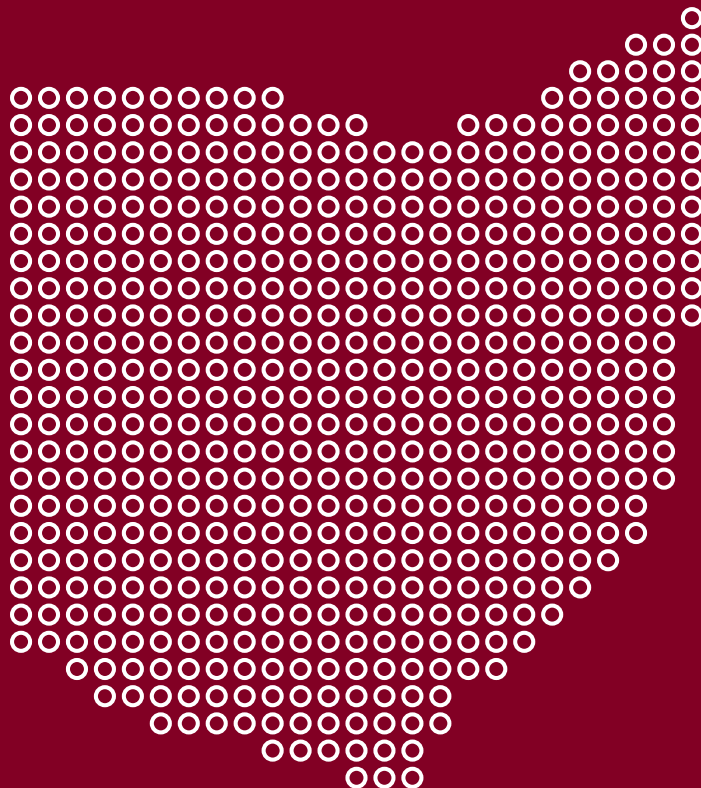


Ohio tax reform: Year 1 in review

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



OHIO BUSINESS
ROUNDTABLE

A message from Chairman John F. Barrett

When the Ohio Business Roundtable and our business partner organizations joined hands with state leaders two years ago to tackle tax reform, we had a simple but compelling vision—overhaul the tax code so it will be viewed across this country as a distinctive public asset in Ohio's economic growth and standard of living.

Today we are beginning to see more business investment, more disposable income for our citizens and, above all, a new positive attitude that sends a clarion call to Wall Street and Main Street: Come to Ohio... "Build your business. Love your life."

This brief booklet is intended as a CEO read. It is a sequel to our initial Business Leader's Guide released last year upon legislative enactment of the reforms. In it we review the rationale for the reforms—but, more importantly, report on the state of Ohio's progress to date in implementing the reforms. *Tax reform is working.*

The planned phase-outs of the onerous tangible personal property and the corporation franchise taxes are right on schedule. And the personal income tax reductions have been slightly accelerated in a responsible manner, in our opinion—owing in part to collections of the new Commercial Activity Tax, which are running well ahead of forecast.

Plus, there is tangible evidence from entrepreneurs and CEOs alike that tax reform is making a difference in building their book of business; we invite your attention to several of these success stories inside this booklet.

Tax reform was an all-hands effort. Our thanks are extended to each of our business partner organizations—and especially to the leadership of the Cincinnati Business Committee, the Columbus Partnership and the Greater Cleveland Partnership.

Of course, none of this would have happened without the support of the Governor, Lieutenant Governor, Speaker of the House, Senate President and their colleagues in the Ohio General Assembly. We look forward to working with Ohio's next Governor to continue realizing the benefits of Ohio's unprecedented tax reform effort.

The Ohio Business Roundtable is a partnership of 100 chief executives of Ohio's major business enterprises who represent all sectors of our economy and are committed to working with public leaders to build a better Ohio. As I pass the reins into the capable hands of my successor, Mike Morris, I thank each of them for their personal leadership and for the privilege of serving this great organization.



9 October 2006

Making Ohio globally competitive

The Ohio Business Roundtable applauds state leaders for adopting in 2005 the most sweeping tax reforms in 75 years—modernizing the tax code, providing welcome tax relief for Ohio citizens and helping grow the economy, thereby allowing us to improve our standard of living and compete globally in a flattening world.

