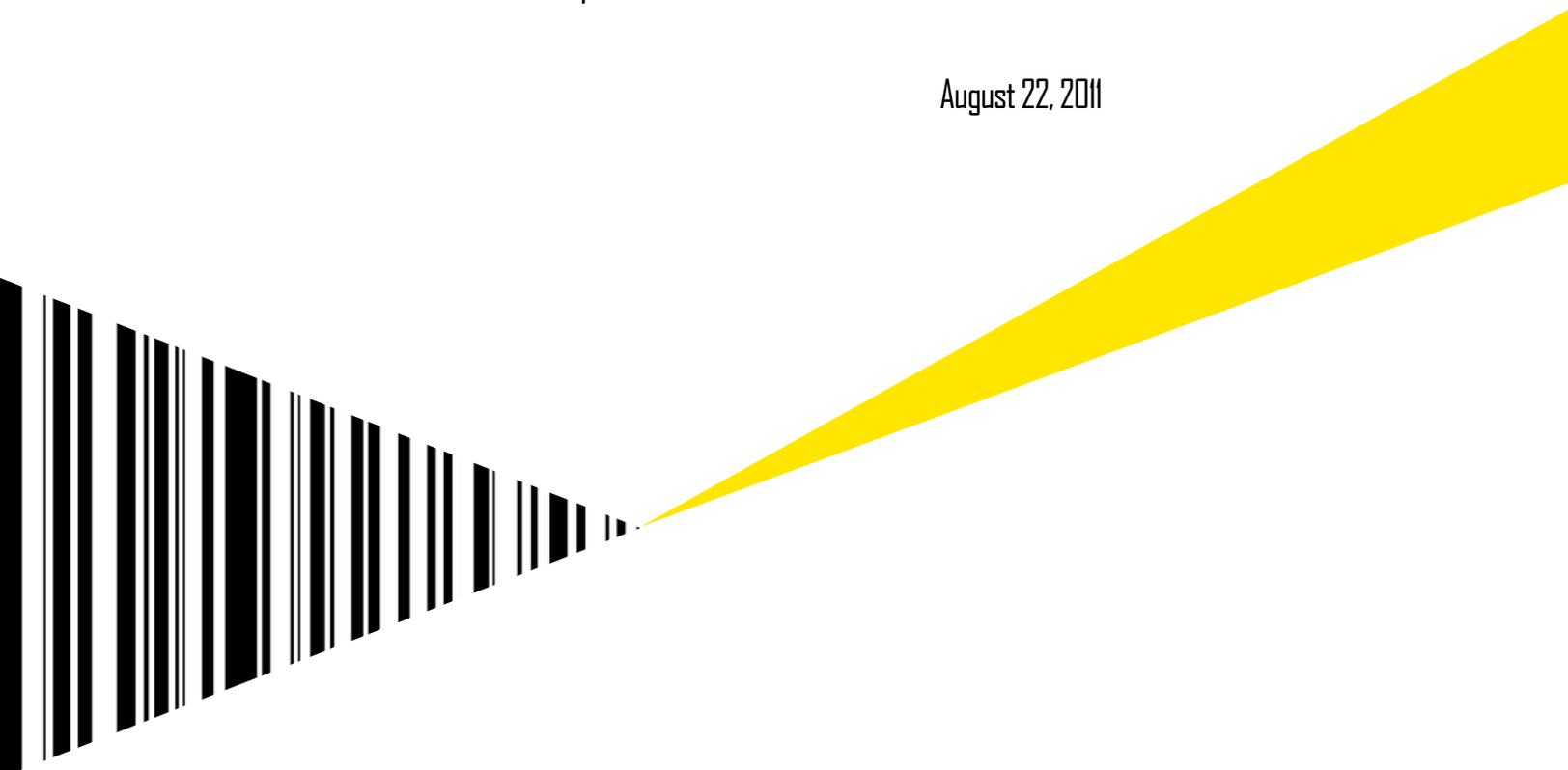


Analysis of Changes in Ohio's Business Tax Competitiveness: 2004 vs. 2009

Prepared for the Ohio Business Roundtable

August 22, 2011



August 22, 2011

Richard A. Stoff
President and CEO
Ohio Business Roundtable, Inc.
41 South High Street
Columbus, Ohio 43215

