
**CORPORATE TAX BURDEN COMPARISON
PLASTICS INDUSTRY**

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CORPORATE TAX BURDEN COMPARISON: PLASTICS INDUSTRY

A. INTRODUCTION

Businesses consider a wide variety of factors in making location decisions. Because tax systems vary among states, the expected amount of tax paid is one of the factors in business location decisions.

The purpose of this report is to compare the direct business tax liabilities incurred by a hypothetical plastics products manufacturing corporation (SIC 3000; NAICS 326000) if it were located in 15 industrial states. Taxes included in this comparison are the corporate income, franchise, property and sales taxes. This method allows the report to isolate the impact of differences between the tax laws of each state. Accordingly, the results are sensitive to assumptions made about the hypothetical firm and to other general assumptions made in the comparison.

States were chosen for the comparison based on industry presence in the states, indicated by employment and value added to products produced in each state, and by their proximity to Wisconsin. The states included in the comparison are California, Georgia, Illinois, Indiana, Iowa, Michigan, Minnesota, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Texas, Virginia and Wisconsin. In 2006, Wisconsin began phasing in a formula to apportion income to the state based only on the amount of sales a company makes in Wisconsin compared to sales made everywhere. Single sales factor apportionment will be fully phased in for taxable years beginning in 2008. As a result, this paper includes two Wisconsin comparisons: the first under current law and the second as if single sales factor apportionment were fully phased in.

State and local taxes are only one of the many costs of doing business. Other significant factors affecting location decisions include the accessibility of markets, raw materials and suppliers; availability of a skilled labor force and labor costs; the availability and quality of transportation and other public services; regulatory processes; and the quality of life. It is difficult to rank taxes among the many factors. Each corporation will make its own determination due to the unique nature of each location decision and it is difficult to predict how often taxes will rank as an important cost of doing business.

This analysis is for illustrative purposes only and is intended to present information on tax laws in Wisconsin and other states in a simple and easily understood manner. Actual calculations are more complex and tax burdens may vary with consideration of additional variables or tax laws.

B. TOTAL TAX BURDEN SUMMARY

The hypothetical corporation is a small multistate plastics manufacturer that has the majority of its property and employees in its home state, but sells most of its products regionally and nationally. The corporation has total assets of \$10.6 million, sales of approximately \$18 million and income before tax of \$3.8 million. The analysis is for tax treatment in 2006. The methodology and assumptions used in calculating the taxes are described in the appendix.

Table 1 shows the total tax liability ranking of the corporation by state, as well as the percent that each tax is of total tax. For this comparison, total tax liability is the sum of sales, property, income, and franchise taxes. A ranking of 1 denotes the highest tax liability among the states compared.

**TABLE 1
TOTAL TAX LIABILITY AND RANK**

State	Total Tax Liability		Income and Franchise Tax		Sales Tax		Property Tax	
	Amount	Rank	Amount	%	Amount	%	Amount	%
California	\$ 250,847	4	\$ 196,316	78%	\$ 20,861	8%	\$ 33,670	13%
Georgia	191,253	10	91,083	48%	40,219	21%	59,951	31%
Illinois	136,781	16	54,196	40%	24,980	18%	57,605	42%
Indiana	313,871	1	184,968	59%	18,712	6%	110,191	35%
Iowa	143,438	15	104,185	73%	7,450	5%	31,803	22%
Michigan	173,444	11	40,605	23%	25,099	14%	107,740	62%
Minnesota	234,374	6	164,535	70%	7,262	3%	62,576	27%
New Jersey	278,955	2	180,876	65%	27,763	10%	70,316	25%
New York	162,801	14	82,701	51%	16,948	10%	63,157	39%
North Carolina	216,909	8	158,957	73%	15,510	7%	42,442	20%
Ohio	230,510	7	137,410	60%	7,079	3%	86,022	37%
Pennsylvania	256,894	3	203,933	79%	6,782	3%	46,178	18%
Texas	200,076	9	53,578	27%	34,247	17%	112,251	56%
Virginia	171,079	12	133,917	78%	5,057	3%	32,106	19%
Wisconsin	235,302	5	161,782	69%	23,008	10%	50,512	21%
Wisconsin 2008	163,424	13	89,904	55%	23,008	14%	50,512	31%

As shown in Table 1, the total tax burden is highest in Indiana and lowest in Illinois. The variation between the highest and lowest taxes in those states is significant. Income/franchise taxes were the greatest component of the total tax burden in both states. Sales tax contributed modestly to the total tax burden in most states.

As shown in Table 1, different taxes are often more significant in the total tax burden of the states compared. For example, in Michigan and Texas, property taxes were the largest component of total tax liability. In Virginia, California and Minnesota, income/franchise taxes were most significant. Wisconsin ranks five in total tax liability under current law, but drops to 13 under the law that will be in place in 2008 when single sales factor apportionment is fully effective.

Corporations consider taxes to be one of the many costs of doing business, and therefore are interested in how the tax costs relate to revenue and profitability. Tables 2 and 3 provide comparisons across states of indicators of profitability and location. Table 2 shows the tax burdens of the states as they relate to sales of the hypothetical company and to income before tax. Table 3 relates the tax burdens to the average tax burden of the 15 states and to Wisconsin's tax burden under current law and in 2008, when single sales factor apportionment is fully phased in.

**TABLE 2
STATE TAX LIABILITY AS A PERCENT OF COMPANY SALES
AND INCOME BEFORE TAX**

State	Total Liability Amount	% of Sales	% of Income
California	\$ 250,847	1.39%	6.68%
Georgia	191,253	1.06%	5.09%
Illinois	136,781	0.76%	3.64%
Indiana	313,871	1.73%	8.36%
Iowa	143,438	0.79%	3.82%
Michigan	173,444	0.96%	4.62%
Minnesota	234,374	1.29%	6.24%
New Jersey	278,955	1.54%	7.43%
New York	162,801	0.90%	4.34%
North Carolina	216,909	1.20%	5.78%
Ohio	230,510	1.27%	6.14%
Pennsylvania	256,894	1.42%	6.84%
Texas	200,076	1.10%	5.33%
Virginia	171,079	0.94%	4.56%
Wisconsin	235,302	1.30%	6.27%
Wisconsin 2008	163,424	0.90%	4.35%
Sales	\$ 18,109,000		
Income Before Tax	3,755,450		

As Table 2 indicates, the total tax liability is between 0.76% and 1.73% of sales. The average of the 15 states is 1.18% under current Wisconsin law and 1.15% under Wisconsin law in 2008.

**TABLE 3
STATE TAX LIABILITY RELATIVE TO WISCONSIN AND 15-STATE AVERAGE**

State	Total Liability				Sales Tax		
	Amount	% of WI	% of WI 2008	% of Avg.	Amount	% of WI	% of Avg.
California	\$ 250,847	107%	153%	120%	\$ 20,861	91%	111%
Georgia	191,253	81%	117%	92%	40,219	175%	215%
Illinois	136,781	58%	84%	66%	24,980	109%	133%
Indiana	313,871	133%	192%	151%	18,712	81%	100%
Iowa	143,438	61%	88%	69%	7,450	32%	40%
Michigan	173,444	74%	106%	83%	25,099	109%	134%
Minnesota	234,374	100%	143%	113%	7,262	32%	39%
North Carolina	278,955	119%	171%	134%	27,763	121%	148%
New Jersey	162,801	69%	100%	78%	16,948	74%	90%
New York	216,909	92%	133%	104%	15,510	67%	83%
Ohio	230,510	98%	141%	111%	7,079	31%	38%
Pennsylvania	256,894	109%	157%	123%	6,782	29%	36%
Texas	200,076	85%	122%	96%	34,247	149%	183%
Virginia	171,079	73%	105%	82%	5,057	22%	27%
Wisconsin	235,302	100%	144%	113%	23,008	100%	123%
Wisconsin 2008	163,424	69%	100%	78%	23,008	100%	123%
15 State Average	\$ 213,102				\$ 18,732		
15 State Average, WI 2008	208,310				18,732		

State	Income and Franchise Tax				Property Tax		
	Amount	% of WI	% of WI 2008	% of Avg.	Amount	% of WI	% of Avg.
California	\$ 196,316	121%	218%	157%	\$ 33,670	67%	52%
Georgia	91,083	56%	101%	73%	59,951	119%	93%
Illinois	54,196	33%	60%	43%	57,605	114%	89%
Indiana	184,968	114%	206%	148%	110,191	218%	171%
Iowa	104,185	64%	116%	83%	31,803	63%	49%
Michigan	40,605	25%	45%	32%	107,740	213%	167%
Minnesota	164,535	102%	183%	131%	62,576	124%	97%
North Carolina	180,876	112%	201%	145%	70,316	139%	109%
New Jersey	82,701	51%	92%	66%	63,157	125%	98%
New York	158,957	98%	177%	127%	42,442	84%	66%
Ohio	137,410	85%	153%	110%	86,022	170%	134%
Pennsylvania	203,933	126%	227%	163%	46,178	91%	72%
Texas	53,578	33%	60%	43%	112,251	222%	174%
Virginia	133,917	83%	149%	107%	32,106	64%	50%
Wisconsin	161,782	100%	180%	129%	50,512	100%	78%
Wisconsin 2008	89,904	56%	100%	72%	50,512	100%	78%
15 State Average	\$ 129,936				\$ 64,435		
15 State Average, WI 2008	125,144				64,435		

Table 3 shows that single sales factor apportionment will reduce the hypothetical corporation's Wisconsin tax liability by 31% and its Wisconsin income/franchise tax liability by 44%. With this change fully implemented, 12 of the 15 states would impose greater total tax liability on the corporation than Wisconsin.

A brief discussion of the tax burden for each type of tax follows. For additional information regarding the taxes, see a discussion of the assumptions for each tax and a description of each state's taxing provisions in the appendix.

C. PROPERTY TAX

The hypothetical corporation has real property consisting of land and buildings and tangible personal property that may be subject to tax in the states compared. The majority of its personal property is manufacturing machinery and equipment, although it also has other equipment, furniture and fixtures and automobiles. The analysis assumes that 90% of all property is located in the home state of the corporation.

Table 4 shows the property tax rankings of each state for the hypothetical corporation. Table 5 summarizes property tax provisions relating to business property and tax rates in each state. Additional information is summarized in the appendix.

**TABLE 4
PROPERTY TAX LIABILITY**

State	Amount of Property Tax	Rank
California	\$ 33,670	13
Georgia	59,951	8
Illinois	57,605	9
Indiana	110,191	2
Iowa	31,803	15
Michigan	107,740	3
Minnesota	62,576	7
New Jersey	70,316	5
New York	63,157	6
North Carolina	42,442	12
Ohio	86,022	4
Pennsylvania	46,178	11
Texas	112,251	1
Virginia	32,106	14
Wisconsin	50,512	10

**TABLE 5
PROPERTY TAX PROVISIONS**

State	Exemptions		Effective Tax Rates	
	Inventory	M&E	Property Subject to Tax	All Property Located in State
California	Yes	No	0.671%	0.433%
Georgia	Yes	No	1.210%	0.905%
Illinois	Yes	Yes	2.483%	0.742%
Indiana	Yes	No	2.412%	1.349%
Iowa	Yes	Yes	1.371%	0.409%
Michigan	Yes	No	2.220%	1.387%
Minnesota	Yes	Yes	2.698%	0.806%
New Jersey	Yes	Yes	3.031%	0.905%
New York	Yes	Yes	2.723%	0.813%
North Carolina	Yes	No	0.857%	0.546%
Ohio	No	No	1.324%	1.138%
Pennsylvania	Yes	Yes	1.991%	0.594%
Texas	No	No	2.018%	1.445%
Virginia	Yes	No	0.680%	0.413%
Wisconsin	Yes	Yes	1.964%	0.650%

The plastics manufacturer has significant value in personal property, including manufacturing machinery and equipment and inventory. Treatment of these items of property is important in determining the property tax liability for the corporation in each state. As a result of Wisconsin's property tax exemption for machinery and equipment, computers and inventory, the state ranks low compared with many other states in the analysis. Iowa and Virginia rank low because of low assessment values and low property tax rates. California ranks low because of its low tax rate and the effect of Proposition 13 limits on increases in assessments of long-standing properties. Texas, Michigan and Indiana rank high because they have fewer exemptions and high tax rates.

D. SALES TAX

The hypothetical corporation makes annual purchases that are subject to sales and use tax. Machinery and equipment used in manufacturing and research make up the majority of those purchases. Purchases of other equipment and fuel and electricity are also compared.

The variation among states in sales tax treatment of purchases has a significant impact on total tax costs. Exempting purchases of assets such as machinery and equipment from sales and use taxes, or applying lower tax rates to such purchases, lowers the cost of initial investment, while exempting inputs such as fuel or electricity lowers operating costs.

Table 6 shows the sales tax and rankings that would apply if the hypothetical corporation was located in each state. Table 7 provides the tax rates that apply to different types of property. Table 8 shows the sales tax treatment of various purchases. Computers, furniture and fixtures, and transportation equipment are taxable in all states and are not shown in the table.