The need

The need for reform was clear: Ohio's existing business tax system was a disincentive to investment in innovation and job creation. Companies trying to compete globally were effectively penalized by the old tax system—aptly described by one observer as “the perfect gateway to the economy of the 1930s.” Ohio's ability to attract and retain top talent was undermined by Ohio's state and local income tax rates, among the highest in the country. Finally, spiraling state spending created constant pressure to generate more and more state tax dollars.

Ohio's heavy tax burden and its impact on Ohio's economy provided the motivation for business leaders and state policymakers to join hands in an unprecedented partnership to fundamentally restructure the state and local tax system and significantly reduce total taxes by passing HB 66 last year.

The vision

The reform package, effective July 1, 2005, sent 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 Ohio Business Roundtable established at the outset of its tax reform initiative:

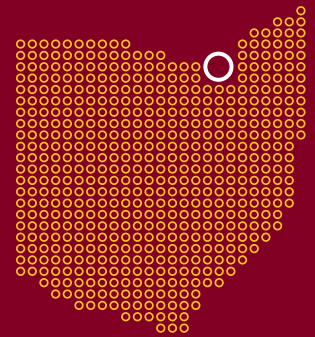
Ohio's tax climate will be viewed across the country as a distinctive public asset in our state's economic growth and standard of living; by the end of the decade, we will begin to see an upturn in business investment and job creation that is directly attributable to changes in state and local tax policy.

The guiding principles

The tax reform master plan was shaped by six guiding principles:

1. **Grow the talent base**, which is the most critical element in building businesses, by eliminating high tax burdens on individuals.
2. **Foster new capital investment**, especially in Ohio's beleaguered manufacturing sector.
3. **Broaden the base** to include all sectors of the economy, including the fast-growing service sector.
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 all taxpayers.
6. **Rein in state spending**, while still providing the government with stable and sufficient revenue.

What business leaders think

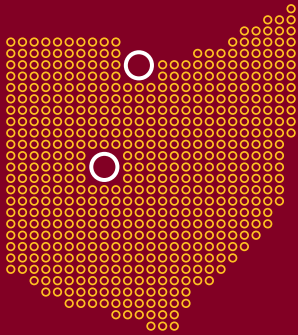


“The new tax code creates a much more business- and investment-friendly climate in our state. I am especially delighted that the Greater Cleveland Partnership was able to partner with the Ohio Business Roundtable in this accomplishment.”

Alexander M. Cutler
Chairman and CEO
Eaton Corporation

*Immediate Past
Chairman
Greater Cleveland
Partnership
Cleveland, Ohio*

What business leaders think



“We’re pleased to expand our manufacturing presence in Ohio. The improved business climate, including last year’s tax reform, has made Ohio a more attractive place to do business.”

David L. Swift
Whirlpool North America President
Whirlpool Corporation
Clyde, Ohio and Marion, Ohio

Ohio tax reform: Year 1 in review

The economic strategy

Ohio's tax reform package will stimulate robust economic growth by removing barriers to capital formation; specifically, *the reforms shift the burden away from taxing investment, profitability and wealth creation—and toward taxing consumption.*

In simple terms, the reform package reduces Ohio's relatively high tax penalty on saving and investing in Ohio's future. By increasing the reward for saving, i.e., consuming less *today*, the reforms will lead to more business investment, greater productivity and higher real incomes *in the future*. The payoff from reducing taxes on current saving and investment will be increased future consumption and a higher standard of living for Ohio's citizens. This is precisely the line of thinking expressed by former Federal Reserve Chairman Alan Greenspan in testimony before the United States Congress and other forums.

The results: tax reductions, tax relief and economic growth

Indeed, the Ohio tax reform package made significant changes in almost all the major state and local taxes and phases in the changes over a five-year period.

- The tax reform package will provide a cumulative, five-year tax reduction of almost \$8 billion, compared to forecasts of the taxes that would be collected based on the tax system in place in 2005.
- By 2010, the tax package will reduce Ohio's total state and local taxes by \$3.3 billion annually.
- By 2010, the reform package will:
 - Reduce state personal income taxes by 21% or almost \$2 billion annually.
 - Eliminate Ohio's corporate profits and net worth taxes, a reduction of \$790 million a year in business taxes; subsidiaries of banks and insurance companies still pay the tax.
 - Eliminate local property taxes on inventory, machinery and equipment for an annual savings of \$1.3 billion in business taxes.
 - Lower sales taxes by \$850 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-base gross receipts tax (Commercial Activities Tax or CAT) on virtually all types of business. The cigarette tax increase will raise \$343 million in 2010; the CAT, \$1.3 billion.