**Comparison of Ohio's Business Tax Competitiveness – Before and After Ohio's
2005 Tax Reforms**

Dear Mr. Stoff:

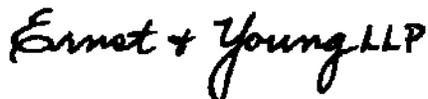
We are pleased to submit this report analyzing the impact of the State of Ohio's 2005 Tax Reforms on Ohio's business tax competitiveness.

As you know, EY has just published a 50-state business tax competitiveness study, done in conjunction with the Council on State Taxation (COST), *Competitiveness of State and Local Business Taxes on New Investments: Ranking States by Tax Burden on New Investment* (April 2011). The study ranks states in terms of an overall state and local business tax effective tax rate for the types of U.S. new capital investments made in 2009. The tax calculations are based on state and local tax laws in effect in 2009, including any current-law scheduled changes over a five-year period.

In accordance with our Statement of Work dated July 15, 2011, we have provided you with estimates of Ohio's 50-state business tax competitiveness ranking prior to the 2005 tax reform law changes. The analysis compares Ohio's pre- and post-reform competitiveness indexes (and rankings). The change in Ohio's competitiveness ranking shows how successful the state's 2005 tax reform package has been in improving Ohio's state and local business tax competitiveness.

We appreciate the opportunity to serve you on this engagement and look forward to presenting the results at the Ohio Business Roundtable's annual meeting on August 31, 2011.

Very truly yours,



Ernst & Young LLP

Analysis of Changes in Ohio's Business Tax Competitiveness: 2004 vs. 2009

Executive Summary

In 2005, Ohio's business leadership worked together with state elected officials to adopt sweeping tax reforms. A key reform objective was to significantly improve Ohio's business tax competitiveness and generate stronger economic growth and greater capital investment across Ohio. Key business tax changes in the reform package included:

- Elimination of the state corporate income tax and net worth tax for most businesses.
- Elimination of local personal property taxes on inventory, machinery and equipment, and furniture and fixtures.
- Substantial reductions in sales taxes on business input purchases.
- A 21% reduction in personal income tax rates applying to business income.
- The adoption of a low-rate, broad-based business entity tax applied to the gross receipts of all forms of doing business.

This report, prepared by Ernst & Young LLP for the Ohio Business Roundtable, provides a comprehensive picture of how significant the business tax changes have been in improving Ohio's business tax competitiveness.

The analysis compares Ohio's pre-reform state and local business tax system in 2004 to the Ohio tax system in 2009 after the business tax changes were fully implemented. The report compares Ohio's business tax competitiveness in 2004 and 2009, among all 50 states and the District of Columbia, using a competitiveness index based on the major state and local taxes imposed on selected types of new business investments being made in the U.S. in 2009. The tax index shows how competitive Ohio is for these types of new business investments and how Ohio's relative competitiveness improved over the five-year period.

The following are key findings of the study:

- For the five types of new business investments included in the study (headquarters, research and development, office and call center, durable manufacturing and non-durable manufacturing facilities), *the Ohio tax reform package reduced effective business tax rates by 50% over the five-year period.*
- As a result of tax reform, *Ohio jumped from the 31st most competitive state and local business tax system in 2004 to the 3^d most competitive in the nation in 2009* for these types of investments.
- Prior to tax reform, Ohio had a combined effective tax rate that slightly exceeded the U.S. average for all states for the included investments. *By 2009, tax reform reduced Ohio's state and local tax burdens to a level 45% below the U.S. average.*

