



Ohio's state tax climate for business and jobs is warming.

Ohio wins the Governor's Cup from *Site Selection Magazine* for three years in a row for most new and expanded corporate facilities.

Ohio has the 10th lowest business tax rate in the nation
– *Small Business Entrepreneurship Council*.

Ohio has the 12th lowest tax burden in the nation
– *Federation of Tax Administrators*.

**AN UPDATE AND ANALYSIS OF OHIO'S TAX REFORM LEGISLATION FROM OHIO'S
METROPOLITAN CHAMBERS OF COMMERCE AND THE OHIO CHAMBER OF COMMERCE.**

JUNE 2009



“Ohio’s tax reform has reduced Lincoln Electric’s cost of doing business in Ohio significantly, has encouraged us to make recent large investments in our Euclid and Mentor facilities, and maintained our Ohio factories as an important hub for Lincoln’s global growth.”

—Statement by Lincoln Electric Co.
June 18, 2009



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June 18, 2009

Ohio Metro Chamber Group
c/o Ms. Carol Caruso, Sr. VP Government Advocacy
The Greater Cleveland Partnership
The Higbee Building
100 Public Square, Suite 210
Cleveland, Ohio 44113-2227

Dear Ms. Caruso and Ohio Metro Chamber Executives:

Enclosed please find a report that details our analysis of tax reform enacted by the State of Ohio in 2005. You asked us to develop this research and render an analysis about the impact of tax reform on business and economic development in Ohio during the past four years since these reforms were adopted by the Ohio General Assembly.

In conducting this study, we found ample and compelling research, including research developed by the Ohio Business Roundtable that more than adequately states the empirical evidence about the relative success of tax reform in Ohio. That work was published a year ago, detailed in "Ohio tax reform: Year 2 in review."

Instead of an update to that study, we offer this research as an effort to establish the "qualitative" view of tax reform as seen through the eyes of Ohio companies, business executives and business leaders such as you. But this report also offers new and additional quantitative data that was not available at the time of the Roundtable research that we think only amplifies the compelling evidence presented a year ago.

Thank you for choosing Underwood & Associates to conduct this important and timely research on your behalf.

Best regards,

JIM UNDERWOOD
President
Underwood & Associates

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Ohio's tax climate for business and jobs is warming

Overview

If there is a "face" on tax reform in Ohio, it is the face of Greg Hammer, owner of B&B Box Company in Perrysburg. Greg is a second-generation owner of the company in Northwest Ohio which just celebrated 50 years in business. As you might expect, he faces all the trials and tribulations of a small-business owner, but what he doesn't face is a huge tax bill from the State of Ohio on the inventory and supplies that he and his employees use to build the corrugated packaging that is the company's mainstay.

That smaller tax bill is the result of tax reform enacted in Ohio in 2005 and Hammer said his company is a beneficiary of that reform. "Don't get me wrong, our costs keep going up, but the savings we have realized from the state's tax reform have helped," he said. "And anytime a business our size can save money that affects the bottom line."

At B&B Box, "a company our size" is 15 employees. Hammer said the number of employees at the company has ranged as high as 20, but the current economic downturn has meant some slight scaling back. He is watching closely developments with Chrysler Corp. and General Motors. He is one of the suppliers to the automotive industry and what happens to those two auto giants will greatly impact the sales of corrugated materials in Michigan and Ohio.

"As a manufacturer, we are affected by everything. But anytime we don't have to pay taxes or our taxes are less means we can do more for our customers and our employees," he said.

To put B&B in perspective, consider this small Perrysburg firm is one of 21,250 manufacturing firms in Ohio that employ more than 638,000 workers.¹ Despite the current economic challenges, manufacturing industries employ 14.9 percent of Ohio workers and 10.4 percent of the U.S. workforce.² In short, B&B Box is an example of the small businesses in Ohio that fuel the state's economic engine. As small business in Ohio goes, so goes the State of Ohio.

¹ Table 5. *Employees on nonfarm payrolls by state and selected industry sector, seasonally adjusted*, U.S. Bureau of Labor Statistics, May 22, 2009.