**TABLE 6
SALES TAX LIABILITY**

State	Sales Tax	Rank
California	\$ 20,861	7
Georgia	40,219	1
Illinois	24,980	5
Indiana	18,712	8
Iowa	7,450	11
Michigan	25,099	4
Minnesota	7,262	12
New Jersey	27,763	3
New York	16,948	9
North Carolina	15,510	10
Ohio	7,079	13
Pennsylvania	6,782	14
Texas	34,247	2
Virginia	5,057	15
Wisconsin	23,008	6

**TABLE 7
STATE & LOCAL SALES AND USE TAX RATES**

State	Combined State & Local General Rate	Other Applicable Rates		
		Electricity	Manufacturing M&E	Motor Vehicles
California	7.25%	---	---	---
Georgia	6%	---	---	---
Illinois	7%	5.1%	3.125%	---
Indiana	6%	---	---	---
Iowa	7%	---	---	---
Michigan	6%	---	---	---
Minnesota	6.5%	---	---	---
New Jersey	6%	---	---	---
New York	8.25%	---	---	---
North Carolina	7%	2.83%	1%	3%
Ohio	7%	---	---	---
Pennsylvania	6%	---	---	9%
Texas	8.25%	---	---	6.25%
Virginia	5%	---	---	3%
Wisconsin	5.5%	---	---	---

**TABLE 8
SALES AND USE TAX TREATMENT**

State	Mfg. Mach. & Equip.	R&D Equip.	Pollution/ Enviro.	Other Non Mfg.	Mfg. - Elec.	Mfg. - Nat. Gas	R&D - Elec.	R&D - Nat. Gas
California	R	R	R	T	E	E	E	E
Georgia	E	T	E	T	T	T	T	T
Illinois	E	T	T	T	R	R	R	R
Indiana	E	R	E	T	E	E	T	T
Iowa	E	E	E	T	E	E	E	E
Michigan	E	T	E	T	E	E	T	T
Minnesota	E	E	T	T	E	E	E	E
New Jersey	E	E	T	T	T	T	T	T
New York	E	E	E	T	E	E	T	T
North Carolina	R	R	R	T	R	E	R	E
Ohio	E	E	E	E	E	E	E	E
Pennsylvania	E	E	E	T	E	E	E	E
Texas	E	T	E	T	E	E	T	T
Virginia	E	E	E	T	E	E	E	E
Wisconsin	E	T	E	T	E	E	T	T

T is taxable; E is exempt; and R is reduced rate or partial exemption.

The tax treatment of research equipment and fuel and electricity used in research are the most significant sources of differences in sales taxes among the states. Georgia has the highest sales tax liability of the states in the comparison, followed by Texas and New Jersey. Taxes on research equipment and fuel and electricity account for the relatively high sales taxes in Georgia and Texas; New Jersey ranks third highest due primarily to imposing sales tax on purchases of fuel and electricity. Virginia imposes the lowest sales tax burden on the hypothetical company, with Pennsylvania and Ohio ranking second and third lowest, respectively. Exemptions for research equipment and fuel and electricity used in research largely account for the low taxes in these states. Wisconsin ranks sixth highest, largely due to taxes on research equipment and fuel and electricity used in research.

Manufacturing machinery and equipment are exempt in all states except California and North Carolina, where purchases are taxed at reduced rates. All states in the study tax computers, furniture and fixtures, and motor vehicles. Since the value of these purchases is relatively small, the differences in tax rates result in minor differences in tax burdens.

E. INCOME/FRANCHISE TAX

Table 9 shows the corporate income/franchise tax liabilities and rankings for the hypothetical corporation. As used in this comparison, the term "income tax" includes taxes measured by net income and the term "franchise tax" refers to taxes based on capital stock, net worth or other asset-related measures, as well as annual corporate filing fees that may be paid to the Secretary of State or similar offices in the various states. This section combines the income and franchise tax liabilities because several states impose taxes that are the greater of an income or franchise tax, or impose additional taxes with the income tax, making a separate discussion less meaningful.

Tables 10 and 11 summarize key provisions relating to income and franchise tax. The top tax rate includes additional taxes imposed with the income tax. Additional information regarding the assumptions and tax in each state is included in the appendix.

TABLE 9
INCOME AND FRANCHISE TAX LIABILITY

State	Income and Franchise Tax	Rank
California	\$ 196,316	2
Georgia	91,083	11
Illinois	54,196	14
Indiana	184,968	3
Iowa	104,185	10
Michigan	40,605	16
Minnesota	164,535	5
New Jersey	180,876	4
New York	82,701	13
North Carolina	158,957	7
Ohio	137,410	8
Pennsylvania	203,933	1
Texas	53,578	15
Virginia	133,917	9
Wisconsin	161,782	6
Wisconsin 2008	89,904	12

**TABLE 10
CORPORATE INCOME TAX PROVISIONS**

State	Apportionment Method	Effective Top Tax Rate	Carryover Period for NOLs		Combined or Consolidated Reporting
			Back	Forward	
California	Double-Weight	8.84%	None	10 Years	Yes
Georgia	80% Sales	6%	2 Years	20 Years	No
Illinois	Single Sales	7.3%	None	12 Years	Yes
Indiana	Double-Weight	8.5%	2 Years	20 Years	Yes
Iowa	Single Sales	12%	2 Years	20 Years	Yes
Michigan	90% Sales	1.9%	None	10 Years	Yes
Minnesota	75% Sales	9.8%	None	15 Years	Yes
New Jersey	Double-Weight	9%	None	7 Years	No
New York	Double-Weight	7.5%	2 Years	20 Years	Yes
North Carolina	Double-Weight	6.9%	None	15 Years	No
Ohio	Triple-Weight	8.94%	None	20 Years	Yes
Pennsylvania	Triple-Weight	9.99%	None	20 Years	No
Texas	Single Sales	4.5%	None	5 Years	No
Virginia	Double-Weight	6%	2 Years	20 Years	Yes
Wisconsin 2006	60% Sales	8.137%	None	15 Years	No
Wisconsin 2008	Single Sales	8.137%	None	15 Years	No

**TABLE 11
NON-INCOME BASED FRANCHISE TAX PROVISIONS**

State	Annual Filing Fee	Franchise Tax	Tax Base	Rate
California	\$20	No	Not Applicable	Not Applicable
Georgia	15	Yes	Net Worth	Varies
Illinois	75	Yes	Common Shares	2.50%
Indiana	15	No	Not Applicable	Not Applicable
Iowa	45	No	Not Applicable	Not Applicable
Michigan	None	No	Not Applicable	Not Applicable
Minnesota	None	No	Not Applicable	Not Applicable
New Jersey	50	No	Not Applicable	Not Applicable
New York	4.5	No	Not Applicable	Not Applicable
North Carolina	10	Yes	Highest of 3 Alternatives	0.15%
Ohio	10	Yes	Net Worth	0.40%
Pennsylvania	None	Yes	Authorized Capital Stock	1.28%
Texas	None	Yes	Taxable Capital or Earned Surplus	0.25%
Virginia	50	Yes	Authorized Capital Stock	Varies
Wisconsin	25	No	Not Applicable	Not Applicable

The income tax burden is determined by rules that define the amount of income subject to tax in a state and by the tax rates applied to taxable income. The income of a multistate corporation that is subject to tax is determined, in part, by the apportionment formula used to allocate income to the states where a company does business. Every state included in this comparison weights the sales factor more heavily than the other factors in the apportionment formula. Illinois, Iowa and Texas apportion income based solely on the amount of sales in the state relative to sales of the company everywhere. For a multistate company with a plant and employees in the state and regional or national sales, this method of apportionment reduces the income subject to tax when compared with formulas that consider property and payroll in the state. Wisconsin, Georgia, Indiana, and Minnesota have enacted single sales factor apportionment that will be phased in over a number of years. There is also significant variation in the highest tax rates, ranging from 1.9% in Michigan to 9.99% in Pennsylvania.

The largest income/franchise tax burdens occur if the company is located in Pennsylvania or California. California weights the sales factor at 50%, while Pennsylvania weights it at 60%, and both of these states have relatively high tax rates. The lowest tax burdens occur in Michigan, Illinois, and Texas. Michigan weights the sales factor at 90% and both Illinois and Texas have single sales factor apportionment. In addition, all three states have relatively low tax rates. In Wisconsin, the income/franchise tax liability rank drops from six under current law to 12 under single sales factor apportionment. The income tax liability of the hypothetical corporation is reduced by \$71,878 under single sales factor apportionment compared with current law.

Although not a factor in this comparison, the treatment of net operating losses (NOL) is important for a corporation in determining income subject to tax. NOL carryforward periods range from 5 years (Texas) to 20 years (Georgia, Indiana, Iowa, Ohio, Pennsylvania, and Virginia). Georgia, Indiana, Iowa, New York, and Virginia also allow losses to be carried back two years. Every state except Georgia, New Jersey, North Carolina, Pennsylvania, Texas, and Wisconsin has some form of combined or consolidated reporting.

Each state compared has some form of enterprise or development zone program that could provide certain tax incentives to a business locating in a zone. These incentives are typically negotiated with businesses on a case-by-case basis by the state departments of development or commerce. As such, they are not included in this comparison.

As shown in Table 10, most of the states have some form of annual filing fee, ranging from \$10 in North Carolina and Ohio to \$75 in Illinois. New York has a biennial fee of \$9 that is annualized for this comparison. Many of the states compared have a franchise tax based on capital stock or property in addition to, or instead of, an income tax.

APPENDIX

A. METHODOLOGY

This comparison calculates the 2006 state and local tax burden arising from the major taxes that a plastics industry corporation would pay in each state, including the corporate income, franchise, property, and sales taxes. For the comparisons to be meaningful, it is important to define the components of each of the major taxes.

As used in this comparison, the term "income tax" includes corporate income taxes and franchise taxes that are based on corporate net income. The term "franchise tax" includes annual filing fees and taxes that are based on capital stock, net worth or any measure other than corporate net income. While it is necessary to make these distinctions for comparison purposes across the states, use of the terminology in this way should not be interpreted to contradict the important legal distinction between the corporate income and franchise taxes.

This approach, within the limits of the assumptions applied, quantifies only the most significant tax differentials among the states. Since the comparisons rely on hypothetical corporations, variations in the relationship of real property, inventories or other assets to income could have a substantial impact on the tax burdens in different states. In addition, other factors such as unemployment and worker's compensation costs, state and local taxes on individuals, transportation costs, wage rates for labor, and short-term tax and other locational incentives aimed at attracting industry all vary among the states and have an impact on the costs of doing business. These factors are beyond the scope of this comparison.

B. ASSUMPTIONS

States and municipalities often offer special tax incentives to individual companies as a way to encourage companies to locate in particular areas. These incentives can apply to any tax and can significantly reduce or eliminate tax liability for a company. Because of the company-specific nature of these incentives, this comparison does not account for these special tax incentives. For purposes of this comparison, tax incentives are limited to tax provisions available to all businesses operating in a state.

1. Property Tax

General Assumptions. Property taxes are calculated for 2004/2005 (i.e., levied in 2004, payable in 2005). Table A.1 shows the property owned by the hypothetical corporation located in the states under analysis. It is assumed that 90% of the property owned is located in-state and 10% is located out of state. Taxes are applied for the 90% of property in the state.

TABLE A.1
FULL VALUE OF PROPERTY
POTENTIALLY SUBJECT TO TAX

Real Property	
Land	\$ 249,661
Buildings	<u>2,070,000</u>
Total Real Property	\$ 2,319,661
Personal Property	
Manufacturing Machinery and Equipment	\$ 2,077,239
Research Equipment	192,938
Other Non-Mfg. Equipments	30,584
Computer Equipments	204,747
Furnitures and Fixtures	28,724
Transportation Equipments	100,710
Inventory	1,823,400
Intangibles	<u>1,100,000</u>
Total Personal Property	\$ 5,558,343
Total Real and Personal Property	\$ 7,878,004

The full value of property is generally assumed to be the net book value of the land and personal property accounts. The book value of land and buildings is increased by 50% to reflect the impact of increases in the value of real property on the current market value, which is usually the basis for assessment. Each state may measure full value differently due to different depreciation and assessment practices. Assessment ratios are applied to calculate assessed values since states employ different practices. Assessment ratio and tax rates used for each state are described below.

Most states have some program that allows local governments to offer special tax treatments to specific businesses under certain circumstances. These incentives generally involve negotiations on a case-by-case basis. This comparison includes only tax treatments available to every company that makes the necessary investment or meets the other requirements of the program. As such, special tax abatements and other reductions are not included in the analysis.

California. The average statewide property tax rate for the analysis is 1.091 per \$100 of assessed value. Under Proposition 13, real property is generally assessed at 100% of its 1975/76 full value subject to an increased value of not more than 2% per year for each year since 1975/76, unless the property is transferred. The analysis assumes that real commercial/industrial property in California is assessed at 61.5% of full value. Intangibles and inventories are exempt. Motor vehicles are subject to a license tax in lieu of property taxes; the license tax is not included in this analysis because license fees in other states are not included.

Georgia. The analysis assumes that real and tangible personal property is assessed at the statutory rate of 40% of fair market value. The statewide average tax rate is estimated to be \$30.25 per \$1,000 of assessed value (including 0.25 state levied mill rate). The property tax applies to all real and personal property, including inventories. However, businesses may apply for an exemption and most counties exempt all inventories. As such, the analysis assumes inventories are exempt. Intangibles are exempt.

Illinois. Real property is assessed at 33 1/3% of fair market value. The analysis uses the 2003/2004 statewide average industrial tax rate of \$7.45 per \$100 of assessed value, or

2.48% of fair market value. The property tax applies only to real property. Intangibles and all tangible personal property are exempt from taxation.