- Over the five-year period, states were restructuring business tax systems to improve their business tax competitiveness. The average state and local business tax effective tax rate among all states dropped from 8.8% in 2004 to 7.9% in 2009, a more than 10% reduction in this measure of state and local business taxes imposed on new investments. As other states continue to lower their effective business tax rates, Ohio's improved business tax competitiveness due to the 2005 reforms may be somewhat eroded.
- One example of this erosion is the increase in Ohio's business real property tax burden, relative to other states. For all states, the average effective tax rate on real, industrial property decreased by 22% over the five-year period; in contrast, the effective rate in Ohio increased by over 8%. The relative increase in Ohio's real property tax rate partly offset the significant improvement in Ohio's property tax competitiveness due to the elimination of Ohio's local personal property tax on business personal property.

Analysis of Changes in Ohio's Business Tax Competitiveness: 2004 vs. 2009

Introduction

In 2005, the Ohio legislature, governor, and business community worked together to adopt sweeping changes to reform and reduce state and local tax taxes imposed on Ohio's businesses and households. A key tax reform objective was to significantly improve Ohio's business tax competitiveness and generate stronger economic growth and greater capital investment throughout the Ohio economy. Key business tax changes in the reform package included:

- Elimination of the state corporate income tax and net worth tax for most businesses.
- Elimination of local personal property taxes on inventory, machinery and equipment, and furniture and fixtures.
- Substantial reductions in sales taxes on business input purchases.
- A 21% reduction in personal income tax rates applying to business income.
- The adoption of a low-rate, broad-based business entity tax applied to the gross receipts of all forms of doing business.

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The analysis compares Ohio's pre-reform state and local business tax system in 2004 to the Ohio tax system in 2009 after the business tax changes were fully implemented. The report compares Ohio's business tax competitiveness in 2004 and 2009, among all 50 states and the District of Columbia, using a competitiveness index based on the major state and local taxes imposed on selected types of new business investments being made in the U.S. in 2009. The tax index shows how competitive Ohio is for these types of new business investments and how Ohio's relative competitiveness improved over the five-year period.

The following sections provide an overview of the methodology used to estimate the state-by-state competitiveness indexes and discuss the results comparing Ohio's state and local business tax competitiveness ranking in 2004 and 2009.

Methodology

In April 2011, Ernst & Young published a state-by-state comparison of the tax liabilities that new investments in selected industries or types of economic activities incur in each state, taking into consideration state and local statutory tax provisions and the financial and economic characteristics of the new investments. The study was done in conjunction with the Council on State Taxation.¹

¹ See the Appendix to this report for a brief description of the estimating methodology. The methodology used in the Ohio analysis follows the same methodology used in the 2011 study. For a more detailed

The analysis focuses on mobile capital investments in industries that can choose from diverse locations among the states, such as factories or business headquarters, rather than investments that are tied more closely to local or regional markets, such as retailers or hotels. The mobile capital investments are generally made by companies selling into U.S.-wide or global markets. These are the types of new investments that are states are competing intensely to attract.

As explained in detail in the 2011 Ernst & Young/COST report, the competitiveness analysis includes business tax burdens for all major state and local taxes imposed on business activities associated with new capital investments. The business taxes include:

- Corporate income and franchise taxes on business profits,
- Gross receipts taxes,
- Sales and use taxes paid by business on input purchases,
- Net worth taxes, and
- Real and personal property taxes.

The competitiveness analysis begins by estimating the state and local business taxes that are imposed in each state on five different types of facility investments that businesses made throughout the U.S. in 2008 and 2009. The types of mobile capital investments analyzed are:

- Headquarters facilities,
- Research and development facilities,
- Office & call center facilities,
- Durable manufacturing facilities, and
- Non-durable manufacturing facilities.