² *Manufacturing Briefs*, Cleveland State University, May 2009.

Now, take the savings B&B has realized from a reduced tax burden and multiply it by the thousands of other small companies that define Ohio's business landscape and you have a state that is markedly, tangibly and measurably more competitive than it was before tax reform.

"Tax reform literally made the critical difference to these businesses," said Carol Caruso, vice president of government advocacy for the Greater Cleveland Partnership. "It has allowed them to remain competitive, even in these difficult times. A reversal of this tax policy would be devastating to them."

About this research

Underwood & Associates was retained by a coalition of Ohio metropolitan chambers of commerce and the Ohio Chamber of Commerce to research the impact of major tax reform enacted in 2005. We are asked to conduct this research during a period when the administration of Ohio Gov. Ted Strickland and the Ohio General Assembly deliberate a biennial state budget for Fiscal Years 2010/2011. These budget deliberations are taking place during an unprecedented economic downturn that requires the Governor and state lawmakers to reduce funding to even the most vital state services.

With regard to the state budget and the current state of the economy, it is vital for readers to understand the context for this report. The deteriorating economic backdrop, which some describe as the largest downturn since the Great Depression, offers an important framework to better understand the real effects and outcomes of tax reform now some four years later.

At this writing, the unemployment rate was 10.8 percent in May, up from 10.2 percent in April.³ The U.S. unemployment rate was 9.4 percent.⁴ That May statistic translates to more than 646,000 Ohioans who are out of work.⁵ The number of unemployed Ohioans has grown by 268,000 in the past year, up from 378,000.⁶

³ Ohio and U.S. Employment Situation (Seasonally Adjusted), Ohio Department of Jobs and Family Services, June, 2009.

⁴ IBID.

⁵ IBID.

⁶ IBID.

Those sad and challenging statistics have played havoc with the budget. Currently, the Strickland administration and Ohio lawmakers are working to navigate a \$3.2 billion budget gap. The result has been wholesale cuts and reductions in the proposed budget as the administration and legislature scramble to fashion the state budget for the next two years.

Chamber officials are concerned about the reduction of these services and potential remedies, (including tax increases) that could offset, reverse, eliminate or adversely affect beneficial tax reform that has accrued to Ohio businesses and industries during the past four years.

In conducting our preliminary research on this issue, it was our opinion that there is strong and well-researched empirical evidence that speaks to the success of tax reform enacted in 2005 and whatever we might contribute to that existing quantitative body of evidence would be duplicative and redundant. Specifically, we cite the work of the Ohio Business Roundtable and their comprehensive analysis of tax reform in a publication titled, "Ohio tax reform: Year 2 in review."⁷

It is our view that the Roundtable report, published only a year ago, is singularly one of the most comprehensive and definitive documents we discovered in conducting our preliminary inventory of existing research on the tax reform issue. The expedited nature of our research precludes us from duplicating the Roundtable effort, an exercise that would, in our view, likely produce only marginal enhancements to the two-year review.

Subsequently, we incorporate by reference the Roundtable research and direct the reader to http://www.ohiomeansbusiness.com/year2tax_report/obr_taxreport_year2.pdf for an online digital rendering of that report. The focus of this report, therefore, is largely on the qualitative side of this issue and our attempt to put a face on the well-established success of tax reform. The opening introductory paragraphs of this report are indicative of what our research has produced in these waning days of this historic state budget debate. As Greg Hammer and B&B Boxing illustrate, tax reform has resulted in Ohio moving from the ranks of business-averse states to the ranks of a more business-friendly state.

⁷ *Ohio tax reform: Year 2 in review*, Ohio Business Roundtable, June 30, 2008.

As this research demonstrates, that is not just our visceral analysis, but it is the analysis of important independent third parties who routinely measure the business environment, comparing and ranking states based on a variety of factors, including taxation. This document purports to blend quantitative and qualitative data, citing key data with the real-life experiences of executives and businesses that have benefited from tax reform enacted in 2005. Our research includes that important third-party authentication about the success of tax reform in Ohio that has emerged even since the Roundtable effort in 2008. Our research embraces three distinct themes:

- Interviews with key executives in Ohio who have grown or expanded their business in Ohio largely as a result of tax reform;
- Select empirical evidence that statistically quantifies the success of tax reform in Ohio; and,
- Third-party affirmation of the success of tax reform in Ohio as reflected in reports, rankings and other data collected by reputable groups and organizations outside the State of Ohio.