Moreover, our specialized tax forecasting and economic 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, creating 78,500 new jobs and injecting an additional \$6.3 billion in new capital investment into Ohio's economy.

Ohio's new tax system is designed to encourage Ohio businesses to create a global book of business. It is a cutting-edge tax system that recognizes how 21st century companies must operate to be successful in the global marketplace. Ohioans will benefit from increasing personal incomes and a vibrant economy.

While the reform plan phases out Ohio's old tax system and fully phases in a new tax system by 2010, all these benefits are already having positive impacts on Ohio.

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.

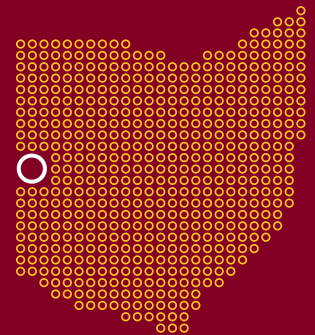
***Certain companies, such as financial institutions, will continue to pay the full net worth tax.

Tax reform at work

Tax reform is already significantly reducing Ohio tax burdens

While the tax reform is being phased in over a five-year period, Ohioans have already experienced immediate reductions in their tax liabilities over the last year, and new job growth has already accelerated. For instance, all new investments in manufacturing machinery and equipment were immediately exempted from the archaic tangible personal property tax. Also, the personal income tax (which is also imposed on many business entities) was immediately reduced 4.2%, which has been estimated to total \$325 million just in 2005. The total reduction in personal income tax will grow to 21% by 2009, putting \$2 billion back in Ohioans' pockets each year.

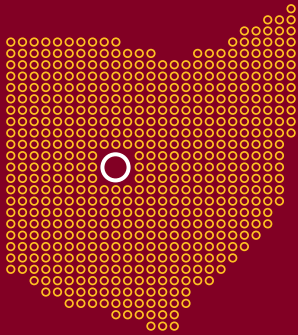
What business leaders think



“If Ohio had not taken these steps, the consolidation would have been in Indiana. The state of Ohio's tax reform was the key element on Spartech's decision to invest in Ohio.”

Timothy J. Fleming
Consolidation Project Manager
Spartech Plastics
Greenville, Ohio

What business leaders think



“We believe there is no better business to be in than ours, and no better place from which to conduct business than Ohio. Ohio’s recently enacted tax reforms enhance our ability to compete in a global economy.”

James Hagedorn
Chairman and CEO
The Scotts Miracle-Gro Company
Marysville, Ohio

Ohio tax reform: Year 1 in review

In fiscal year 2005, businesses in Ohio paid an estimated \$17.6 billion in state and local taxes.¹ If the new Ohio business tax system was fully phased in for fiscal year 2005, Ohio state and local business tax burdens would have been \$15.9 billion, a reduction of 10% in Ohio business taxes. This would have been a \$1.7 billion reduction in taxes paid by business throughout the Ohio economy.

The 10% reduction in total Ohio business taxes due to reform would have lowered Ohio’s tax burden ratio by 10% if fully effective in 2005. Based on this measure of tax competitiveness, Ohio would have the 13th lowest business tax burden among all the states. As the Ohio business tax changes are phased in over time, various published measures of business tax burdens will start to reflect this significant improvement in Ohio’s business tax competitiveness.

Ohio’s new business tax is working

A major component of Ohio’s tax reform package is the adoption of a low-rate tax on business gross receipts, the Commercial Activity Tax (CAT). Unlike the old business taxes, this new tax does not penalize job creation and investment, and also encourages participation in the global marketplace.

Since July 1, 2005, over 285,000 business entities have registered for the CAT. Based on the first two quarters of CAT quarterly tax returns, actual tax collections are running ahead of the revenue estimates by 25%. The following factors are the keys to the CAT’s proven success:

- Low rate of 2.6 mills,
- Broad base with no special interest carve outs,
- Simplicity and ease of compliance, and
- Revenue controls.

Of course, these factors will continue to be critical to the CAT’s future success.