The five different types of capital investments were chosen to reflect the most important types of business investments in new or expanded facilities being made in the U.S. in 2009 as estimated in Ernst & Young's latest 50-state business investment study, *2010 U.S. Investment Monitor: Tracking Mobile Capital Investments During the 2007-2009 Recession* (March 2010). Balance sheet and income statement information is developed for each type of investment. This information is used in estimating the various state and local tax bases associated with initial investment and on-going operations for each of the new investments.

The competitiveness analysis estimates the state and local tax liabilities incurred by each type of facility investment in each state. The tax liabilities are based on the facility's financial information, state and local statutory tax rates, and the tax provisions that determine each major tax base. For example, the tax burden calculations include corporate income tax apportionment formulas, as well as statutory corporate income tax rates. The sales tax calculations include statutory tax rates, as well as state-by-state estimates of the percentage of major business input purchases subject to the sales and use taxes. For the property tax, tax system parameters include types of taxable assets, millage rates, assessment ratios and sales ratios.

discussion of this methodology, see Robert Cline, Andrew Phillips and Thomas Neubig, *Competitiveness of State and Local Business Taxes on Investment: Ranking States by Tax Burden on New Investment*, Ernst & Young LLP (April 2011).

To compare business tax burdens across different types of new investments and across the states, the dollar amount of business taxes imposed on each facility investment are expressed as an effective tax rate (ETR). The ETR is equal to the percentage reduction in before-tax rates of return on each investment due to the combined impact of the major state and local business taxes imposed in each state. The ETRs for each of the five types of investments are then combined to form a single, aggregate measure of a state's overall effective business tax rate.² This aggregate ETR is the state and local business tax competitiveness index used to rank the 50-states and to compare changes in Ohio's competitiveness between 2004 and 2009.

The overall competitiveness index provides an objective, systematic way of combining diverse state and local business imposed on different types of capital investments to evaluate a state's business tax competitiveness. This approach is consistent with the framework that businesses use to evaluate decisions about where to locate new capital investments in plant and equipment. The business tax competitiveness indexes reported in this study are designed to isolate differences in state and local business tax burdens on the same new capital investments in each state and to focus attention on the role of state and local business taxes in determining a state's competitiveness for jobs and new investment.

The methodology used in this business tax competitiveness study provides an overall index measuring the state and local taxes that new business investments face in each state. Unique features of the study should be kept in mind in interpreting the results:

- The financial characteristics of new investments in each industry are held constant across the states. With financial characteristics being held constant, variations in tax burdens reflect differences in the specific features of each state and local business tax system.
- The competitiveness index is based on the total effective tax rate that equals the sum of the ETRs for each major state and local tax type. Because the index is based on the estimated amount of tax liability triggered by each new investment, there is no need to assign arbitrary weights to the tax-specific ETRs in deriving the competitiveness index.
- The tax burdens for the representative investments are aggregated to derive a weighted average competitiveness index for each state. Because the weights assigned to the ETRs for each type of investment are based on the relative importance of each type of capital investment in the mix of actual mobile capital investments in the U.S., more weight is given to investments that generate the largest share of recent total U.S. investment.
- Taxes are estimated by year, considering changes in rates and other key tax system features scheduled to occur under "current law" provisions in place in 2004 and 2009.
- The competitiveness index estimates are sensitive to the types of facilities that are included in the mix of capital investments. The financial profiles are for new investments by C corporations that sell into national or international markets. For these companies, heavily-weighted, destination sales factors in corporate income tax apportionment

² The aggregate ETR measure is a weighted average of the separate ETRs for the five types of investments. The weights are calculated as the share of total U.S.-wide investment in each investment category as reported in the *2010 U.S. Investment Monitor*.

formulas result in relatively low, competitive effective corporate income tax rates, even if statutory rates are not relatively low.

Study Results

Table 1 presents the business tax competitiveness rankings for each state in 2004 and 2009. For each state, the table presents the overall competitiveness index (the combined ETR for the five included facility investments) and each state's rank. The competitiveness index for Ohio in 2004, for example, was 8.9%. In other words, Ohio's state and local taxes reduced the before-tax rate of return on this combination of new capital investments by 8.9%.