The tax reform of 2005 then and now

We begin our analysis by recapping the reforms that took place in 2005. The reforms that took place four years ago were actually a two-tiered tax relief plan that included sweeping changes in the way the state taxed its domiciled businesses and industries, and it also included a 21 percent reduction in personal income taxes.

On the business side of the equation, the reform took an all-important first step of eliminating taxes on capital investment, inventory, sales of goods and services to customers outside of Ohio, and corporate income and franchise taxes. These taxes in particular were often cited by business leaders as among the most onerous of the state's tax on commercial activity. In tandem, the elimination of these taxes and the 21 percent reduction in personal income taxes provided an almost instant win-win for Ohio business at every level and especially for small-business owners.

In the introductory paragraphs of this report, B&B's Greg Hammer noted that elimination of the inventory tax was especially helpful to his enterprise. But many small-business owners in Ohio are unincorporated and pay personal income tax on their business. "The 21

percent reduction in personal income tax that was part of the tax reform made a huge difference to these folks,” said Cleveland’s Carol Caruso.

The aim of the reform was to make Ohio more competitive globally. To do that required shedding taxes that reflected business from a bygone era and enacting a new tax structure that reflected the reality of conducting business in the 21st century. It required a fundamental change in thinking. For example, Instead of taxing investment, profitability and wealth creation, the new tax strategy adopted in 2005 shifted toward taxing consumption.

Another fundamental change was enactment of the so-called CAT or commercial activity tax that became effective in July, 2005. The Ohio Department of Taxation describes it as “privilege tax” measured by gross receipts from activities in the state.⁸ The tax is levied and paid on a quarterly or annualized basis. Businesses with annual taxable gross receipts greater than \$1 million are required to pay the tax quarterly. Those businesses that post annual taxable gross receipts between \$150,000 and \$1 million are required to file annually and are subject only to the \$150 minimum tax. Businesses with annual gross receipts of less than \$150,000 do not pay the CAT.

When enacted, the CAT was designed to be implemented in phases over a five-year period, eventually ramping up the tax rate to 0.26 percent. The full implementation of the tax took place in April of this year and will be reflected in FY 2010 tax revenues.

We offer the following table to provide the reader with some indication about how those numbers translate across the range of businesses and industries in Ohio.⁹ The FY 2008 data reflects tax activity from April 2007 to March 2008, the most recent data available from the Ohio Department of Taxation.

⁸ Commercial Activity Tax, Number of Taxpayers and Tax Return Data, Fiscal Year 2008, Ohio Department of Taxation.

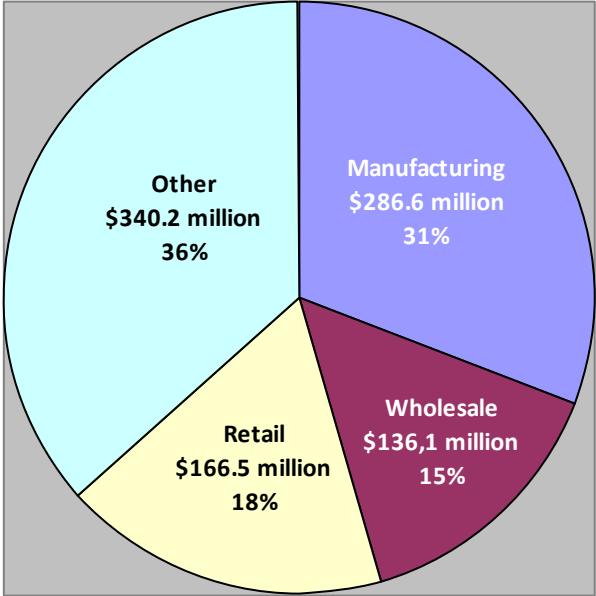
⁹ IBID.