One unique characteristic of the CAT is the revenue controls. If actual CAT collections exceed the revenue estimate for the period July 2005 through June 2007 by more than 10%, the 0.26 percent tax rate will be adjusted downward without a vote of the legislature as early as tax year 2008. In addition, a portion of any excess of tax collections over 110% of the forecast level will be returned to taxpayers as a tax credit. No other state in the country has a similar revenue control. This unique provision will not allow growth in tax revenues to automatically increase state government spending.

The CAT specifically plays to Ohio’s strength as a manufacturing and distribution powerhouse because it imposes no tax on goods produced in Ohio and sold to customers outside the state. This encourages participation in the global marketplace, which leads to job creation and new investment in Ohio. At the same time, the CAT recognizes the huge market Ohio offers to other businesses by requiring non-Ohio businesses to pay the CAT based on its sales of goods to Ohioans.

¹See Robert Cline, Tom Neubig and Andrew Phillips, Ernst & Young, LLP, Total State and Local Business Taxes: Nationally 1980-2005, by State 2002-2005, and by Industry 2005 (March 2006) for an explanation of how the tax figures are calculated and a state-by-state comparison of fiscal year 2005 business taxes. Business taxes are the state and local taxes that are the legal liabilities of business, including pass-through income taxed on personal income tax returns.

Tax reform provides a strong incentive to invest in Ohio

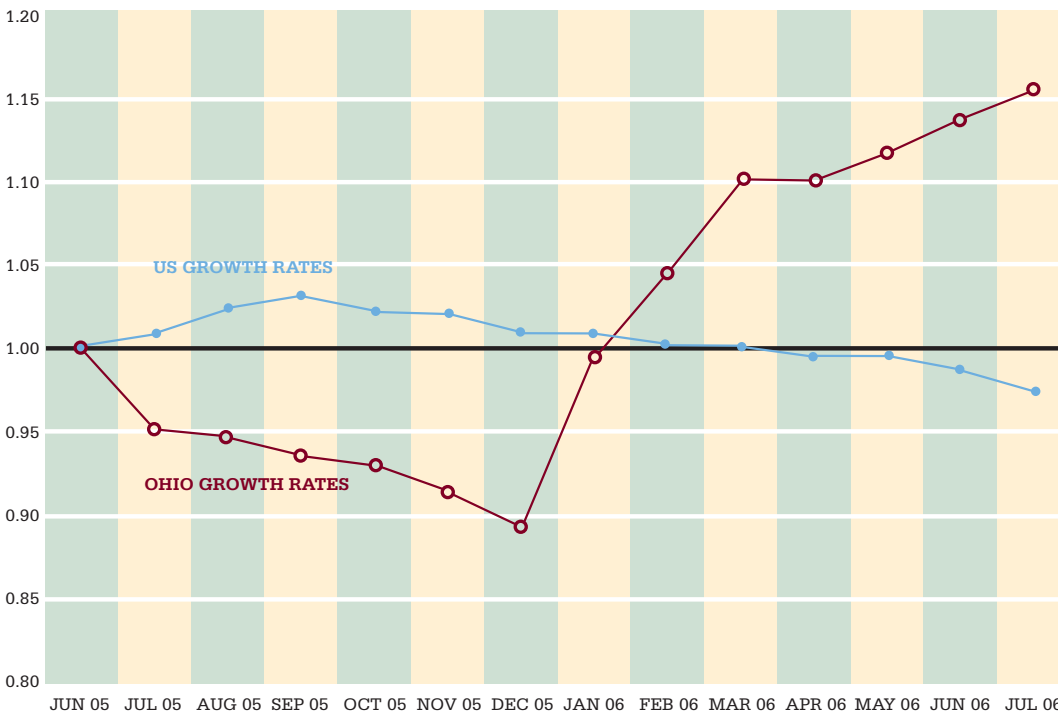
The new Ohio tax system eliminates the state and local taxes imposed on new investments in machinery, equipment and structures. As businesses increase their Ohio investments, they will retain current jobs and expand employment in Ohio with no increased Ohio tax.

While the full reform will not be fully phased in until tax year 2010, business taxpayers have already begun to see the impact of changes in tax liabilities in tax year 2005 and have started to react to the scheduled future tax changes. The recent Ohio job growth figures provide the first indication of the positive economic impact of the reform package on the state economy.