The first set of columns shows that Ohio was ranked 31st most competitive in 2004. Oregon, the state with the lowest ETR, was ranked number 1 as the most competitive business tax system in 2004. The second set of columns shows that Ohio jumped to the 3rd most competitive state in 2009. The ETRs for 2009 are taken from the E&Y 2011 state and local tax competitiveness study.

The Ohio tax reform package resulted in a 50% reduction (from 8.9 to 4.4%) in the overall effective tax rate over the five-year period of the phase in of the new business tax system. Relative to the U.S. average competitiveness index (ETR), Ohio slightly exceeded the U.S. average for all states in 2004. By 2009, tax reform reduced Ohio's state and local tax burdens to a level 44% below the U.S. average.

It should also be noted that over the five-year period, a number of other states were also making significant changes to improve their business tax competitiveness. The average state and local business tax effective tax rate among all states dropped from 8.8% in 2004 to 7.9% in 2009, a more than 10% reduction in this measure of state and local business taxes imposed on new investments. As other states continue to lower their effective business tax rates, Ohio's improved business tax competitiveness due to the 2005 reforms may be somewhat eroded.

One example of this erosion is the increase in Ohio's business real property tax burden, relative to other states between 2004 and 2009. For all states, the average effective tax rate on real, industrial property decreased by 22% over the five-year period; in contrast, the effective rate in Ohio increased by over 8%. The relative increase in Ohio's real property tax rate partly offset the significant improvement in Ohio's property tax competitiveness due to the elimination of Ohio's local personal property tax on business personal property.³

³ The estimates of the effective property tax rates on real and personal property in each state were provided by the Minnesota Taxpayer Association (MTA). The MTA, in cooperation with member states of the National Taxpayers Conference, publishes an annual report comparing the property tax systems in all the states. The study gathers and verifies detailed property tax information in each state, including mill rates by type of property, assessment ratios, and sales ratios. This information is applied to investments with constant financial profiles across the states. The resulting property tax liabilities are expressed as state-specific effective tax rates on the investments.

**Table 1. State and Local Business Tax Competitiveness Index:
Taxes on New Investment Weighted by Capital Expenditures, 2004 and 2009**

State	2004		2009	
	Index (ETR)	Rank	Index (ETR)	Rank
Alabama	9.3%	34	9.7%	43
Alaska	7.8%	22	7.2%	25
Arizona	11.0%	44	9.3%	39
Arkansas	9.0%	32	8.9%	36
California	10.3%	40	7.7%	29
Colorado	8.3%	26	6.8%	18
Connecticut	10.4%	41	8.9%	38
Delaware	5.9%	8	5.7%	8
District of Columbia	16.4%	51	16.6%	50
Florida	7.7%	18	7.4%	27
Georgia	8.4%	27	6.6%	16
Hawaii	10.7%	43	10.8%	46
Idaho	8.2%	25	7.7%	30
Illinois	5.3%	3	4.6%	5
Indiana	9.8%	37	6.8%	19
Iowa	5.8%	7	6.4%	14
Kansas	11.1%	45	11.2%	48
Kentucky	7.6%	17	6.5%	15
Louisiana	14.4%	49	11.1%	47
Maine	6.3%	10	3.0%	1
Maryland	5.8%	5	6.3%	12
Massachusetts	8.7%	29	8.2%	32
Michigan	8.1%	24	7.2%	24
Minnesota	7.7%	19	6.0%	10
Mississippi	10.2%	39	10.2%	44
Missouri	7.0%	13	7.1%	22
Montana	6.4%	11	6.1%	11
Nebraska	9.5%	35	9.4%	41
Nevada	7.9%	23	8.2%	33
New Hampshire	5.1%	2	5.4%	7
New Jersey	7.6%	16	7.5%	28
New Mexico	16.2%	50	16.6%	51
New York	14.3%	48	7.1%	23
North Carolina	7.8%	21	8.6%	34
North Dakota	7.7%	20	7.3%	26
Ohio	8.9%	31	4.4%	3
Oklahoma	8.7%	30	8.8%	35
Oregon	5.0%	1	3.8%	2
Pennsylvania	8.5%	28	7.1%	21
Rhode Island	12.8%	47	11.5%	49
South Carolina	10.6%	42	8.9%	37
South Dakota	6.7%	12	6.4%	13
Tennessee	10.2%	38	10.3%	45
Texas	7.5%	14	6.9%	20
Utah	7.6%	15	6.7%	17
Vermont	9.0%	33	7.8%	31
Virginia	6.2%	9	5.4%	6
Washington	9.6%	36	9.4%	40
West Virginia	12.0%	46	9.7%	42
Wisconsin	5.7%	4	4.5%	4
Wyoming	5.8%	6	5.8%	9
50-State Mean	8.8%		7.9%	
50-State Median	8.3%		7.3%	