Indiana. Property is assessed at 100% of true value at a rate of 2.41% per \$100 of value. The property tax applies to all real and tangible personal property, except vehicles. Vehicles are not subject to the property tax; rather they are subject to an annual license fee in lieu of property taxes that is not included in the study. Beginning in 2006, a deduction is available for inventory. Also beginning in 2006, an investment deduction is available for new property that creates or retains employment, with a presumption that any reasonable claim allows the deduction. The deduction is 75% in the first year, 50% in the second year and 25% in the third year. The analysis assumes that the deduction applies.

Iowa. Commercial and industrial real property is assessed at 100% of full value. The statewide average effective property tax rate for industrial property in 2003/2004 was 1.371% of assessed value. Tangible personal property and intangibles are exempt.

Michigan. The statewide average effective tax rate used in the analysis is \$51.68 per \$1,000 of taxable value. For purposes of this study, taxable value of property is assumed to be 43% of actual value. Each year, the taxable value of property cannot increase by more than 5% or the rate of inflation, whichever is less, unless the property is transferred or sold. Motor vehicles, inventories and intangibles are exempt from tax.

Minnesota. The statewide average tax rate for industrial and commercial real property used in the analysis is \$3.31 per \$100 of assessed property. Industrial and commercial property is assessed at a statewide ratio of 81.5% of actual full value. The property tax applies only to real property. Intangibles and all tangible personal property are exempt from tax.

New Jersey. The analysis uses a statewide average tax rate for real property of 3.031% of assessed value. Property is assessed at full value. Intangibles and all tangible personal property are exempt.

New York. The statewide average tax rate for the analysis is estimated at 8.7% of assessed value, which is 31.29% of full value. The tax applies to all real property in the state, unless specifically exempted, but does not apply to tangible or intangible personal property.

North Carolina. Real and tangible personal property is assessed at 100% of true value. However, because the assessment is done every four years, this analysis assumes 91.52% of fair market value. The average statewide tax rate is \$0.936 per \$100 of assessed property. Intangibles and inventories are exempt.

Ohio. Real property is assessed at 35% of full value and tangible personal property is assessed at true depreciated value. The statewide 2002/2003 average tax rate for real property is \$58.50 per \$1,000 of assessed value. The property tax applies to all real and personal property, including inventories, but not including intangibles and transportation equipment. However, the personal property tax is being phased out. The assessed value of business personal property for the analysis is 18.75%. There is a \$10,000 exemption against the aggregate value of tangible personal property.

Pennsylvania. The statewide average property tax rate for this comparison is 2.91% of assessed value. Property is assessed at a statewide average ratio of 68.47% of fair market value. All personal property is exempt from taxation.

Texas. Property is assessed at 100% of full market value. The statewide average rate used for this comparison is 2.44% of full market value. The property tax applies to all real and personal property, except intangibles. Most intangibles are exempt from taxation. Income-producing property with a value of less than \$500 and freeport storage property (including property in the state for assembling or manufacture for not more than 175 days) is exempt from tax. The analysis assumes that property destined for sale outside the state would qualify for the exemption.

Virginia. Real estate, motor vehicles, and manufacturing equipment are taxed at the local level. The local median assessment ratio is 75.56% and the rate is \$.90 per \$100 of assessed value. Inventory, furniture and fixtures, computer equipment and intangibles are exempt from tax.

Wisconsin. Real and tangible personal property is assessed at 100% of full market value. The statewide average tax rate is \$19.64 per \$1,000 of value. All classes of property are subject to the same rate. Machinery and equipment used in manufacturing, inventories, vehicles, and intangibles are exempt. Certain computer equipment is exempt, including mainframe computers, minicomputers, personal computers, servers, terminals, monitors, disk drives, printers, basic operational programs, system software, prewritten software, and custom software.

2. Sales Tax

General Assumptions. As used in this study, the term "sales tax" includes "use tax" and refers to one-time taxes imposed on the purchase price of items. The sales tax rate used in the comparison is the state sales tax rate plus the local tax rate.

The comparison calculates the amount of sales tax that would be paid by the hypothetical corporation on its purchases of tangible personal property. The comparison follows the same assumption as used in the property tax analysis that 90% of the property purchased by the multistate corporation will be located and used in the home state and therefore subject to sales tax in that state. Table A.2 shows the total of in-state purchases (90% of total purchases).

**TABLE A.2
PURCHASES POTENTIALLY SUBJECT TO SALES TAX**

Mfg. Machinery & Equipment	\$	833,461
Research Equipment		212,894
Pollution/Environmental Equipment		5,299
Other Non-Mfg. Equipment		5,299
Computer Equipment		84,354
Furniture and Fixtures		3,542
Transportation Equipment		13,230
Mfg. Fuel & Electricity		252,000
Research Fuel & Electricity		99,000
Total Purchases	\$	1,509,079

The sales and use tax rate used in the study is the state general sales and use tax rate plus a local general tax rate for those states with local general sales and use taxes. The study combines a general local rate with the general state rate to arrive at the effective sales and use tax rate. For example, since local sales and use tax is 0.5% in 56 of Wisconsin's 72 counties, this study uses a combined state and local sales and use tax rate of 5.5%—the 5% state rate plus a 0.5% local rate—which is the rate a corporation is most likely to encounter

when doing business in Wisconsin. Special utility or motor vehicle tax rates are used in those states where applicable but other selective sales taxes, such as those on lodging or meals, are not considered.

The study calculates the amount of sales and use tax that the hypothetical firm would pay on its taxable purchases of personal property under the laws of the state as of January 1, 2006. It is assumed that the hypothetical corporation purchases new and replacement personal property on a regular basis. The variation in the sales tax treatment of these purchases between states results in significant differences in total sales taxes. Variations among states arise from differences in tax rates and exemptions. In addition, some states' economic development programs provide preferential sales and use tax treatment based on geographic location, numbers of jobs created, or minimum amounts of investment. Such programs may also require certification of approval by an agency, such as the state Department of Commerce. Since the preferential treatment afforded under these programs may not be available to all companies, this study does not reflect such economic development programs.

Purchases of new personal property are considered to reflect the normal replacement of a firm's existing property plus additional new capital to increase output, reduce costs or improve productivity.

"Manufacturing machinery and equipment" includes items used directly in the manufacturing process. The category includes computers used in the manufacturing process while computers used for general business purposes are excluded.

"Other non-manufacturing equipment" assumes 50% of the equipment included in the category is pollution control and recycling equipment and 50% is miscellaneous non-manufacturing equipment. Other non-manufacturing equipment would include equipment used for research and development, packaging, labeling, and materials handling equipment, building maintenance and janitorial equipment, and non-computer office equipment.

"Transportation equipment" refers to licensed motor vehicles. Taxes imposed on the purchase price of such equipment are included in the sales tax calculations, even though the tax may not be referred to as a general sales tax by the state imposing the tax.

Items included in the "computer equipment" category are assumed to be office-related equipment, such as personal computers, printers, servers, and software. Computer equipment used for manufacturing or research and development is included in the M&E category.

The "furniture and fixtures" category assumes all fixtures retain their character as tangible personal property; none are incorporated into the building to become real property.

"Fuel and electricity" does not include gasoline or other motor vehicle fuel. Energy use is assumed to consist solely of electricity and natural gas with expenditures for natural gas accounting for 60% of the total amount spent and electricity accounting 40%. Some states tax these fuels at a reduced rate. In addition, the amount of sales tax paid on purchases of fuel and electricity used in the manufacturing process and for research and development are calculated. The assumptions for purchases of fuel and electricity for the hypothetical corporation were developed from federal corporate income tax statistics and Wisconsin corporate income tax statistics. The data and assumptions are based on averages for actual firms having assets and sales similar to those of the hypothetical corporation. Some states provide special treatment for other fuels, such as coal, but information is not available to break fuel use down by type of fuel.

California. The combined state and local rate is 7.25% (6.25% state rate and 1% local rate). Purchasers of manufacturing machinery and equipment, research and development equipment, and pollution control equipment may file a claim for refund of sales and use tax paid in the amount of the repealed 6% manufacturer's investment credit, thereby reducing the effective sales tax rate to 1.25%. Sales of electricity and natural gas are exempt from sales tax. A partial exemption of manufacturing machinery and equipment expired January 1, 2004.

Georgia. The combined state and local rate is 6% (4% state rate and 2% local rate). Purchases of manufacturing machinery and equipment and pollution control equipment are exempt from tax. Georgia's exemption for purchased electricity does not apply – Georgia exempts purchased electricity that interacts directly with a product being manufactured when the total cost of the electricity makes up 50% or more of all the materials being used in making the product.

Illinois. The combined state and local rate is 7% (6.25% state rate and 0.75% local rate). Purchases of manufacturing machinery and equipment are exempt from tax. In addition, an Illinois manufacturer may receive a Manufacturer's Purchase Credit (MPC) equal to 3.125% of the purchase price of machinery and equipment used in manufacturing. MPCs may be applied to sales tax liability owed on production-related taxable goods including preproduction material handling, receiving, quality control, inventory control, storage, staging, and packaging for shipping and transportation purposes, and research and development. Pollution control facilities are taxable (an exemption was repealed as of July 1, 2003). In this study, the MPC was applied to the corporation's sales tax liability for purchases of research equipment, pollution control facilities, and other non-manufacturing equipment. Fuel and electricity purchases are subject to a 5.1% tax.

Indiana. The state rate is 6%. Local sales taxes are not authorized. Purchases of manufacturing machinery and equipment, pollution control equipment, and fuel and electricity used in manufacturing are exempt from sales tax. From June 30, 2005, to July 1, 2007, purchasers of research equipment may claim a refund of 50% of sales or use tax paid on research equipment. After July 1, 2007, purchasers may claim a refund of 100% of tax paid on research equipment.

Iowa. The general state sales tax rate is 5% and the median local sales tax rate is 2%, for a combined state and local rate of 7%. Purchases of manufacturing machinery and equipment, research equipment, pollution control equipment, and fuel and electricity used in manufacturing or research and development are exempt from sales tax.

Michigan. The state rate is 6%. There is no local tax. Purchases of machinery and equipment and fuel and electricity used in industrial processing are exempt from tax. Purchases of pollution control equipment are also exempt.

Minnesota. The state rate of 6.5% is used in the study since only a few local governments impose a local sales tax. Purchases of manufacturing machinery and equipment and research and development equipment are taxable but the purchaser may apply for a refund of tax. Purchases of fuel and electricity used in manufacturing are exempt from tax.

North Carolina. The general state sales tax rate is 4.5% and the median local sales tax rate is 2.5% for a combined state and local rate of 7%. Special rates apply to specific types of purchases. Purchases of manufacturing machinery and equipment are taxed at 1% up to a maximum of \$80 per article. This study assumes that the \$80 cap has the effect of exempting 75% of these purchases from tax. Purchases of electricity used in manufacturing are taxed at 2.83%. Piped natural gas is exempt from sales tax but subject to an excise tax

based on usage; an estimate of the excise tax paid was not included in this study. Purchases of transportation equipment are subject to a 3% highway use tax with a maximum of \$1,500 per vehicle. Based on the value of purchases by the corporation in this study, it is assumed that the full amount of purchase is taxable.

New Jersey. The state sales tax rate is 6%. No general local sales taxes are applicable to items in this study. Purchases of manufacturing machinery and equipment and research equipment are exempt from tax.

New York. The state sales tax rate is 4% and the average local sales tax rate is 4.25%, for a combined state and local rate of 8.25%. Purchases of manufacturing machinery and equipment, research equipment, pollution control equipment, and fuel and electricity used in manufacturing are exempt from the sales and use tax.

Ohio. The general state sales tax rate is 5.5% and the median local sales tax rate is 1.5% for a combined median state and local rate of 7%. Purchases of machinery and equipment used directly in manufacturing, research equipment, pollution control equipment, and machinery and equipment used in packaging are exempt. Purchases of fuel and electricity used in manufacturing and research are also exempt from tax.

Pennsylvania. The state rate is 6%. Since only Allegheny County (Pittsburgh) and Philadelphia impose 1% local taxes, the combined rate for this study is 6%. Purchases of manufacturing machinery and equipment, and parts and supplies are exempt from tax. Also, Pennsylvania and the City of Philadelphia have designated economic development zones in which businesses may qualify for additional sales and use tax exemptions.

Texas. The general sales tax rate is 6.25% and the local median rate is 2% for a combined state and local rate of 8.25%. Purchases of machinery and equipment used directly in the manufacturing process are exempt from tax. Purchases of fuel and electricity used in manufacturing are exempt. A motor vehicle sales and use tax is imposed at a rate of 6.25%.

Virginia. The state sales tax rate is 4% and the median local rate is 1%, for a combined state and local rate of 5%. Purchases of manufacturing machinery and equipment, research equipment, and pollution control equipment are exempt from tax. Purchases of fuel and electricity delivered to consumers through mains, pipes or lines are exempt from sales and use taxes but are subject to a utility tax based on usage; an estimate of the excise tax paid was not included in this study. Motor vehicle purchases are subject to a 3% motor vehicle sales and use tax.

Wisconsin. The state sales tax rate is 5% and the median local rate is 0.5%, for a combined state and local rate of 5.5%. Purchases of manufacturing machinery and equipment, pollution control equipment, and fuel and electricity used in manufacturing are exempt from tax.