Size of FY 2008 Taxable Gross Receipts (b)	Number of Taxpayers	Taxable Gross Receipts
Less than \$1,000,000	124,557	\$41,352,106
\$1,000,000 - \$2,000,000	18,676	26,795,219
\$2,000,000 - \$3,000,000	7,878	19,268,574
\$3,000,000 - \$4,000,000	4,116	14,216,308
\$4,000,000 - \$5,000,000	2,662	11,876,351
\$5,000,000 - \$10,000,000	5,826	40,667,027
\$10,000,000 - \$25,000,000	3,982	61,238,760
\$25,000,000 - \$50,000,000	1,467	51,143,482
\$50,000,000 - \$100,000,000	758	53,110,277
\$100,000,000 - \$500,000,000	694	141,612,184
\$500,000,000 - \$1 billion	74	48,925,421
\$1 billion and above	62	155,026,734
TOTAL	170,752	\$665,232,442

The most striking feature of this table is the more than 124,000 Ohio businesses with taxable gross receipts of less than \$1 million. As indicated in the preceding paragraphs, these enterprises – about 73 percent of all Ohio business subject to the CAT – pay only the \$150 minimum tax. There is yet another layer of small businesses not reflected on this table – those with gross receipts of less than \$150,000 – that pay personal income tax in lieu of the commercial activity tax.

The table graphically illustrates how small business owners like Greg Hammer, especially, fare favorably under the new tax configuration. First, they are no longer burdened by the labyrinth of unwelcome taxes that were eliminated by the tax reform, while the majority of Ohio business owners pay either the minimum CAT or no CAT at all. And for the vast number of unincorporated businesses in Ohio that pay personal income tax on their earnings, that tax is reduced 21 percent.

And yet, the tax yield to the State of Ohio was more than \$929 million during this Fiscal Year 2008 collection and that is based on a 0.156 percent tax rate. Future tax yields will trend upward because the revenue will be based on the higher and fully implemented 0.26 percent tax rate. As illustrated below, the majority of the tax – about 64 percent – is paid by the state’s manufacturing, retail and wholesale industries.¹⁰



And there is compelling evidence that the new tax configuration has yielded a significant return on investment for the State of Ohio in attracting new business, expanding existing business enterprises and retaining important core industries headquartered here in the Buckeye State.

Where tax reform has made a difference

Ask officials in West Chester what they think of tax reform in Ohio and they almost certainly will point to Amylin Ohio LLC, a subsidiary of the San Diego-based Amylin Pharmaceuticals. In 2007, the company announced it was investing about \$500 million to expand its manufacturing facilities here in Ohio to produce a new drug for the

¹⁰ IBID.

treatment of diabetes.¹¹ The company's president, Daniel M. Bradbury, was unequivocal in his remarks about what paved the way for the expansion and the decision to expand in Ohio.

"Ohio continues to improve on its world-class business climate, and the recent tax reform is another example of how the Buckeye State provides an inviting and collaborative environment to help businesses succeed," he said.¹²

The Amylin development is a key example of the benefit derived by the state from tax reform. It means more jobs for more Ohioans. It means additional revenue not only to the State of Ohio, but to local governments, adjoining school districts and for vital county services in rapidly growing Butler County. At full operation, Amylin will employ more than 550 workers at this new bioscience facility.¹³

Based on the most recent regional wage survey by the U.S. Bureau of Labor Statistics, those 550 workers represent more than \$23.9 million in wages alone, based on mean hourly earnings for the average employee in Butler County.¹⁴ But that number is almost certainly higher because of the higher-end jobs required in the bioscience industry. The mean hourly wage for the average worker in Butler County is \$20.93, but the mean hourly wage for those with computer and science occupations is \$31.25 per hour. If only half of Amylin's workforce earned at that higher hourly rate, total payroll could be closer to \$30 million.

Perhaps even more important to the state, Amylin's presence is a signal that Ohio is an important and emerging bioscience player, a vital message to advance the state's Third Frontier objectives. The Ohio Third Frontier initiative is designed to expand Ohio's technological strengths and promote commercialization that leads to economic prosperity. The Amylin project is precisely what the Third Frontier is all about because a partnership with biomedical enterprises is one of its targeted goals.