Table 2 identifies the 10 states with the lowest effective tax rates for the five types of new capital investments in 2004 and 2009. Ohio joined Minnesota as new additions to the top-10, most competitive states in 2009.⁴

Table 2. Top-10 States Ranked by Ernst & Young/COST Business Tax Competitiveness, 2004 & 2009

Rank	2004		2009	
	State	Effective Tax Rate	State	Effective Tax Rate
1	Oregon	5.0%	Maine	3.00%
2	New Hampshire	5.1%	Oregon	3.80%
3	Illinois	5.3%	Ohio	4.40%
4	Wisconsin	5.7%	Wisconsin	4.50%
5	Maryland	5.8%	Illinois	4.60%
6	Wyoming	5.8%	Virginia	5.40%
7	Iowa	5.8%	New Hampshire	5.40%
8	Delaware	5.9%	Delaware	5.70%
9	Virginia	6.2%	Wyoming	5.80%
10	Maine	6.3%	Minnesota	6.00%

Note: In 2004, Ohio was ranked 31st.

Ohio's jump from 31st to 3rd most competitive state and local tax system is due to:

- The substitution of the low-rate CAT tax, apportioned based on destination sales, for the corporate income tax. By only including destination sales in determining the Ohio CAT tax base, new instate investments and additional employment do not result in an increase in the apportioned tax base beyond the impact of any additional instate sales.
- The elimination of local property taxes on business personal property assets. This resulted in a net decrease of 53% over five years in effective property tax rates on the mix of new capital investments included in the analysis.
- The elimination of the net worth tax. Ohio now joins the group of 31 states that do not impose this additional tax on business capital investments.
- A reduction in the combined statutory state and local sales and use tax rate imposed on business purchases of goods and services from 7 to 6.7%. In theory, the retail sales tax should only be imposed on final consumer spending; business purchases should be entirely exempt from tax.

⁴ The tax parameters for each state are based on "current law" in 2009. As a result they do not reflect tax system changes adopted after 2009, such as Illinois' recent 30% increase in the corporate income tax rate that will reduce the state's business tax competitiveness.

Conclusion

This study provides an objective, consistent framework for assessing changes in the business tax competitiveness for new business investments of each state's state and local business tax system. This policy perspective is becoming increasingly important in terms of state economic development policy as capital investments become more mobile across state and national boundaries.

The competitiveness index recognizes that business tax competitiveness can only be measured by including the combined impacts of all major state and local business taxes. In addition, the comprehensive tax competitiveness rankings can be quite different from simple rankings that look at only statutory tax rates. As business taxpayers know from experience, the details of different taxes matter greatly and factors like apportionment formula factor weights can be more significant than statutory tax rates for many taxpayers. The analysis also shows that non-income taxes such as the property taxes and sales tax imposed on business purchases are often more important than state income or business entity taxes in determining a state's tax competitiveness.