The graph below shows that Ohio's job growth rate was slowing through December 2005. In contrast, the Ohio growth rate has risen faster than the U.S. rate over the last six months. Since December, the Ohio growth rate has been accelerating. In contrast, the U.S. job growth rate has actually slowed since September 2005. While this comparison cannot separate out the effect of Ohio's business tax changes from other factors affecting job growth, the trend is encouraging — and perhaps indicative of the new positive pro-growth attitude brought on by tax reform.

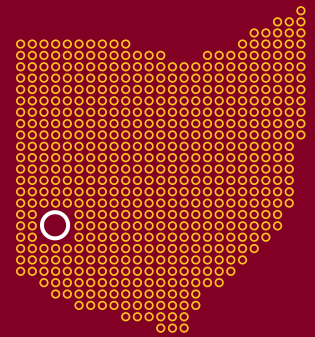
Recent changes in Ohio and U.S. job growth rates

(Growth rates in June 2005 equal 1.0)



The graph compares growth rates in total, private-sector jobs in Ohio and the U.S. since June 2005. To smooth out the monthly fluctuations, the growth rates are 12-month moving averages. To simplify the graph, each growth rate line is indexed to a value of 1.0 in June 2005. The Ohio growth rate line shows that the state job growth measure in May 2006 was 1.12; in other words, this May's job growth rate was 12% higher than the Ohio growth rate in June 2005.

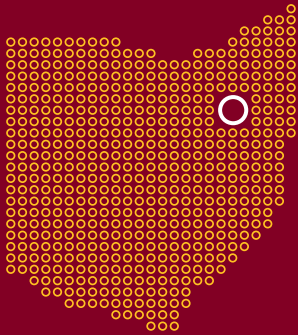
What business leaders think



“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 and CEO
 Century Mold Co., Inc.
 Monroe, Ohio

What business leaders think



“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

How tax reform is impacting business and Ohioans

Ohio’s new tax system helps businesses of all types and all sizes. While Ohio is the home of some of the world’s biggest and best companies, it is also the home of innovation. The new Ohio tax system encourages existing and new business startups to use Ohio as a platform for their success. All of this means Ohioans will have better-paying jobs and continue to enjoy the benefits of Ohio’s quality of life.

Business owners and leaders from across the state have embraced the new tax law. In fact, the tax reform has been cited by many businesses as the reason for their recent expansions in Ohio. Some of their stories are compelling examples of how tax reform is making Ohio more competitive and knocking down the barriers to new investment and new jobs.

In Northeast Ohio, which has been hard-hit by the slowdown in manufacturing and automotive industry, the story of McDonald Steel Corporation illustrates the changing tide. Located in Trumbull County, McDonald produces specially engineered shapes and bars for infrastructure, transportation and heavy equipment markets. Thomas A. Kantor, McDonald Steel President and Chief Operating Officer, has stated that “the recently enacted comprehensive tax reform augurs well for McDonald Steel in lifting some of the burden of personal property taxes formerly experienced, and has encouraged the taking on of \$6 million in additional debt for equipment modernization—so as to ensure not only the continued operation of the mill, but also expansion of the specialty shapes business.”

In Southeast Ohio, KRATON Polymers is investing more in Ohio with the proposed construction of a new warehouse to relocate their inventory from West Virginia into Ohio. KRATON, which manufactures a wide range of styrene block copolymers and isoprene rubbers at its six plants in North and South America, Europe and Asia Pacific, is one of the largest employers in Washington County. It understands the need to become more competitive worldwide, as one-third of the products produced at the Belpre plant are exported. Ohio’s tax reform package does not tax exports, which provides KRATON the competitive advantage it needs.

In Southwest Ohio, Amylin is establishing its first production facility for a long-acting release (LAR) formulation of exenatide, a product candidate in development for the treatment of type 2 diabetes. The \$70 million project is expected to create more than 50 jobs during its first three years. Ginger L. Graham, President and CEO of Amylin Pharmaceuticals noted that, “Ohio’s business climate, including its recent tax reform, was a favorable influence on Amylin’s decision to move to Ohio.”

In Northwest Ohio, Whirlpool recently announced plans to expand operations in Clyde (Sandusky County) and Marion (Marion County). The company plans to invest more than \$53 million in new machinery and equipment and is expected to create more than 1,100 new jobs, split evenly between the Clyde and Marion operations. Whirlpool North America President David L. Swift stated that, “We’re pleased to expand our manufacturing presence in Ohio. The improved business climate, including last year’s tax reform, has made Ohio a more attractive place to do business.”