3. Corporate Income and Franchise Taxes

General Assumptions. The income tax calculations are based on a taxable year beginning on January 1, 2006. The starting point for the tax calculation is federal income before deductions for taxes because the amount of state tax deductions affects the income subject to tax in a state. Taxable income before taxes is shown in Table A.3.

TABLE A.3
INCOME TAX ASSUMPTIONS

Sales	\$ 18,109,000
Cost of Goods Sold	11,320,000
Gross Profit	6,789,000
Other Receipts	214,000
General Expenses	3,247,550
Income Before Tax	\$ 3,755,450

The comparison assumes that the plastics manufacturing company is a multistate corporation that apportions some of its income to other states; it is assumed that all of the income of this corporation is subject to apportionment. The apportionment ratios used are as follows:

- Total real and tangible property in-state / Total real and tangible property everywhere = 90%
- Total payroll costs in-state / Total payroll costs everywhere = 90%
- Sales destined for in-state purchasers / Sales destined for purchasers everywhere = 30%

The 90% ratios for property and payroll and the 30% ratio for sales reflect the assumption that the corporation sells its products on a regional or national basis. The remaining 10% of property and payroll and 70% of sales are assumed to be allocable to other states. The allocation of some property, payroll and sales to other states is not taken into consideration in computing the income tax burden of the corporation; the allocation would affect the total state tax burden of the corporation to the extent that they were subject to tax in other states.

Using these assumptions, income apportioned on the basis of the simple average of the 3 factors—property, payroll and sales—results in an apportionment percentage of 70%. This means that 70% of the income of the profitable corporation is subject to tax in states that apportion using this method. Many states require corporations to apportion most income with a formula that double-weights the sales factor. Double-weighting the sales factor reduces the apportionment percentage to 60% $[(90\% + 90\% + 30\% + 30\%)/4]$. Income apportioned based only on the sales factor would further reduce the apportionment percentage to 30%.

A deduction is allowed for the amount of sales tax paid in the current year on purchases of new personal property. Since states generally follow federal law, which requires sales taxes to be capitalized into the cost of the asset, the current year sales tax liability is used as a simplified proxy for the depreciation and other deductions that the hypothetical corporation would claim.

This comparison includes only tax credits available to all paper industry corporations that have made the investments or expenditures required. Special state tax credits and other incentives associated with enterprise or redevelopment zone programs are not included in the comparison. Such special tax credits are not included because of the difficulty in developing the detailed assumptions necessary to compute the tax credits, and because the credits are typically negotiated with businesses by a state department and may not be generally available or applicable to all corporations. Similarly, investment credits that require creation of additional jobs are not included.

Some states, such as California and Minnesota, impose a corporate alternative minimum tax patterned after the federal alternative minimum tax. It is assumed that the corporation in the comparison is not subject to the alternative minimum tax.

The term "franchise tax" as used in this comparison refers to franchise taxes based on capital stock, net worth or other asset-related measures as well as annual corporate filing fees that

may be paid to the Secretary of State or similar offices in the various states. Franchise taxes measured by corporate net income are included under the income tax.

The hypothetical corporation is assumed to be a domestic corporation for franchise tax and filing fee purposes. All intangible property, such as patents and copyrights, is located in the state.

TABLE A.4
FRANCHISE TAX ASSUMPTIONS

Common Stocks & Paid-In Capital	\$ 334,872
Retained Earnings	3,833,066
Stockholder's Equity	\$ 4,167,938

California. The income tax rate is a flat 8.84%, with a minimum tax of \$800. Income is apportioned using a double-weighted sales factor formula, making the apportionment percentage for this comparison 60%. An investment credit, equal to 6% of the cost, is available for qualified manufacturing and research and development tangible personal property used in any stage of the manufacturing or research and development process. The credit cannot be applied to expenditures for which a sales tax exemption was claimed. Credits cannot reduce tax liability below \$800 annually. California imposes an alternative minimum tax; this comparison assumes that the corporation is not subject to that tax.

There is no state franchise tax other than an annual filing fee of \$20 that is included with the "Statement of Officers" that must be filed annually with the Secretary of State.

Georgia. The income tax rate is a flat 6%. Georgia is phasing in single sales factor apportionment, which will be fully effective in 2008. Income is apportioned in 2006 using a three-factor formula that weights the sales factor at 80% for an apportionment percentage of 42% in this comparison. Georgia income tax is deductible.

A franchise tax based on a corporation's net worth ranges from \$10 for net worth under \$200,000 to \$5,000 for net worth over \$22 million. An annual filing fee of \$15 is paid to the Secretary of State.

Illinois. Two income taxes are imposed on the same tax base: the regular income tax rate is a flat 4.8% and the personal property replacement tax is 2.5%. The total tax is equal to the sum of the two taxes. Income is apportioned using a single sales factor apportionment formula, which results in 30% of income being apportioned to the state for the hypothetical corporation. A standard exemption of \$1,000 is allowed under the regular income tax to the extent of the apportionment percentage. A credit is allowed against the regular income tax in an amount equal to an apportioned share of the replacement tax multiplied by the regular income tax rate of 4.8%. A credit is available against the personal property replacement tax for taxable years before 2009 for purchases of depreciable manufacturing equipment with a useful life of at least four years.

A franchise tax is imposed at a rate of \$1 per \$1,000 on an apportioned share of the amount of capital stock and paid-in capital, with a minimum tax of \$25 and a maximum tax of \$1 million per year. The tax is apportioned using a two-factor formula based on real and personal property (including intangibles) and sales. An annual report is filed with the Secretary of State along with a \$75 filing fee.

Indiana. The income tax is imposed at a rate of 8.5%. Single sales factor apportionment is being phased in beginning in 2007; it will be fully effective for taxable years beginning in 2011. Income is apportioned using a formula that double weights the sales factor in 2006.

As such, the apportionment percentage for this analysis is 60%. No deduction is allowed for state income taxes. There is no franchise tax other than an annual filing fee of \$15 that is paid to the Secretary of State.

Iowa. Net income is taxed at rates ranging from 6% for income under \$25,000 to 12% for income over \$250,000. Income is apportioned using a formula based solely on the sales factor. As such, the apportionment percentage for this analysis is 30%. Fifty percent of the federal tax paid is deductible from income. No deduction is allowed for state income taxes. A \$30 annual filing fee is paid to the Secretary of State.

Michigan. The Michigan income tax, the Single Business Tax (SBT), is a type of value added tax that applies to business earnings. The tax rate is 1.9%, and the tax base is federal taxable income, with certain additions and subtractions. Additions include compensation paid to employees and depreciation or amortization deductions claimed in the current year for federal tax purposes. Subtractions include an excess compensation deduction that is based on the percentage that compensation exceeds 63% of the total tax base prior to apportionment and a gross receipts reduction for corporations with a tax base that is greater than 50% of adjusted gross receipts. Adjusted income is apportioned based on a three-factor formula that weights the sales factor at 90% and property and payroll each at 5%, making the apportionment percentage 36% for this analysis. The SBT is repealed for taxable years beginning in 2010. An annual filing fee of \$15 is paid to the Department of Commerce.

Minnesota. The income tax rate is a flat 9.8%. Income is apportioned based on a three-factor formula that weights the sales factor at 75% and each of the property and payroll factors at 12.5%, making the apportionment percentage 45% for this comparison. An alternative minimum tax is imposed if it exceeds the income tax; it is assumed that the hypothetical corporation is not subject to that tax.

The corporate income tax includes an additional fee based on the weighted sum of property, payroll and sales. The fee ranges from \$100 for corporations with a weighted sum of at least \$500,000 but less than \$1 million, to \$5,000 for corporations with a weighted sum in excess of \$20 million. There is no annual filing fee for domestic corporations. Minnesota has an alternative minimum tax; the comparison assumes the hypothetical corporation is not subject to the alternative minimum tax.

New Jersey. The income tax rate is a flat 9%. However, corporations with entire net income of \$50,000 or less are subject to a 6.5% tax; corporations with \$100,000 or less to a 7.5% tax. The minimum tax in 2005 was \$500. Income is apportioned using a three-factor formula that double weights the sales factor, making the apportionment 60% for this analysis.

A credit is available for purchases of machinery and equipment used in the state in the production of tangible personal property by manufacturing, processing, and assembling. In the first year, the credit is 2% of the cost of the equipment, up to \$1 million. In the subsequent two years, the credit is 3% of the cost, up to \$1,000 multiplied by the increase in the number of jobs held by New Jersey residents in those years. In any year, the credit may not exceed 50% of the tax liability of the corporation.

An annual \$40 filing fee is paid to the Secretary of State.

New York. Corporations compute four taxes: a 9% tax on entire net income base, a 3.5% tax on a minimum taxable income base, a tax on business and investment capital at a rate of 0.178%, and a fixed dollar minimum tax based on gross payroll. The corporation pays the highest computed tax plus any tax on subsidiary capital, if applicable. Single sales factor apportionment is being phased in and will become fully effective in 2008. Income is

apportioned using a three-factor formula that weights the sales factor at 60% in 2006. As such, the apportionment percentage for this analysis is 54%.

New York offers an investment tax credit equal to 5% of certain manufacturing equipment placed in service in the state and 9% of research equipment. The credit cannot reduce tax liability below the higher of the fixed dollar minimum tax or the minimum taxable income base tax.

Taxes that would be considered franchise taxes for this analysis are discussed in the income tax section, with the exception of the fee for filing biennial reports with the Department of State. The \$9 filing fee is annualized at \$4.50 for this analysis.

North Carolina. The corporate income tax rate is 6.9%. Income is apportioned using a three-factor formula that double weights the sales factor, making the apportionment percentage for this comparison 60%.

A franchise tax is imposed at the rate of \$1.50 per \$1,000 on the greater of three tax bases. The three tax bases are: (1) capital stock, surplus, and undivided profits; (2) investment in tangible property in North Carolina; and (3) appraised valuation of North Carolina property subject to local taxation. A \$10 filing fee is paid to the Secretary of State.

Ohio. The corporate income tax is the greater of an income based or a net worth based calculation. The minimum tax is \$50, increasing to \$1,000 if the company has at least \$5 million of gross receipts or 300 employees in the state. The first \$50,000 of income is taxed at a rate of 5.1% and income over \$50,000 at 8.5%. Income is apportioned using a triple-weighted sales factor formula, making the apportionment percentage for this comparison 54%. The income tax is being phased out over a five-year period and is being replaced with a commercial activity tax.

The net worth based calculation is 4 mills of net worth (assets minus liabilities), with a \$150,000 maximum liability. Net worth is apportioned using a two-factor formula based on property and sales. The apportionment percentage for this comparison is 60%.

Manufacturers are subject to an additional two-tier litter tax. Tier 1 of the litter tax is 0.11% of the first \$50,000 of taxable income plus 0.22% of income over \$50,000. Tier 2 of the litter tax is imposed on manufacturers and is the greater of 0.22% of income over \$50,000 or 0.14% of taxable net worth. Neither tier of the litter tax may exceed \$5,000.

The commercial activity tax that is replacing the income tax is based on gross receipts. For gross receipts of \$150,000 to \$1 million, the tax is \$150. When the tax is fully phased in, the rate will be 0.26% of gross receipts over \$1 million. The rate is subject to adjustment if revenue collections are 10% more or less than projections.

Pennsylvania. The corporate income tax rate is a flat 9.99%. Income is apportioned using a three-factor formula that triple-weights the sales factor, which apportions 54% of income to the state for this analysis.

Corporations pay a franchise tax based on capital stock at a rate of 0.699%. The tax is apportioned based on an equally-weighted three factor formula, making the apportionment percentage 70% for this comparison. This tax is being phased out and is expected to be fully eliminated in 2010.

Manufacturers are allowed an exemption for a portion of the tax. It is assumed that 20% of the amount of capital that would otherwise be subject to tax is actually taxed as a result of the exemption. There is no other annual filing fee.

Texas. The franchise tax is the greater of two tax base components: a taxable capital component or an earned surplus component. The apportionment formula for both tax base components uses a single gross receipts factor, which includes receipts from sales, services, rentals, royalties, and other business. The apportionment percentage is 30% for this comparison.

The earned surplus component of the franchise tax includes a corporation's reportable federal taxable income and compensation paid to directors and officers. The earned surplus tax rate is 4.5%. The taxable capital rate is 0.25% per year. Taxable capital includes the corporation's retained earnings. There is no other annual filing fee.

Virginia. The corporate income tax rate is a flat 6%. Income is apportioned using a formula that double-weights the sales factor. As such, the apportionment percentage for this analysis is 60%. In addition, there is a \$10 annual litter tax on certain businesses, including manufacturers.

There is an annual filing fee paid to the State Corporation Commission. The fee is \$50 if the corporation has authorized shares of 5,000 or less; the fee increases by \$15 for each 5,000 in shares, or fraction thereof, up to a maximum of \$850.

Wisconsin. The corporate income tax rate is a flat 7.9%. Income is apportioned using a three-factor formula that weights the sales factor at 60%, making the apportionment percentage for this comparison 54%. A recycling surcharge equal to 3% of gross tax liability is imposed on corporations with more than \$4 million in gross receipts. The minimum fee is \$25; the maximum fee is \$9,800. Wisconsin is phasing in single sales factor apportionment. The sales factor will be weighted at 80% in 2007 and 100% in 2008. This analysis includes a comparison of Wisconsin law when single sales factor apportionment is fully phased in.

There is no franchise tax other than a \$25 annual filing fee that is paid to the Department of Financial Institutions for returns filed electronically. The fee is \$40 for filing paper returns.