¹¹ *Ohio Business Development Coalition; New, Improved Tax Climate Makes Ohio a Preferred Location for Business Development and Capital Investment*, Drug Week, Sept. 5, 2008, pg. 2081.

¹² IBID.

¹³ IBID.

¹⁴ *Table 1. Civilian workers: Mean hourly earnings for full-time and part-time workers, Cincinnati-Middletown-Wilmington, OH-KY-IN CSA, October 2008*, U.S. Department of Labor, Bureau of Labor Statistics, published June 11, 2009,

But seasoned economic development specialists know that low tax rates alone cannot drive economic development. Low taxes will not cure exorbitant land costs or a site far removed from important transportation corridors. But these specialists know that an unfavorable tax environment can be a key inhibitor to growth and expansion. Economic development is a platform that rests on four sturdy legs: Land (availability and cost), Labor (availability and cost), Location (access to highways and airports, quality of life, education and availability of affordable housing), and Taxes.

The “LLLT Model” generally embraces the notion that all things being equal, taxes can be the tie-breaker that decides whether a company puts down roots in a community. Tax reform in Ohio has reduced and minimized the inhibitor factor in that equation and paved the way for expansion of existing businesses. An example is the Lincoln Electric Company in Northeast Ohio, headquartered in Cleveland.

Lincoln is a global manufacturer and the market leader of top-quality welding, cutting and joining products. The history of the company dates back to 1895 when its founder, John C. Lincoln, invested \$200 to launch a business to produce electric motors.¹⁵ Today, Lincoln is a global enterprise with operations and facilities in Asia, Europe, Latin America, Canada, Russia, Africa, and the Middle East. Its employee base is about 3,000 in Ohio and about 9,000 worldwide.

In a statement provided expressly for this research, the company said, “Ohio’s tax reform has reduced Lincoln Electric’s cost of doing business in Ohio significantly, has encouraged us to make recent large investments in our Euclid and Mentor facilities, and maintained our Ohio factories as an important hub for Lincoln’s global growth.”

CAT and personal property tax changes that were part of the 2005 tax reform, the company says, “have made Ohio a highly competitive state to invest assets and create jobs.” Tax inhibitors for Lincoln under the old tax structure were the personal property and franchise taxes which penalized investment and repressed job growth.

“The CAT does the exact opposite – it taxes those who sell into and use the Ohio economy for their financial advantage. It rewards those who incur risk and make potentially significant investments in

¹⁵ *About Lincoln: 110 Years of Excellence*, on the web at www.lincolnelectric.com/corporate/about/history.asp, June, 2009.

Ohio,” the company says. The company acknowledges that the high taxes in Ohio in past years made tax-incentive proposals from other states very lucrative, creating a “financial imbalance” compared to other states.

Tax reform likely also played a role in Ohio keeping another headquarters company in the state. No one is suggesting that tax reform alone triggered the decision by Goodyear Tire and Rubber Co. to keep 3,000 jobs in Akron, but what is known is that Goodyear will save about \$30 million over the next 15 years in commercial activity tax payments.¹⁶ The economic incentive package for Goodyear put together by state and local officials came at a critical time when Goodyear was contemplating a new corporate headquarters.

Economic development specialists know that states and local communities are most vulnerable when companies contemplate new headquarters. Such deliberation affords company executives and boards of directors with an opportunity to weigh and evaluate whether it is in the company’s best long-term interest and in the best interest of its shareholders to continue doing business at its present location or to look elsewhere. During that window of opportunity, everything is on the table and everything was on the table for Goodyear and Akron.

Suffice that Ohio over the years has suffered the pain of losing important headquarters companies, but few so prominent as Goodyear and its century-long relationship with the City of Akron. The Goodyear story has a happy ending and the company will both remain in Akron and build its new headquarters there. But absent tax reform, could the story have invited a different ending? Those close to the negotiations say tax discussions were not an insignificant topic and both South Carolina and Virginia were aggressive suitors.¹⁷ In making the announcement that Goodyear would stay in Akron, the company’s chairman and chief executive, Robert Keegan, called it a “major milestone for the future of Goodyear and the Akron community.”¹⁸ He

¹⁶ *The Week: December 3-9*, The Insider, Crain’s Cleveland Business, Dec. 10, 2007, pg. 26.