In Central Ohio, Tosoh SMD, Inc. (Tosoh SMD) is in the process of expanding its manufacturing facility in Grove City (Franklin County). The company will expand production of silicon wafers and technologies for flat panel displays, creating 91 new full-time, high-wage jobs. The fixed-asset investment will be at least \$26.8 million. Tosoh SMD cited tax reforms as a significant factor for the expansion, and Ohio received the project instead of facilities in Japan and Korea.

Comparing the new Ohio

Clearly, Ohio’s old tax system was anti-competitive when compared to other states. Many studies, including those conducted by the Washington, D.C.-based Tax Foundation, have corroborated this view, by ranking Ohio near the top of anti-competitive tax systems. Now, those studies are irrelevant because the landscape has been changed. In fact, groups that perform these studies will need to adapt their methodology to take into account Ohio’s cutting-edge tax structure. Otherwise, such studies will be meaningless.

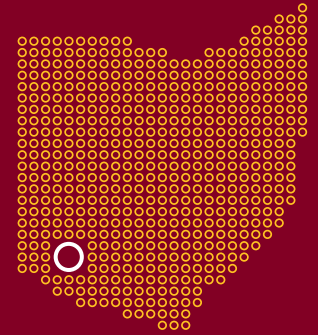
One measure of the relative size of a state’s business tax burden, compared to other states, is the ratio of total state and local business taxes divided by the level of economic activity in a state’s private sector (private-sector gross state product). This economic activity equals all the income paid to workers (labor) and investors (capital) by the businesses operating in a state. It measures the share of this income accounted for by state and local taxes.

By using a tax burden ratio² to compare Ohio with other benchmark states, Ohio will have the 13th lowest business tax burden among all 50 states after all the changes are completely phased in. As the Ohio business tax changes are phased in over time, various published measures of business tax burdens will start to reflect this significant improvement in Ohio’s business tax competitiveness.

“Effective Tax Rate” calculations can also be used to illustrate how Ohio’s state and local business tax burdens have been reduced relative to 12 other states considered competitive with Ohio. As shown in the chart on the following page, the tax reform package, when fully phased in, reduces average ETRs in Ohio (for the seven

² The tax burden ratio equals the ratio of total state and local business taxes divided by the level of economic activity in a state’s private sector (private-sector gross state product).

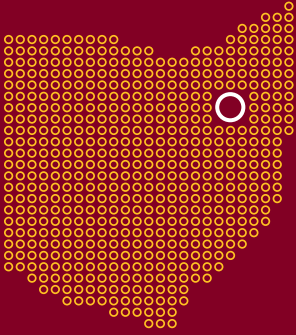
What business leaders think



“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
President & Chief Executive Officer
Cintas Corporation
Mason, Ohio

What business leaders think



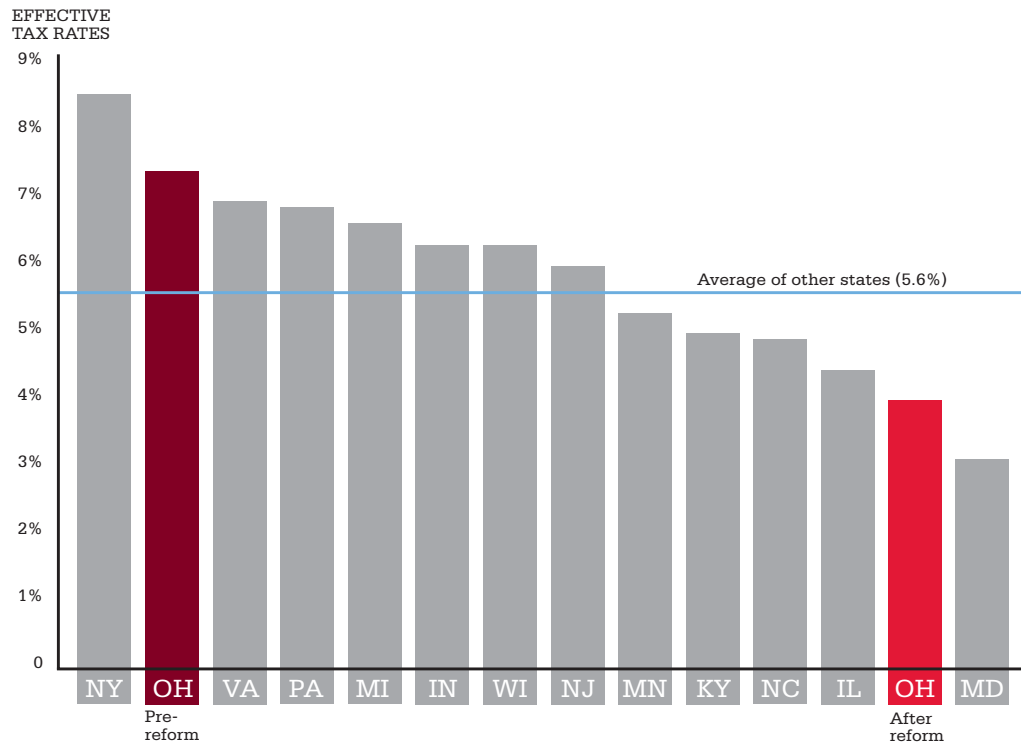
“Although Dover Chemical has operations in several states, we decided in 2005 to invest approximately \$12 million into a new plant in Ohio. This decision was due in large part to the improving tax climate.”