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CORPORATE TAX BURDEN COMPARISON: PLASTICS INDUSTRY

A. INTRODUCTION

Businesses consider a wide variety of factors in making location decisions. Because tax systems vary among states, the expected amount of tax paid is one of the factors in business location decisions.

The purpose of this report is to compare the direct business tax liabilities incurred by a hypothetical plastics products manufacturing corporation (SIC 3000; NAICS 326000) if it were located in 15 industrial states. Taxes included in this comparison are the corporate income, franchise, property and sales taxes. This method allows the report to isolate the impact of differences between the tax laws of each state. Accordingly, the results are sensitive to assumptions made about the hypothetical firm and to other general assumptions made in the comparison.

States were chosen for the comparison based on industry presence in the states, indicated by employment and value added to products produced in each state, and by their proximity to Wisconsin. The states included in the comparison are California, Georgia, Illinois, Indiana, Iowa, Michigan, Minnesota, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Texas, Virginia and Wisconsin. In 2006, Wisconsin began phasing in a formula to apportion income to the state based only on the amount of sales a company makes in Wisconsin compared to sales made everywhere. Single sales factor apportionment will be fully phased in for taxable years beginning in 2008. As a result, this paper includes two Wisconsin comparisons: the first under current law and the second as if single sales factor apportionment were fully phased in.

State and local taxes are only one of the many costs of doing business. Other significant factors affecting location decisions include the accessibility of markets, raw materials and suppliers; availability of a skilled labor force and labor costs; the availability and quality of transportation and other public services; regulatory processes; and the quality of life. It is difficult to rank taxes among the many factors. Each corporation will make its own determination due to the unique nature of each location decision and it is difficult to predict how often taxes will rank as an important cost of doing business.

This analysis is for illustrative purposes only and is intended to present information on tax laws in Wisconsin and other states in a simple and easily understood manner. Actual calculations are more complex and tax burdens may vary with consideration of additional variables or tax laws.

B. TOTAL TAX BURDEN SUMMARY

The hypothetical corporation is a small multistate plastics manufacturer that has the majority of its property and employees in its home state, but sells most of its products regionally and nationally. The corporation has total assets of \$10.6 million, sales of approximately \$18 million and income before tax of \$3.8 million. The analysis is for tax treatment in 2006. The methodology and assumptions used in calculating the taxes are described in the appendix.

Table 1 shows the total tax liability ranking of the corporation by state, as well as the percent that each tax is of total tax. For this comparison, total tax liability is the sum of sales, property, income, and franchise taxes. A ranking of 1 denotes the highest tax liability among the states compared.

**TABLE 1
TOTAL TAX LIABILITY AND RANK**

State	Total Tax Liability		Income and Franchise Tax		Sales Tax		Property Tax	
	Amount	Rank	Amount	%	Amount	%	Amount	%
California	\$ 250,847	4	\$ 196,316	78%	\$ 20,861	8%	\$ 33,670	13%
Georgia	191,253	10	91,083	48%	40,219	21%	59,951	31%
Illinois	136,781	16	54,196	40%	24,980	18%	57,605	42%
Indiana	313,871	1	184,968	59%	18,712	6%	110,191	35%
Iowa	143,438	15	104,185	73%	7,450	5%	31,803	22%
Michigan	173,444	11	40,605	23%	25,099	14%	107,740	62%
Minnesota	234,374	6	164,535	70%	7,262	3%	62,576	27%
New Jersey	278,955	2	180,876	65%	27,763	10%	70,316	25%
New York	162,801	14	82,701	51%	16,948	10%	63,157	39%
North Carolina	216,909	8	158,957	73%	15,510	7%	42,442	20%
Ohio	230,510	7	137,410	60%	7,079	3%	86,022	37%
Pennsylvania	256,894	3	203,933	79%	6,782	3%	46,178	18%
Texas	200,076	9	53,578	27%	34,247	17%	112,251	56%
Virginia	171,079	12	133,917	78%	5,057	3%	32,106	19%
Wisconsin	235,302	5	161,782	69%	23,008	10%	50,512	21%
Wisconsin 2008	163,424	13	89,904	55%	23,008	14%	50,512	31%

As shown in Table 1, the total tax burden is highest in Indiana and lowest in Illinois. The variation between the highest and lowest taxes in those states is significant. Income/franchise taxes were the greatest component of the total tax burden in both states. Sales tax contributed modestly to the total tax burden in most states.

As shown in Table 1, different taxes are often more significant in the total tax burden of the states compared. For example, in Michigan and Texas, property taxes were the largest component of total tax liability. In Virginia, California and Minnesota, income/franchise taxes were most significant. Wisconsin ranks five in total tax liability under current law, but drops to 13 under the law that will be in place in 2008 when single sales factor apportionment is fully effective.

Corporations consider taxes to be one of the many costs of doing business, and therefore are interested in how the tax costs relate to revenue and profitability. Tables 2 and 3 provide comparisons across states of indicators of profitability and location. Table 2 shows the tax burdens of the states as they relate to sales of the hypothetical company and to income before tax. Table 3 relates the tax burdens to the average tax burden of the 15 states and to Wisconsin's tax burden under current law and in 2008, when single sales factor apportionment is fully phased in.

**TABLE 2
STATE TAX LIABILITY AS A PERCENT OF COMPANY SALES
AND INCOME BEFORE TAX**

State	Total Liability Amount	% of Sales	% of Income
California	\$ 250,847	1.39%	6.68%
Georgia	191,253	1.06%	5.09%
Illinois	136,781	0.76%	3.64%
Indiana	313,871	1.73%	8.36%
Iowa	143,438	0.79%	3.82%
Michigan	173,444	0.96%	4.62%
Minnesota	234,374	1.29%	6.24%
New Jersey	278,955	1.54%	7.43%
New York	162,801	0.90%	4.34%
North Carolina	216,909	1.20%	5.78%
Ohio	230,510	1.27%	6.14%
Pennsylvania	256,894	1.42%	6.84%
Texas	200,076	1.10%	5.33%
Virginia	171,079	0.94%	4.56%
Wisconsin	235,302	1.30%	6.27%
Wisconsin 2008	163,424	0.90%	4.35%
Sales	\$ 18,109,000		
Income Before Tax	3,755,450		

As Table 2 indicates, the total tax liability is between 0.76% and 1.73% of sales. The average of the 15 states is 1.18% under current Wisconsin law and 1.15% under Wisconsin law in 2008.

**TABLE 3
STATE TAX LIABILITY RELATIVE TO WISCONSIN AND 15-STATE AVERAGE**

State	Total Liability				Sales Tax		
	Amount	% of WI	% of WI 2008	% of Avg.	Amount	% of WI	% of Avg.
California	\$ 250,847	107%	153%	120%	\$ 20,861	91%	111%
Georgia	191,253	81%	117%	92%	40,219	175%	215%
Illinois	136,781	58%	84%	66%	24,980	109%	133%
Indiana	313,871	133%	192%	151%	18,712	81%	100%
Iowa	143,438	61%	88%	69%	7,450	32%	40%
Michigan	173,444	74%	106%	83%	25,099	109%	134%
Minnesota	234,374	100%	143%	113%	7,262	32%	39%
North Carolina	278,955	119%	171%	134%	27,763	121%	148%
New Jersey	162,801	69%	100%	78%	16,948	74%	90%
New York	216,909	92%	133%	104%	15,510	67%	83%
Ohio	230,510	98%	141%	111%	7,079	31%	38%
Pennsylvania	256,894	109%	157%	123%	6,782	29%	36%
Texas	200,076	85%	122%	96%	34,247	149%	183%
Virginia	171,079	73%	105%	82%	5,057	22%	27%
Wisconsin	235,302	100%	144%	113%	23,008	100%	123%
Wisconsin 2008	163,424	69%	100%	78%	23,008	100%	123%
15 State Average	\$ 213,102				\$ 18,732		
15 State Average, WI 2008	208,310				18,732		

State	Income and Franchise Tax				Property Tax		
	Amount	% of WI	% of WI 2008	% of Avg.	Amount	% of WI	% of Avg.
California	\$ 196,316	121%	218%	157%	\$ 33,670	67%	52%
Georgia	91,083	56%	101%	73%	59,951	119%	93%
Illinois	54,196	33%	60%	43%	57,605	114%	89%
Indiana	184,968	114%	206%	148%	110,191	218%	171%
Iowa	104,185	64%	116%	83%	31,803	63%	49%
Michigan	40,605	25%	45%	32%	107,740	213%	167%
Minnesota	164,535	102%	183%	131%	62,576	124%	97%
North Carolina	180,876	112%	201%	145%	70,316	139%	109%
New Jersey	82,701	51%	92%	66%	63,157	125%	98%
New York	158,957	98%	177%	127%	42,442	84%	66%
Ohio	137,410	85%	153%	110%	86,022	170%	134%
Pennsylvania	203,933	126%	227%	163%	46,178	91%	72%
Texas	53,578	33%	60%	43%	112,251	222%	174%
Virginia	133,917	83%	149%	107%	32,106	64%	50%
Wisconsin	161,782	100%	180%	129%	50,512	100%	78%
Wisconsin 2008	89,904	56%	100%	72%	50,512	100%	78%
15 State Average	\$ 129,936				\$ 64,435		
15 State Average, WI 2008	125,144				64,435		

Table 3 shows that single sales factor apportionment will reduce the hypothetical corporation's Wisconsin tax liability by 31% and its Wisconsin income/franchise tax liability by 44%. With this change fully implemented, 12 of the 15 states would impose greater total tax liability on the corporation than Wisconsin.

A brief discussion of the tax burden for each type of tax follows. For additional information regarding the taxes, see a discussion of the assumptions for each tax and a description of each state's taxing provisions in the appendix.

C. PROPERTY TAX

The hypothetical corporation has real property consisting of land and buildings and tangible personal property that may be subject to tax in the states compared. The majority of its personal property is manufacturing machinery and equipment, although it also has other equipment, furniture and fixtures and automobiles. The analysis assumes that 90% of all property is located in the home state of the corporation.

Table 4 shows the property tax rankings of each state for the hypothetical corporation. Table 5 summarizes property tax provisions relating to business property and tax rates in each state. Additional information is summarized in the appendix.

**TABLE 4
PROPERTY TAX LIABILITY**

State	Amount of Property Tax	Rank
California	\$ 33,670	13
Georgia	59,951	8
Illinois	57,605	9
Indiana	110,191	2
Iowa	31,803	15
Michigan	107,740	3
Minnesota	62,576	7
New Jersey	70,316	5
New York	63,157	6
North Carolina	42,442	12
Ohio	86,022	4
Pennsylvania	46,178	11
Texas	112,251	1
Virginia	32,106	14
Wisconsin	50,512	10

**TABLE 5
PROPERTY TAX PROVISIONS**

State	Exemptions		Effective Tax Rates	
	Inventory	M&E	Property Subject to Tax	All Property Located in State
California	Yes	No	0.671%	0.433%
Georgia	Yes	No	1.210%	0.905%
Illinois	Yes	Yes	2.483%	0.742%
Indiana	Yes	No	2.412%	1.349%
Iowa	Yes	Yes	1.371%	0.409%
Michigan	Yes	No	2.220%	1.387%
Minnesota	Yes	Yes	2.698%	0.806%
New Jersey	Yes	Yes	3.031%	0.905%
New York	Yes	Yes	2.723%	0.813%
North Carolina	Yes	No	0.857%	0.546%
Ohio	No	No	1.324%	1.138%
Pennsylvania	Yes	Yes	1.991%	0.594%
Texas	No	No	2.018%	1.445%
Virginia	Yes	No	0.680%	0.413%
Wisconsin	Yes	Yes	1.964%	0.650%

The plastics manufacturer has significant value in personal property, including manufacturing machinery and equipment and inventory. Treatment of these items of property is important in determining the property tax liability for the corporation in each state. As a result of Wisconsin's property tax exemption for machinery and equipment, computers and inventory, the state ranks low compared with many other states in the analysis. Iowa and Virginia rank low because of low assessment values and low property tax rates. California ranks low because of its low tax rate and the effect of Proposition 13 limits on increases in assessments of long-standing properties. Texas, Michigan and Indiana rank high because they have fewer exemptions and high tax rates.

D. SALES TAX

The hypothetical corporation makes annual purchases that are subject to sales and use tax. Machinery and equipment used in manufacturing and research make up the majority of those purchases. Purchases of other equipment and fuel and electricity are also compared.

The variation among states in sales tax treatment of purchases has a significant impact on total tax costs. Exempting purchases of assets such as machinery and equipment from sales and use taxes, or applying lower tax rates to such purchases, lowers the cost of initial investment, while exempting inputs such as fuel or electricity lowers operating costs.

Table 6 shows the sales tax and rankings that would apply if the hypothetical corporation was located in each state. Table 7 provides the tax rates that apply to different types of property. Table 8 shows the sales tax treatment of various purchases. Computers, furniture and fixtures, and transportation equipment are taxable in all states and are not shown in the table.