The competitiveness results show that the 2005 Ohio tax reform reduces overall effective tax rates for the mix of new investments modeled by 50% between 2004 and 2009. As a result, Ohio moved from 31st to 3rd most competitive state among all fifty states and the District of Columbia.

While there may be disagreement over the pros and cons of using a gross receipts tax as the foundation for a more competitive state and local business tax structure, Ohio's package of business tax changes adopted in 2005 can serve as a possible blueprint for restructuring state and local tax systems to substantially improve a state's tax competitiveness.

Appendix: Modeling Methodology and Assumptions

This appendix provides additional description of the modeling approach, assumptions, and data used in the competitiveness analysis.

Financial profiles

The business tax competitiveness modeling begins with the development of a financial and operating profile for each hypothetical company. Financial profiles are developed for each hypothetical company (one per industry) using average balance sheet and income statement information for all firms in each industry from federal tax return information reported by the IRS in *Statistics of Income Corporate Tax Reports*. The federal corporate tax data includes business receipts, other income, depreciable and financial assets, equity and liabilities, cost of goods sold, and selected other operating expenses reported on federal corporate tax returns. The federal corporate tax data is then supplemented with detailed data from the Bureau of Economic Analysis (BEA) describing the distribution of assets and operating expenses by industry.

The financial profiles are projected for a 30-year period. This multi-year perspective recognizes differences in the timing of tax provisions, such as depreciation allowances and scheduled, current-law changes in tax rates and other tax features. For example, sales taxes on investments occur initially and at intervals when investment is replaced over time. In contrast, property and corporate income taxes are an annual expense that the business will incur in each of the 30 years. This multi-year perspective also enables the calculation of the present value of the tax stream, recognizing that taxes that are paid sooner have more of a negative impact on the investor's return from the investment.

An important note is that while the analysis attempts to isolate the taxes that would result from an investment in specific types of facilities, most facilities will be operated as part of a larger entity involved in many different activities. Because the IRS does not report financial data by facility or operating unit, this analysis is based on industry-level information that most closely approximates the activities occurring at each of the hypothetical facility types.⁵

Modeling Assumptions

The modeling approach used in this analysis requires certain assumptions about the distribution of nationwide sales, ongoing replacement of depreciating assets, and other operational and financial characteristics. These tax features can have a significant impact, for example, on comparative corporate income tax liabilities.

There are a number of key assumptions related to the corporate income tax. Nationwide corporate income of a multistate company is apportioned to each state based partially or wholly on the share of the company's nationwide sales attributable to the state. A state's share of

⁵ This assumption has limited impact on the estimates of the sales taxes and property taxes because these taxes are, in most cases, determined by the type and use of property rather than by the type of purchaser. However, corporate income taxes may be affected if, for example, the taxpayer can qualify for special apportionment or other preferential treatment because of activities conducted by another part of the business.

sales from a new or expansion investment will vary by type of activity and sales sourcing rules. This analysis makes the assumption that 5% of a manufacturing company's additional sales resulting from the investment will be sold in the state where the facility investment is located. The other 95% of sales are assumed to be sold in other states. For activities primarily involving the sales of services two different percentages are used for in-state sales, 20% in states with market based sourcing and 30% in states with cost of performance. The analysis assumes that the share of in-state sales is the same in every state to maintain comparability between the results for each state.

While the analysis assumes that only a portion of the sales from the new facility are in-state, the estimates assume that all of the payroll and property related to the expansion are in-state. In other words, by locating the expansion in a specific state, the analysis assumes that all of the additional employees and property are also located in the state.

Another important assumption relates to depreciating property. The analysis assumes that as equipment and structures are used and depreciated, they are replaced. The result of this assumption is that the level of assets and property potentially subject to the property tax is constant over the 30-year time horizon.

Finally, the analysis assumes that the investment is an expansion by a C corporation that already has a significant presence in the state, is profitable, and would incur additional state corporate income tax liability at the highest marginal tax rate. This is generally consistent with the operations of a large, multistate taxpayer that has operations in a number of states.