Mike Caffrey
CFO
Dover Chemical Corporation
Dover, Ohio

Ohio tax reform: Year 1 in review

industries³ included in the comparison) from a level of 29% above the average of the other states to 36% below the average. The significant reduction of Ohio’s ETR reflects the elimination of the tangible personal property and corporate franchise taxes. Moreover, under the new Commercial Activity Tax, export sales are not taxable; as a result, the tax reform package provides a strong incentive for multistate companies to expand or relocate in Ohio. When the reforms are fully phased in, Ohio’s business tax burdens will be next to the lowest imposed among the 12 comparable states. This significant change in Ohio’s business tax competitiveness will grow Ohio jobs and investment over time.⁴

Comparison of average effective tax rates on new investments by state



Source: Ernst & Young analysis, prepared for the Ohio Business Roundtable.

³ The industries include food processing, pharmaceuticals, electronic components, motor vehicles, information services, computer services and research and development.

⁴ The ETR figures include state and local taxes imposed on a firm’s new capital investments: corporate income and net worth taxes, property taxes, sales taxes on capital purchases and the CAT. The tax parameters for other states are those scheduled, as of July 1, 2006, to be in effect in tax year 2009.

Ensuring continued success

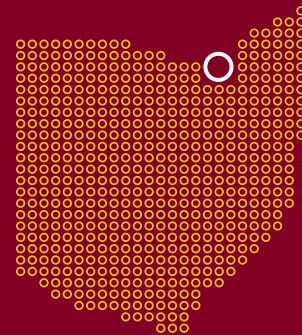
Ohio's policymakers should be proud of positive impact the tax reform has already had on Ohio's economy. Business leaders can appreciate that the tax system will no longer impose tax penalties on new investments and new jobs created in Ohio. They respect the Commercial Activity Tax that impacts industries evenly and fairly with a low tax rate and broad tax base.

Every effort must be made to ensure that the tax reform is fully implemented. Only by tempering any tendency to significantly change or alter the Commercial Activity Tax, or to slow down the phase-out of the corporation franchise tax and tangible personal property tax, can the full promise of tax reform benefit Ohioans. Business leaders must be vigilant to ensure complete phase-in of the new tax law.

Early signs are strong that tax reform is impacting Ohio's economy and competitiveness. Allowing complete phase-in of the reform, or accelerating the reform, is the only prudent course for our government and business leaders. Every effort must be made to avoid any delay in phasing out the old taxes and phasing in the new CAT. We must recognize that the success of the CAT is its low rate and broad base. Therefore, any efforts to increase the CAT rate must be avoided.

The business community's sustained leadership and support were seminal to the reform effort. The result of this unprecedented public-private partnership is a groundbreaking, yet responsible, tax reform package that Ohio policy makers can be proud of, Ohio business leaders can embrace and Ohio taxpayers can welcome for the tax relief it will provide and the jobs it will create.

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 and CEO
The Lincoln Electric Company
Cleveland, Ohio



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.

John F. Barrett, Chairman
Michael G. Morris, Chairman-elect
Richard A. Stoff, President

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