**TABLE 6
SALES TAX LIABILITY**

State	Sales Tax	Rank
California	\$ 20,861	7
Georgia	40,219	1
Illinois	24,980	5
Indiana	18,712	8
Iowa	7,450	11
Michigan	25,099	4
Minnesota	7,262	12
New Jersey	27,763	3
New York	16,948	9
North Carolina	15,510	10
Ohio	7,079	13
Pennsylvania	6,782	14
Texas	34,247	2
Virginia	5,057	15
Wisconsin	23,008	6

**TABLE 7
STATE & LOCAL SALES AND USE TAX RATES**

State	Combined State & Local General Rate	Other Applicable Rates		
		Electricity	Manufacturing M&E	Motor Vehicles
California	7.25%	---	---	---
Georgia	6%	---	---	---
Illinois	7%	5.1%	3.125%	---
Indiana	6%	---	---	---
Iowa	7%	---	---	---
Michigan	6%	---	---	---
Minnesota	6.5%	---	---	---
New Jersey	6%	---	---	---
New York	8.25%	---	---	---
North Carolina	7%	2.83%	1%	3%
Ohio	7%	---	---	---
Pennsylvania	6%	---	---	9%
Texas	8.25%	---	---	6.25%
Virginia	5%	---	---	3%
Wisconsin	5.5%	---	---	---

**TABLE 8
SALES AND USE TAX TREATMENT**

State	Mfg. Mach. & Equip.	R&D Equip.	Pollution/ Enviro.	Other Non Mfg.	Mfg. - Elec.	Mfg. - Nat. Gas	R&D - Elec.	R&D - Nat. Gas
California	R	R	R	T	E	E	E	E
Georgia	E	T	E	T	T	T	T	T
Illinois	E	T	T	T	R	R	R	R
Indiana	E	R	E	T	E	E	T	T
Iowa	E	E	E	T	E	E	E	E
Michigan	E	T	E	T	E	E	T	T
Minnesota	E	E	T	T	E	E	E	E
New Jersey	E	E	T	T	T	T	T	T
New York	E	E	E	T	E	E	T	T
North Carolina	R	R	R	T	R	E	R	E
Ohio	E	E	E	E	E	E	E	E
Pennsylvania	E	E	E	T	E	E	E	E
Texas	E	T	E	T	E	E	T	T
Virginia	E	E	E	T	E	E	E	E
Wisconsin	E	T	E	T	E	E	T	T

T is taxable; E is exempt; and R is reduced rate or partial exemption.

The tax treatment of research equipment and fuel and electricity used in research are the most significant sources of differences in sales taxes among the states. Georgia has the highest sales tax liability of the states in the comparison, followed by Texas and New Jersey. Taxes on research equipment and fuel and electricity account for the relatively high sales taxes in Georgia and Texas; New Jersey ranks third highest due primarily to imposing sales tax on purchases of fuel and electricity. Virginia imposes the lowest sales tax burden on the hypothetical company, with Pennsylvania and Ohio ranking second and third lowest, respectively. Exemptions for research equipment and fuel and electricity used in research largely account for the low taxes in these states. Wisconsin ranks sixth highest, largely due to taxes on research equipment and fuel and electricity used in research.

Manufacturing machinery and equipment are exempt in all states except California and North Carolina, where purchases are taxed at reduced rates. All states in the study tax computers, furniture and fixtures, and motor vehicles. Since the value of these purchases is relatively small, the differences in tax rates result in minor differences in tax burdens.

E. INCOME/FRANCHISE TAX

Table 9 shows the corporate income/franchise tax liabilities and rankings for the hypothetical corporation. As used in this comparison, the term "income tax" includes taxes measured by net income and the term "franchise tax" refers to taxes based on capital stock, net worth or other asset-related measures, as well as annual corporate filing fees that may be paid to the Secretary of State or similar offices in the various states. This section combines the income and franchise tax liabilities because several states impose taxes that are the greater of an income or franchise tax, or impose additional taxes with the income tax, making a separate discussion less meaningful.

Tables 10 and 11 summarize key provisions relating to income and franchise tax. The top tax rate includes additional taxes imposed with the income tax. Additional information regarding the assumptions and tax in each state is included in the appendix.

TABLE 9
INCOME AND FRANCHISE TAX LIABILITY

State	Income and Franchise Tax	Rank
California	\$ 196,316	2
Georgia	91,083	11
Illinois	54,196	14
Indiana	184,968	3
Iowa	104,185	10
Michigan	40,605	16
Minnesota	164,535	5
New Jersey	180,876	4
New York	82,701	13
North Carolina	158,957	7
Ohio	137,410	8
Pennsylvania	203,933	1
Texas	53,578	15
Virginia	133,917	9
Wisconsin	161,782	6
Wisconsin 2008	89,904	12

**TABLE 10
CORPORATE INCOME TAX PROVISIONS**

State	Apportionment Method	Effective Top Tax Rate	Carryover Period for NOLs		Combined or Consolidated Reporting
			Back	Forward	
California	Double-Weight	8.84%	None	10 Years	Yes
Georgia	80% Sales	6%	2 Years	20 Years	No
Illinois	Single Sales	7.3%	None	12 Years	Yes
Indiana	Double-Weight	8.5%	2 Years	20 Years	Yes
Iowa	Single Sales	12%	2 Years	20 Years	Yes
Michigan	90% Sales	1.9%	None	10 Years	Yes
Minnesota	75% Sales	9.8%	None	15 Years	Yes
New Jersey	Double-Weight	9%	None	7 Years	No
New York	Double-Weight	7.5%	2 Years	20 Years	Yes
North Carolina	Double-Weight	6.9%	None	15 Years	No
Ohio	Triple-Weight	8.94%	None	20 Years	Yes
Pennsylvania	Triple-Weight	9.99%	None	20 Years	No
Texas	Single Sales	4.5%	None	5 Years	No
Virginia	Double-Weight	6%	2 Years	20 Years	Yes
Wisconsin 2006	60% Sales	8.137%	None	15 Years	No
Wisconsin 2008	Single Sales	8.137%	None	15 Years	No

**TABLE 11
NON-INCOME BASED FRANCHISE TAX PROVISIONS**

State	Annual Filing Fee	Franchise Tax	Tax Base	Rate
California	\$20	No	Not Applicable	Not Applicable
Georgia	15	Yes	Net Worth	Varies
Illinois	75	Yes	Common Shares	2.50%
Indiana	15	No	Not Applicable	Not Applicable
Iowa	45	No	Not Applicable	Not Applicable
Michigan	None	No	Not Applicable	Not Applicable
Minnesota	None	No	Not Applicable	Not Applicable
New Jersey	50	No	Not Applicable	Not Applicable
New York	4.5	No	Not Applicable	Not Applicable
North Carolina	10	Yes	Highest of 3 Alternatives	0.15%
Ohio	10	Yes	Net Worth	0.40%
Pennsylvania	None	Yes	Authorized Capital Stock	1.28%
Texas	None	Yes	Taxable Capital or Earned Surplus	0.25%
Virginia	50	Yes	Authorized Capital Stock	Varies
Wisconsin	25	No	Not Applicable	Not Applicable

The income tax burden is determined by rules that define the amount of income subject to tax in a state and by the tax rates applied to taxable income. The income of a multistate corporation that is subject to tax is determined, in part, by the apportionment formula used to allocate income to the states where a company does business. Every state included in this comparison weights the sales factor more heavily than the other factors in the apportionment formula. Illinois, Iowa and Texas apportion income based solely on the amount of sales in the state relative to sales of the company everywhere. For a multistate company with a plant and employees in the state and regional or national sales, this method of apportionment reduces the income subject to tax when compared with formulas that consider property and payroll in the state. Wisconsin, Georgia, Indiana, and Minnesota have enacted single sales factor apportionment that will be phased in over a number of years. There is also significant variation in the highest tax rates, ranging from 1.9% in Michigan to 9.99% in Pennsylvania.

The largest income/franchise tax burdens occur if the company is located in Pennsylvania or California. California weights the sales factor at 50%, while Pennsylvania weights it at 60%, and both of these states have relatively high tax rates. The lowest tax burdens occur in Michigan, Illinois, and Texas. Michigan weights the sales factor at 90% and both Illinois and Texas have single sales factor apportionment. In addition, all three states have relatively low tax rates. In Wisconsin, the income/franchise tax liability rank drops from six under current law to 12 under single sales factor apportionment. The income tax liability of the hypothetical corporation is reduced by \$71,878 under single sales factor apportionment compared with current law.

Although not a factor in this comparison, the treatment of net operating losses (NOL) is important for a corporation in determining income subject to tax. NOL carryforward periods range from 5 years (Texas) to 20 years (Georgia, Indiana, Iowa, Ohio, Pennsylvania, and Virginia). Georgia, Indiana, Iowa, New York, and Virginia also allow losses to be carried back two years. Every state except Georgia, New Jersey, North Carolina, Pennsylvania, Texas, and Wisconsin has some form of combined or consolidated reporting.

Each state compared has some form of enterprise or development zone program that could provide certain tax incentives to a business locating in a zone. These incentives are typically negotiated with businesses on a case-by-case basis by the state departments of development or commerce. As such, they are not included in this comparison.

As shown in Table 10, most of the states have some form of annual filing fee, ranging from \$10 in North Carolina and Ohio to \$75 in Illinois. New York has a biennial fee of \$9 that is annualized for this comparison. Many of the states compared have a franchise tax based on capital stock or property in addition to, or instead of, an income tax.

APPENDIX

A. METHODOLOGY

This comparison calculates the 2006 state and local tax burden arising from the major taxes that a plastics industry corporation would pay in each state, including the corporate income, franchise, property, and sales taxes. For the comparisons to be meaningful, it is important to define the components of each of the major taxes.

As used in this comparison, the term "income tax" includes corporate income taxes and franchise taxes that are based on corporate net income. The term "franchise tax" includes annual filing fees and taxes that are based on capital stock, net worth or any measure other than corporate net income. While it is necessary to make these distinctions for comparison purposes across the states, use of the terminology in this way should not be interpreted to contradict the important legal distinction between the corporate income and franchise taxes.

This approach, within the limits of the assumptions applied, quantifies only the most significant tax differentials among the states. Since the comparisons rely on hypothetical corporations, variations in the relationship of real property, inventories or other assets to income could have a substantial impact on the tax burdens in different states. In addition, other factors such as unemployment and worker's compensation costs, state and local taxes on individuals, transportation costs, wage rates for labor, and short-term tax and other locational incentives aimed at attracting industry all vary among the states and have an impact on the costs of doing business. These factors are beyond the scope of this comparison.

B. ASSUMPTIONS

States and municipalities often offer special tax incentives to individual companies as a way to encourage companies to locate in particular areas. These incentives can apply to any tax and can significantly reduce or eliminate tax liability for a company. Because of the company-specific nature of these incentives, this comparison does not account for these special tax incentives. For purposes of this comparison, tax incentives are limited to tax provisions available to all businesses operating in a state.

1. Property Tax

General Assumptions. Property taxes are calculated for 2004/2005 (i.e., levied in 2004, payable in 2005). Table A.1 shows the property owned by the hypothetical corporation located in the states under analysis. It is assumed that 90% of the property owned is located in-state and 10% is located out of state. Taxes are applied for the 90% of property in the state.

**TABLE A.1
FULL VALUE OF PROPERTY
POTENTIALLY SUBJECT TO TAX**

Real Property	
Land	\$ 249,661
Buildings	<u>2,070,000</u>
Total Real Property	\$ 2,319,661
Personal Property	
Manufacturing Machinery and Equipment	\$ 2,077,239
Research Equipment	192,938
Other Non-Mfg. Equipments	30,584
Computer Equipments	204,747
Furnitures and Fixtures	28,724
Transportation Equipments	100,710
Inventory	1,823,400
Intangibles	<u>1,100,000</u>
Total Personal Property	\$ 5,558,343
Total Real and Personal Property	\$ 7,878,004

The full value of property is generally assumed to be the net book value of the land and personal property accounts. The book value of land and buildings is increased by 50% to reflect the impact of increases in the value of real property on the current market value, which is usually the basis for assessment. Each state may measure full value differently due to different depreciation and assessment practices. Assessment ratios are applied to calculate assessed values since states employ different practices. Assessment ratio and tax rates used for each state are described below.

Most states have some program that allows local governments to offer special tax treatments to specific businesses under certain circumstances. These incentives generally involve negotiations on a case-by-case basis. This comparison includes only tax treatments available to every company that makes the necessary investment or meets the other requirements of the program. As such, special tax abatements and other reductions are not included in the analysis.

California. The average statewide property tax rate for the analysis is 1.091 per \$100 of assessed value. Under Proposition 13, real property is generally assessed at 100% of its 1975/76 full value subject to an increased value of not more than 2% per year for each year since 1975/76, unless the property is transferred. The analysis assumes that real commercial/industrial property in California is assessed at 61.5% of full value. Intangibles and inventories are exempt. Motor vehicles are subject to a license tax in lieu of property taxes; the license tax is not included in this analysis because license fees in other states are not included.

Georgia. The analysis assumes that real and tangible personal property is assessed at the statutory rate of 40% of fair market value. The statewide average tax rate is estimated to be \$30.25 per \$1,000 of assessed value (including 0.25 state levied mill rate). The property tax applies to all real and personal property, including inventories. However, businesses may apply for an exemption and most counties exempt all inventories. As such, the analysis assumes inventories are exempt. Intangibles are exempt.

Illinois. Real property is assessed at 33 1/3% of fair market value. The analysis uses the 2003/2004 statewide average industrial tax rate of \$7.45 per \$100 of assessed value, or

2.48% of fair market value. The property tax applies only to real property. Intangibles and all tangible personal property are exempt from taxation.