¹⁷ *Goodyear tentatively agrees to keep its headquarters in Akron*, Auto News, Dec. 5, 2007.

¹⁸ *Goodyear headquarters to remain in Akron*, by the Associated Press, Dec. 5, 2007.

also said the decision would ensure that Goodyear's headquarters would stay in Akron for decades to come.¹⁹

Tax reform through the lens of Ohio business leaders

Tony Paglia, vice president for government affairs for the Youngstown/Warren Regional Chamber of Commerce, remembers when taxes were a subject to be avoided when talking to prospective businesses. After all, being listed as the fifth highest-taxed state in the nation wasn't a banner you wanted to wave while talking about why an economic development prospect might want to consider the State of Ohio. And it was a discussion that went two ways – from those thinking about business development in Ohio and with Ohio businesses thinking about doing business somewhere else.

“The tax issue also reared its head with some companies thinking about moving to other states or considering expansion,” Paglia said. “So taxes were something not brought up or something avoided as much as possible when making efforts for economic development in the Mahoning Valley.”

But all that changed in 2005 when personal income taxes were cut 21 percent and the onerous personal property tax was eliminated. Overnight, Paglia and his colleagues had something to talk about. Ohio's tax relief made the transition from strategic avoidance to one more reason to consider the Buckeye State as a place to go and grow.

“We emphasize the income tax cuts and demise of the personal property taxes,” he said. “We note that Ohio is no longer one of the highest taxed states in the country and that the state has done more to cut state taxes than any other state in the country in the last four years.”

Paglia noted that in addition to the high-tax issue, the Mahoning Valley had its own unique challenges in getting the attention of site selectors. But Paglia and his colleagues at the Youngstown/Warren Chamber are turning that corner, and he says tax reform is playing a role in that brighter outlook. “We are now getting business prospects' attention and we believe that lower taxes are a factor in that attention,” he said.

¹⁹ IBID.

Chris Kershner, vice president for public policy & economic development at the Dayton Area Chamber of Commerce, tells a similar story. DACC and its 2,900 business members were among the early advocates for tax reform in Ohio. They knew that Ohio had to change its tax structure if the Dayton region and the State of Ohio were to become more economically competitive in retaining, growing and attracting private business. Kershner said the timely demise of the tangible personal property tax and the corporate franchise tax, along with the 21 percent personal income tax reduction have been key in making the area more competitive and attractive in a global economy.

Dayton, he said, is feeling the global automotive manufacturing crisis.

“It is more important now than ever that we maintain these tax reforms and look towards additional tax incentives that will help our economy recover from the impact of this industry,” he said. Over time, Kershner and others in the region believe the Dayton area economy will transition from an automotive manufacturing base to an economy grounded in the defense industry. That is a logical strategy when you consider Wright Patterson Air Force Base is one of Ohio’s largest employers with 24,000 employees and a \$5 billion economic impact.

Wright Patterson is another key player in Ohio’s Third Frontier initiative and what the military base portends for technology-based industries. The Dayton area, Kershner says, is proud to be home to world-renowned defense contractors and IT enterprises that are helping redefine the state’s economy and its future.

“However, we must have the business-friendly economic development tools like tax reform in place to be successful,” he said.

Dan Navin, assistant vice president, tax and economic policy for the Ohio Chamber of Commerce, says Ohio’s status as a high-tax state was magnified in the 1980s with the advent of strong foreign competition in the manufacturing sector. Ohio’s tax structure, he said, reflected 60 years of manufacturing dominance in a state confident in its fixed-asset base and strategic location to attract new business investment. But somewhere along the line between the 1950s and the 1980s, the world changed, but Ohio didn’t.