State and Local Tax System Features

The current-law statutory tax components, including tax rates and tax base calculations, for each of the major state and local business taxes in each state are incorporated into the analysis. State and local taxes included in this report are: corporate income taxes, corporate franchise taxes, sales and use taxes on business input purchases, gross receipts taxes, and property taxes. Sales and use taxes collected from customers by the representative firm are *not* included as business taxes. The competitiveness index calculations include depreciation allowances and apportionment formulas for each corporate expansion. Tax rates and other tax system characteristics reflect statewide averages that combine state and local tax rates, such as sales taxes, or reflect tax rates tied to a specific location, such as property taxes.

Corporate income taxes. Corporate net income is the most common business entity tax base, but as noted above, there has been a movement over the past several years to broader tax bases based on gross receipts. Among the states that tax corporate income, most use similar definitions of net income with most beginning with federal income definitions with certain state adjustments.

The state corporate income apportionment formula rivals the tax rate as the most important feature of state business entity tax systems in this analysis because of the assumption that a relatively small portion of increased sales from the facility are sold to in-state customers. In order for multistate corporations that earn income across the United States to be taxed by each state, they must determine what share of their national income is attributable to each state. The method used is described as formulary apportionment. The typical apportionment formula uses a corporation's sales, payroll, and property located in a state divided by those same factors everywhere to determine what percentage of its nationwide income is attributable to the state.

Many states use what is called a double-weighted sales factor apportionment formula. This method of apportionment applies a weight of 50% to the sales ratio (in-state sales divided by everywhere sales). This formula simultaneously reduces the importance of payroll and property in determining a state's tax base. The significance of this factor weighting is that the location of sales is twice as important as the other factors.

The sales factor is also affected by the sourcing rules used to determine in which state a sale occurs. For manufacturing and retail companies that sell tangible property to their customers, the sales are generally sourced to the state where goods are shipped (referred to as "destination sales"). For companies selling services, the sales are sourced to the location where the service is used (referred to as "market sourcing") or the location where the service is provided (referred to "cost of performance sourcing"). As discussed above, the competitiveness analysis assigns different in-state sales percentages to the different types of activities included in the analysis. For states with single sales factor apportionment of corporate income, differences in the share of in-state sales can have a large impact on the overall apportionment formula for different types of activities.

The Ohio CAT tax replaced the corporate income tax in the 2005 reforms. The CAT is modeled as a 0.26% tax rate applied to gross receipts that are attributable to the state on a destination basis. Multistate and multinational companies locating in Ohio benefit from both the low rate and the use of destination sales in determining the percentage of sales attributable to Ohio.

Sale taxes. The definition of the state sales tax base can significantly affect the overall level of sales tax resulting from a new investment in a state over the life of that investment. States differ in the way in which they tax purchases of capital equipment and the construction of buildings. In many states, the purchase of equipment or construction of structures that will be used in a production process is exempt from tax or subject to a significantly reduced tax rate. Similarly, during the operating life of a facility, certain exemptions may be given for purchases of utilities and purchased materials that are consumed in a manufacturing process. These differences in the state sales tax base are incorporated into the analysis and contribute to significant variations in the total sales tax burden for the hypothetical investments analyzed in this report.

Property taxes. Property taxes are levied by both state and local governments. As with the other major tax types, the tax rate and tax base are equally important factors in determining the overall tax burden for the hypothetical investments analyzed. The competitiveness analysis uses the MTA effective property tax rates for the largest city/metropolitan area in each state. and personal property. Real property, consisting of land and structures, is taxed in all states. In addition, 38 states and the District of Columbia also tax all or a portion of tangible personal property. For the hypothetical investments analyzed in this report, tangible personal property consists of manufacturing machinery and equipment, furniture, fixtures, non-manufacturing equipment; and motor vehicles.

Franchise taxes. State franchise taxes are typically levied on the net worth of a company, although some states have adopted alternative bases that include the value of property held in the state.