Indiana. Property is assessed at 100% of true value at a rate of 2.41% per \$100 of value. The property tax applies to all real and tangible personal property, except vehicles. Vehicles are not subject to the property tax; rather they are subject to an annual license fee in lieu of property taxes that is not included in the study. Beginning in 2006, a deduction is available for inventory. Also beginning in 2006, an investment deduction is available for new property that creates or retains employment, with a presumption that any reasonable claim allows the deduction. The deduction is 75% in the first year, 50% in the second year and 25% in the third year. The analysis assumes that the deduction applies.

Iowa. Commercial and industrial real property is assessed at 100% of full value. The statewide average effective property tax rate for industrial property in 2003/2004 was 1.371% of assessed value. Tangible personal property and intangibles are exempt.

Michigan. The statewide average effective tax rate used in the analysis is \$51.68 per \$1,000 of taxable value. For purposes of this study, taxable value of property is assumed to be 43% of actual value. Each year, the taxable value of property cannot increase by more than 5% or the rate of inflation, whichever is less, unless the property is transferred or sold. Motor vehicles, inventories and intangibles are exempt from tax.

Minnesota. The statewide average tax rate for industrial and commercial real property used in the analysis is \$3.31 per \$100 of assessed property. Industrial and commercial property is assessed at a statewide ratio of 81.5% of actual full value. The property tax applies only to real property. Intangibles and all tangible personal property are exempt from tax.

New Jersey. The analysis uses a statewide average tax rate for real property of 3.031% of assessed value. Property is assessed at full value. Intangibles and all tangible personal property are exempt.

New York. The statewide average tax rate for the analysis is estimated at 8.7% of assessed value, which is 31.29% of full value. The tax applies to all real property in the state, unless specifically exempted, but does not apply to tangible or intangible personal property.

North Carolina. Real and tangible personal property is assessed at 100% of true value. However, because the assessment is done every four years, this analysis assumes 91.52% of fair market value. The average statewide tax rate is \$0.936 per \$100 of assessed property. Intangibles and inventories are exempt.

Ohio. Real property is assessed at 35% of full value and tangible personal property is assessed at true depreciated value. The statewide 2002/2003 average tax rate for real property is \$58.50 per \$1,000 of assessed value. The property tax applies to all real and personal property, including inventories, but not including intangibles and transportation equipment. However, the personal property tax is being phased out. The assessed value of business personal property for the analysis is 18.75%. There is a \$10,000 exemption against the aggregate value of tangible personal property.

Pennsylvania. The statewide average property tax rate for this comparison is 2.91% of assessed value. Property is assessed at a statewide average ratio of 68.47% of fair market value. All personal property is exempt from taxation.

Texas. Property is assessed at 100% of full market value. The statewide average rate used for this comparison is 2.44% of full market value. The property tax applies to all real and personal property, except intangibles. Most intangibles are exempt from taxation. Income-producing property with a value of less than \$500 and freeport storage property (including property in the state for assembling or manufacture for not more than 175 days) is exempt from tax. The analysis assumes that property destined for sale outside the state would qualify for the exemption.

Virginia. Real estate, motor vehicles, and manufacturing equipment are taxed at the local level. The local median assessment ratio is 75.56% and the rate is \$.90 per \$100 of assessed value. Inventory, furniture and fixtures, computer equipment and intangibles are exempt from tax.

Wisconsin. Real and tangible personal property is assessed at 100% of full market value. The statewide average tax rate is \$19.64 per \$1,000 of value. All classes of property are subject to the same rate. Machinery and equipment used in manufacturing, inventories, vehicles, and intangibles are exempt. Certain computer equipment is exempt, including mainframe computers, minicomputers, personal computers, servers, terminals, monitors, disk drives, printers, basic operational programs, system software, prewritten software, and custom software.

2. Sales Tax

General Assumptions. As used in this study, the term "sales tax" includes "use tax" and refers to one-time taxes imposed on the purchase price of items. The sales tax rate used in the comparison is the state sales tax rate plus the local tax rate.

The comparison calculates the amount of sales tax that would be paid by the hypothetical corporation on its purchases of tangible personal property. The comparison follows the same assumption as used in the property tax analysis that 90% of the property purchased by the multistate corporation will be located and used in the home state and therefore subject to sales tax in that state. Table A.2 shows the total of in-state purchases (90% of total purchases).

**TABLE A.2
PURCHASES POTENTIALLY SUBJECT TO SALES TAX**

Mfg. Machinery & Equipment	\$ 833,461
Research Equipment	212,894
Pollution/Environmental Equipment	5,299
Other Non-Mfg. Equipment	5,299
Computer Equipment	84,354
Furniture and Fixtures	3,542
Transportation Equipment	13,230
Mfg. Fuel & Electricity	252,000
Research Fuel & Electricity	99,000
Total Purchases	\$ 1,509,079

The sales and use tax rate used in the study is the state general sales and use tax rate plus a local general tax rate for those states with local general sales and use taxes. The study combines a general local rate with the general state rate to arrive at the effective sales and use tax rate. For example, since local sales and use tax is 0.5% in 56 of Wisconsin's 72 counties, this study uses a combined state and local sales and use tax rate of 5.5%—the 5% state rate plus a 0.5% local rate—which is the rate a corporation is most likely to encounter

when doing business in Wisconsin. Special utility or motor vehicle tax rates are used in those states where applicable but other selective sales taxes, such as those on lodging or meals, are not considered.

The study calculates the amount of sales and use tax that the hypothetical firm would pay on its taxable purchases of personal property under the laws of the state as of January 1, 2006. It is assumed that the hypothetical corporation purchases new and replacement personal property on a regular basis. The variation in the sales tax treatment of these purchases between states results in significant differences in total sales taxes. Variations among states arise from differences in tax rates and exemptions. In addition, some states' economic development programs provide preferential sales and use tax treatment based on geographic location, numbers of jobs created, or minimum amounts of investment. Such programs may also require certification of approval by an agency, such as the state Department of Commerce. Since the preferential treatment afforded under these programs may not be available to all companies, this study does not reflect such economic development programs.

Purchases of new personal property are considered to reflect the normal replacement of a firm's existing property plus additional new capital to increase output, reduce costs or improve productivity.

"Manufacturing machinery and equipment" includes items used directly in the manufacturing process. The category includes computers used in the manufacturing process while computers used for general business purposes are excluded.

"Other non-manufacturing equipment" assumes 50% of the equipment included in the category is pollution control and recycling equipment and 50% is miscellaneous non-manufacturing equipment. Other non-manufacturing equipment would include equipment used for research and development, packaging, labeling, and materials handling equipment, building maintenance and janitorial equipment, and non-computer office equipment.

"Transportation equipment" refers to licensed motor vehicles. Taxes imposed on the purchase price of such equipment are included in the sales tax calculations, even though the tax may not be referred to as a general sales tax by the state imposing the tax.

Items included in the "computer equipment" category are assumed to be office-related equipment, such as personal computers, printers, servers, and software. Computer equipment used for manufacturing or research and development is included in the M&E category.

The "furniture and fixtures" category assumes all fixtures retain their character as tangible personal property; none are incorporated into the building to become real property.

"Fuel and electricity" does not include gasoline or other motor vehicle fuel. Energy use is assumed to consist solely of electricity and natural gas with expenditures for natural gas accounting for 60% of the total amount spent and electricity accounting 40%. Some states tax these fuels at a reduced rate. In addition, the amount of sales tax paid on purchases of fuel and electricity used in the manufacturing process and for research and development are calculated. The assumptions for purchases of fuel and electricity for the hypothetical corporation were developed from federal corporate income tax statistics and Wisconsin corporate income tax statistics. The data and assumptions are based on averages for actual firms having assets and sales similar to those of the hypothetical corporation. Some states provide special treatment for other fuels, such as coal, but information is not available to break fuel use down by type of fuel.

California. The combined state and local rate is 7.25% (6.25% state rate and 1% local rate). Purchasers of manufacturing machinery and equipment, research and development equipment, and pollution control equipment may file a claim for refund of sales and use tax paid in the amount of the repealed 6% manufacturer's investment credit, thereby reducing the effective sales tax rate to 1.25%. Sales of electricity and natural gas are exempt from sales tax. A partial exemption of manufacturing machinery and equipment expired January 1, 2004.

Georgia. The combined state and local rate is 6% (4% state rate and 2% local rate). Purchases of manufacturing machinery and equipment and pollution control equipment are exempt from tax. Georgia's exemption for purchased electricity does not apply – Georgia exempts purchased electricity that interacts directly with a product being manufactured when the total cost of the electricity makes up 50% or more of all the materials being used in making the product.

Illinois. The combined state and local rate is 7% (6.25% state rate and 0.75% local rate). Purchases of manufacturing machinery and equipment are exempt from tax. In addition, an Illinois manufacturer may receive a Manufacturer's Purchase Credit (MPC) equal to 3.125% of the purchase price of machinery and equipment used in manufacturing. MPCs may be applied to sales tax liability owed on production-related taxable goods including preproduction material handling, receiving, quality control, inventory control, storage, staging, and packaging for shipping and transportation purposes, and research and development. Pollution control facilities are taxable (an exemption was repealed as of July 1, 2003). In this study, the MPC was applied to the corporation's sales tax liability for purchases of research equipment, pollution control facilities, and other non-manufacturing equipment. Fuel and electricity purchases are subject to a 5.1% tax.

Indiana. The state rate is 6%. Local sales taxes are not authorized. Purchases of manufacturing machinery and equipment, pollution control equipment, and fuel and electricity used in manufacturing are exempt from sales tax. From June 30, 2005, to July 1, 2007, purchasers of research equipment may claim a refund of 50% of sales or use tax paid on research equipment. After July 1, 2007, purchasers may claim a refund of 100% of tax paid on research equipment.

Iowa. The general state sales tax rate is 5% and the median local sales tax rate is 2%, for a combined state and local rate of 7%. Purchases of manufacturing machinery and equipment, research equipment, pollution control equipment, and fuel and electricity used in manufacturing or research and development are exempt from sales tax.

Michigan. The state rate is 6%. There is no local tax. Purchases of machinery and equipment and fuel and electricity used in industrial processing are exempt from tax. Purchases of pollution control equipment are also exempt.

Minnesota. The state rate of 6.5% is used in the study since only a few local governments impose a local sales tax. Purchases of manufacturing machinery and equipment and research and development equipment are taxable but the purchaser may apply for a refund of tax. Purchases of fuel and electricity used in manufacturing are exempt from tax.

North Carolina. The general state sales tax rate is 4.5% and the median local sales tax rate is 2.5% for a combined state and local rate of 7%. Special rates apply to specific types of purchases. Purchases of manufacturing machinery and equipment are taxed at 1% up to a maximum of \$80 per article. This study assumes that the \$80 cap has the effect of exempting 75% of these purchases from tax. Purchases of electricity used in manufacturing are taxed at 2.83%. Piped natural gas is exempt from sales tax but subject to an excise tax

based on usage; an estimate of the excise tax paid was not included in this study. Purchases of transportation equipment are subject to a 3% highway use tax with a maximum of \$1,500 per vehicle. Based on the value of purchases by the corporation in this study, it is assumed that the full amount of purchase is taxable.

New Jersey. The state sales tax rate is 6%. No general local sales taxes are applicable to items in this study. Purchases of manufacturing machinery and equipment and research equipment are exempt from tax.

New York. The state sales tax rate is 4% and the average local sales tax rate is 4.25%, for a combined state and local rate of 8.25%. Purchases of manufacturing machinery and equipment, research equipment, pollution control equipment, and fuel and electricity used in manufacturing are exempt from the sales and use tax.

Ohio. The general state sales tax rate is 5.5% and the median local sales tax rate is 1.5% for a combined median state and local rate of 7%. Purchases of machinery and equipment used directly in manufacturing, research equipment, pollution control equipment, and machinery and equipment used in packaging are exempt. Purchases of fuel and electricity used in manufacturing and research are also exempt from tax.

Pennsylvania. The state rate is 6%. Since only Allegheny County (Pittsburgh) and Philadelphia impose 1% local taxes, the combined rate for this study is 6%. Purchases of manufacturing machinery and equipment, and parts and supplies are exempt from tax. Also, Pennsylvania and the City of Philadelphia have designated economic development zones in which businesses may qualify for additional sales and use tax exemptions.

Texas. The general sales tax rate is 6.25% and the local median rate is 2% for a combined state and local rate of 8.25%. Purchases of machinery and equipment used directly in the manufacturing process are exempt from tax. Purchases of fuel and electricity used in manufacturing are exempt. A motor vehicle sales and use tax is imposed at a rate of 6.25%.

Virginia. The state sales tax rate is 4% and the median local rate is 1%, for a combined state and local rate of 5%. Purchases of manufacturing machinery and equipment, research equipment, and pollution control equipment are exempt from tax. Purchases of fuel and electricity delivered to consumers through mains, pipes or lines are exempt from sales and use taxes but are subject to a utility tax based on usage; an estimate of the excise tax paid was not included in this study. Motor vehicle purchases are subject to a 3% motor vehicle sales and use tax.

Wisconsin. The state sales tax rate is 5% and the median local rate is 0.5%, for a combined state and local rate of 5.5%. Purchases of manufacturing machinery and equipment, pollution control equipment, and fuel and electricity used in manufacturing are exempt from tax.

3. Corporate Income and Franchise Taxes

General Assumptions. The income tax calculations are based on a taxable year beginning on January 1, 2006. The starting point for the tax calculation is federal income before deductions for taxes because the amount of state tax deductions affects the income subject to tax in a state. Taxable income before taxes is shown in Table A.3.