“Ohio businesses became less competitive in significant part because of higher state and local tax costs on personal property such as

machinery, equipment and inventory, as well as income,” he said. But all of that changed in 2005 when the Ohio General Assembly adopted sweeping tax reforms that allowed the state to become more competitive in the new global economy. And Navin insists that Ohio must never return to the old way of doing business.

“These strategic tax reforms must remain in place, unchanged, to cement Ohio’s emerging reputation as a business-friendly place for new investment and job creation,” he said. Navin says that even in the current economic turmoil, the perception about Ohio’s tax stability and certainty is the “coin of the realm” for business leaders making investment and location decisions.

“Ohio’s political leaders must remain firm in their commitment to permanently keep Ohio’s tax structure competitive,” he said.

Jay P. Foran, senior vice president of Team Northeast Ohio, also offers an historical perspective on Ohio’s old tax structure. He tracks Ohio’s antiquated tax structure (before the tax reform of 2005) back to the 1930s. Let’s put that into perspective with a look at a sample that reflects the cost-of-living in 1930:²⁰

- Average cost of new house: \$7,145
- Average wages per year: \$1,970
- Cost of a gallon of gasoline: 10 cents
- Average cost for house rent: \$15 per month
- A loaf of bread: 9 cents
- A pound of hamburger: 13 cents
- Pontiac Big Six: \$745

Team NEO is one of the newest economic development groups in the Cleveland area. Only five years young, Foran and his team are committed to changing the wealth curve in Ohio by bringing new business and investment to the state. That job is easier today than it was before tax reform. Before 2005, he said, unproductive inventory and capital were unfairly taxed and the tax structure itself was unnecessarily burdensome and complex.

²⁰ *The Year 1930 From The People History*, on the web at www.thepeoplehistory.com/1930.html

“With tax reform and the associated expansion of the base with a corresponding reduction in rates, the tax structure is now very compelling to prospective companies looking to invest,” he said. “A strong business case for Ohio is made by low tax rates combined with simple tax codes.”

For the first time, regional competitor states have a more complex tax code and higher tax rates than Ohio, Foran said. And Foran points to third-party authentication of Ohio’s improved status as a low-tax, business-friendly state: For three years in a row, Ohio has won the coveted *Site Selection Magazine’s* Governor’s Cup for the state that has the most new and expanded corporate facilities.²¹

Ohio tax reform based on the perspective of others

Not only has Ohio won the award three years in a row, it has won the award four times in the past six years. Ohio emerged the winner this year with 503 new or expanded corporate facilities compared to second-place Texas that had 497 such projects in calendar year 2008. Foran and others cite the three years in succession as an indication that Ohio’s new and improved business-tax structure is producing the intended effect by making the state more attractive to new investment and enterprise.

But *Site Selection Magazine* is not the only detached and unassociated third-party to pay homage to the new Ohio in its era of tax reform. There are a myriad of rankings by a host of groups and organizations that wade into the debate about who has the most business-friendly state or which states are low-tax states and which are high-tax states. Before tax reform, among those that consistently ranked Ohio a high-tax state were the National Tax Foundation, the Federation of Tax Administrators and the Small Business Entrepreneurship Council. Ohio continues to feud with the Tax Foundation about its ranking because despite the tax reforms of 2005, the Foundation continues to list Ohio among the high-tax states. At one

²¹ *Ohio Wins Site Selection Magazine’s Governors Cup Award for 2008*, a press release from Conway Data Inc., March 9, 2009.

time, the Tax Foundation listed Ohio as the second worst state in the nation for taxes.²²

Some analysts say the reason the NTF rankings are askew is because some of the NTF data is dated. Still others cite the unique methodology and weighting employed by NTF tax analysts to develop the Foundation rankings. But both the Federation of Tax Administrators (FTA) and the Small Business Entrepreneurship Council (SBEC) post better and improved rankings for Ohio since tax reform was enacted in 2005. In 2008, for example, the last year in which the Tax Administrators ranked the states, the FTA ranked Ohio's tax burden as the 12th lowest in the nation.²³

The SBEC ranking is dramatically improved since tax reform was enacted, with Ohio moving from the 40th worst tax ranking in the U.S. in 2004 to the 10th best tax ranking in the most recent 2009 study.²⁴