TABLE A.3
INCOME TAX ASSUMPTIONS

Sales	\$ 18,109,000
Cost of Goods Sold	11,320,000
Gross Profit	6,789,000
Other Receipts	214,000
General Expenses	3,247,550
Income Before Tax	\$ 3,755,450

The comparison assumes that the plastics manufacturing company is a multistate corporation that apportions some of its income to other states; it is assumed that all of the income of this corporation is subject to apportionment. The apportionment ratios used are as follows:

- Total real and tangible property in-state / Total real and tangible property everywhere = 90%
- Total payroll costs in-state / Total payroll costs everywhere = 90%
- Sales destined for in-state purchasers / Sales destined for purchasers everywhere = 30%

The 90% ratios for property and payroll and the 30% ratio for sales reflect the assumption that the corporation sells its products on a regional or national basis. The remaining 10% of property and payroll and 70% of sales are assumed to be allocable to other states. The allocation of some property, payroll and sales to other states is not taken into consideration in computing the income tax burden of the corporation; the allocation would affect the total state tax burden of the corporation to the extent that they were subject to tax in other states.

Using these assumptions, income apportioned on the basis of the simple average of the 3 factors—property, payroll and sales—results in an apportionment percentage of 70%. This means that 70% of the income of the profitable corporation is subject to tax in states that apportion using this method. Many states require corporations to apportion most income with a formula that double-weights the sales factor. Double-weighting the sales factor reduces the apportionment percentage to 60% $[(90\% + 90\% + 30\% + 30\%)/4]$. Income apportioned based only on the sales factor would further reduce the apportionment percentage to 30%.

A deduction is allowed for the amount of sales tax paid in the current year on purchases of new personal property. Since states generally follow federal law, which requires sales taxes to be capitalized into the cost of the asset, the current year sales tax liability is used as a simplified proxy for the depreciation and other deductions that the hypothetical corporation would claim.

This comparison includes only tax credits available to all paper industry corporations that have made the investments or expenditures required. Special state tax credits and other incentives associated with enterprise or redevelopment zone programs are not included in the comparison. Such special tax credits are not included because of the difficulty in developing the detailed assumptions necessary to compute the tax credits, and because the credits are typically negotiated with businesses by a state department and may not be generally available or applicable to all corporations. Similarly, investment credits that require creation of additional jobs are not included.

Some states, such as California and Minnesota, impose a corporate alternative minimum tax patterned after the federal alternative minimum tax. It is assumed that the corporation in the comparison is not subject to the alternative minimum tax.

The term "franchise tax" as used in this comparison refers to franchise taxes based on capital stock, net worth or other asset-related measures as well as annual corporate filing fees that

may be paid to the Secretary of State or similar offices in the various states. Franchise taxes measured by corporate net income are included under the income tax.

The hypothetical corporation is assumed to be a domestic corporation for franchise tax and filing fee purposes. All intangible property, such as patents and copyrights, is located in the state.

TABLE A.4
FRANCHISE TAX ASSUMPTIONS

Common Stocks & Paid-In Capital	\$ 334,872
Retained Earnings	3,833,066
Stockholder's Equity	\$ 4,167,938

California. The income tax rate is a flat 8.84%, with a minimum tax of \$800. Income is apportioned using a double-weighted sales factor formula, making the apportionment percentage for this comparison 60%. An investment credit, equal to 6% of the cost, is available for qualified manufacturing and research and development tangible personal property used in any stage of the manufacturing or research and development process. The credit cannot be applied to expenditures for which a sales tax exemption was claimed. Credits cannot reduce tax liability below \$800 annually. California imposes an alternative minimum tax; this comparison assumes that the corporation is not subject to that tax.

There is no state franchise tax other than an annual filing fee of \$20 that is included with the "Statement of Officers" that must be filed annually with the Secretary of State.

Georgia. The income tax rate is a flat 6%. Georgia is phasing in single sales factor apportionment, which will be fully effective in 2008. Income is apportioned in 2006 using a three-factor formula that weights the sales factor at 80% for an apportionment percentage of 42% in this comparison. Georgia income tax is deductible.

A franchise tax based on a corporation's net worth ranges from \$10 for net worth under \$200,000 to \$5,000 for net worth over \$22 million. An annual filing fee of \$15 is paid to the Secretary of State.

Illinois. Two income taxes are imposed on the same tax base: the regular income tax rate is a flat 4.8% and the personal property replacement tax is 2.5%. The total tax is equal to the sum of the two taxes. Income is apportioned using a single sales factor apportionment formula, which results in 30% of income being apportioned to the state for the hypothetical corporation. A standard exemption of \$1,000 is allowed under the regular income tax to the extent of the apportionment percentage. A credit is allowed against the regular income tax in an amount equal to an apportioned share of the replacement tax multiplied by the regular income tax rate of 4.8%. A credit is available against the personal property replacement tax for taxable years before 2009 for purchases of depreciable manufacturing equipment with a useful life of at least four years.

A franchise tax is imposed at a rate of \$1 per \$1,000 on an apportioned share of the amount of capital stock and paid-in capital, with a minimum tax of \$25 and a maximum tax of \$1 million per year. The tax is apportioned using a two-factor formula based on real and personal property (including intangibles) and sales. An annual report is filed with the Secretary of State along with a \$75 filing fee.

Indiana. The income tax is imposed at a rate of 8.5%. Single sales factor apportionment is being phased in beginning in 2007; it will be fully effective for taxable years beginning in 2011. Income is apportioned using a formula that double weights the sales factor in 2006.

As such, the apportionment percentage for this analysis is 60%. No deduction is allowed for state income taxes. There is no franchise tax other than an annual filing fee of \$15 that is paid to the Secretary of State.

Iowa. Net income is taxed at rates ranging from 6% for income under \$25,000 to 12% for income over \$250,000. Income is apportioned using a formula based solely on the sales factor. As such, the apportionment percentage for this analysis is 30%. Fifty percent of the federal tax paid is deductible from income. No deduction is allowed for state income taxes. A \$30 annual filing fee is paid to the Secretary of State.

Michigan. The Michigan income tax, the Single Business Tax (SBT), is a type of value added tax that applies to business earnings. The tax rate is 1.9%, and the tax base is federal taxable income, with certain additions and subtractions. Additions include compensation paid to employees and depreciation or amortization deductions claimed in the current year for federal tax purposes. Subtractions include an excess compensation deduction that is based on the percentage that compensation exceeds 63% of the total tax base prior to apportionment and a gross receipts reduction for corporations with a tax base that is greater than 50% of adjusted gross receipts. Adjusted income is apportioned based on a three-factor formula that weights the sales factor at 90% and property and payroll each at 5%, making the apportionment percentage 36% for this analysis. The SBT is repealed for taxable years beginning in 2010. An annual filing fee of \$15 is paid to the Department of Commerce.

Minnesota. The income tax rate is a flat 9.8%. Income is apportioned based on a three-factor formula that weights the sales factor at 75% and each of the property and payroll factors at 12.5%, making the apportionment percentage 45% for this comparison. An alternative minimum tax is imposed if it exceeds the income tax; it is assumed that the hypothetical corporation is not subject to that tax.

The corporate income tax includes an additional fee based on the weighted sum of property, payroll and sales. The fee ranges from \$100 for corporations with a weighted sum of at least \$500,000 but less than \$1 million, to \$5,000 for corporations with a weighted sum in excess of \$20 million. There is no annual filing fee for domestic corporations. Minnesota has an alternative minimum tax; the comparison assumes the hypothetical corporation is not subject to the alternative minimum tax.

New Jersey. The income tax rate is a flat 9%. However, corporations with entire net income of \$50,000 or less are subject to a 6.5% tax; corporations with \$100,000 or less to a 7.5% tax. The minimum tax in 2005 was \$500. Income is apportioned using a three-factor formula that double weights the sales factor, making the apportionment 60% for this analysis.

A credit is available for purchases of machinery and equipment used in the state in the production of tangible personal property by manufacturing, processing, and assembling. In the first year, the credit is 2% of the cost of the equipment, up to \$1 million. In the subsequent two years, the credit is 3% of the cost, up to \$1,000 multiplied by the increase in the number of jobs held by New Jersey residents in those years. In any year, the credit may not exceed 50% of the tax liability of the corporation.

An annual \$40 filing fee is paid to the Secretary of State.

New York. Corporations compute four taxes: a 9% tax on entire net income base, a 3.5% tax on a minimum taxable income base, a tax on business and investment capital at a rate of 0.178%, and a fixed dollar minimum tax based on gross payroll. The corporation pays the highest computed tax plus any tax on subsidiary capital, if applicable. Single sales factor apportionment is being phased in and will become fully effective in 2008. Income is

apportioned using a three-factor formula that weights the sales factor at 60% in 2006. As such, the apportionment percentage for this analysis is 54%.

New York offers an investment tax credit equal to 5% of certain manufacturing equipment placed in service in the state and 9% of research equipment. The credit cannot reduce tax liability below the higher of the fixed dollar minimum tax or the minimum taxable income base tax.

Taxes that would be considered franchise taxes for this analysis are discussed in the income tax section, with the exception of the fee for filing biennial reports with the Department of State. The \$9 filing fee is annualized at \$4.50 for this analysis.

North Carolina. The corporate income tax rate is 6.9%. Income is apportioned using a three-factor formula that double weights the sales factor, making the apportionment percentage for this comparison 60%.

A franchise tax is imposed at the rate of \$1.50 per \$1,000 on the greater of three tax bases. The three tax bases are: (1) capital stock, surplus, and undivided profits; (2) investment in tangible property in North Carolina; and (3) appraised valuation of North Carolina property subject to local taxation. A \$10 filing fee is paid to the Secretary of State.

Ohio. The corporate income tax is the greater of an income based or a net worth based calculation. The minimum tax is \$50, increasing to \$1,000 if the company has at least \$5 million of gross receipts or 300 employees in the state. The first \$50,000 of income is taxed at a rate of 5.1% and income over \$50,000 at 8.5%. Income is apportioned using a triple-weighted sales factor formula, making the apportionment percentage for this comparison 54%. The income tax is being phased out over a five-year period and is being replaced with a commercial activity tax.

The net worth based calculation is 4 mills of net worth (assets minus liabilities), with a \$150,000 maximum liability. Net worth is apportioned using a two-factor formula based on property and sales. The apportionment percentage for this comparison is 60%.

Manufacturers are subject to an additional two-tier litter tax. Tier 1 of the litter tax is 0.11% of the first \$50,000 of taxable income plus 0.22% of income over \$50,000. Tier 2 of the litter tax is imposed on manufacturers and is the greater of 0.22% of income over \$50,000 or 0.14% of taxable net worth. Neither tier of the litter tax may exceed \$5,000.

The commercial activity tax that is replacing the income tax is based on gross receipts. For gross receipts of \$150,000 to \$1 million, the tax is \$150. When the tax is fully phased in, the rate will be 0.26% of gross receipts over \$1 million. The rate is subject to adjustment if revenue collections are 10% more or less than projections.

Pennsylvania. The corporate income tax rate is a flat 9.99%. Income is apportioned using a three-factor formula that triple-weights the sales factor, which apportions 54% of income to the state for this analysis.

Corporations pay a franchise tax based on capital stock at a rate of 0.699%. The tax is apportioned based on an equally-weighted three factor formula, making the apportionment percentage 70% for this comparison. This tax is being phased out and is expected to be fully eliminated in 2010.

Manufacturers are allowed an exemption for a portion of the tax. It is assumed that 20% of the amount of capital that would otherwise be subject to tax is actually taxed as a result of the exemption. There is no other annual filing fee.

Texas. The franchise tax is the greater of two tax base components: a taxable capital component or an earned surplus component. The apportionment formula for both tax base components uses a single gross receipts factor, which includes receipts from sales, services, rentals, royalties, and other business. The apportionment percentage is 30% for this comparison.

The earned surplus component of the franchise tax includes a corporation's reportable federal taxable income and compensation paid to directors and officers. The earned surplus tax rate is 4.5%. The taxable capital rate is 0.25% per year. Taxable capital includes the corporation's retained earnings. There is no other annual filing fee.

Virginia. The corporate income tax rate is a flat 6%. Income is apportioned using a formula that double-weights the sales factor. As such, the apportionment percentage for this analysis is 60%. In addition, there is a \$10 annual litter tax on certain businesses, including manufacturers.

There is an annual filing fee paid to the State Corporation Commission. The fee is \$50 if the corporation has authorized shares of 5,000 or less; the fee increases by \$15 for each 5,000 in shares, or fraction thereof, up to a maximum of \$850.

Wisconsin. The corporate income tax rate is a flat 7.9%. Income is apportioned using a three-factor formula that weights the sales factor at 60%, making the apportionment percentage for this comparison 54%. A recycling surcharge equal to 3% of gross tax liability is imposed on corporations with more than \$4 million in gross receipts. The minimum fee is \$25; the maximum fee is \$9,800. Wisconsin is phasing in single sales factor apportionment. The sales factor will be weighted at 80% in 2007 and 100% in 2008. This analysis includes a comparison of Wisconsin law when single sales factor apportionment is fully phased in.

There is no franchise tax other than a \$25 annual filing fee that is paid to the Department of Financial Institutions for returns filed electronically. The fee is \$40 for filing paper returns.