Small Business Entrepreneurship Council's Business Tax Index 2009: Best to Worst Tax Systems²⁵	
Top 10 Best Low-Tax States	Bottom 10 Worst High-Tax States
1. South Dakota	42. Massachusetts
2. Nevada	43. Vermont
3. Wyoming	44. Rhode Island
4. Washington	45. Iowa
5. Texas	46. New York
6. Florida	47. California
7. Alaska	48. Maine
8. Colorado	49. Minnesota
9. Alabama	50. New Jersey
10. Ohio	51. District of Columbia

Notwithstanding the snarling between the State of Ohio and the National Tax Foundation, it would appear (based on the two other independent tax rankings) that the 2005 tax reform has produced a

²² *Ohio's climate for business clouded by TAXES. State blasts tax group's 2nd-worst Ohio ranking*, By Teresa Dixon Murray, The Plain Dealer, Oct. 25, 2006, pg. C1.

²³ *Phased-in tax reductions are beginning to make a difference*, By State Sen. Tim Schaffer, The (Newark, Oh.) Advocate, April 18, 2008, pg. A-7.

²⁴ *Business Tax Index 2009: Best to Worst Tax Systems for Entrepreneurship and Small Business*, the Small Business & Entrepreneurship Council, April 2009 and *Small Business Survival Index 2004: State Rankings*, October, 2004.

²⁵ IBID. Business Tax Index 2009.

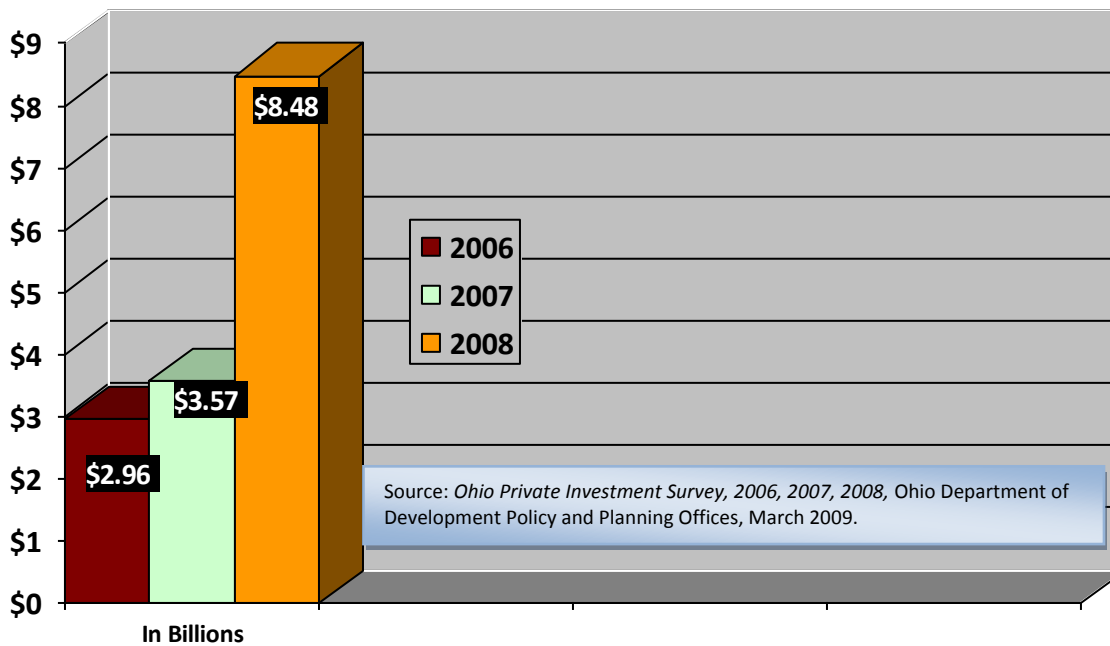
measurable, more desirable and dramatically improved tax environment for the state. Reasonable minds could deduce the evidence for that improvement is manifested to some degree by the state capturing its third consecutive *Site Selection* Governor's Cup based on new or expanded corporate facilities.

Applying the Missouri test to tax reform: Show me

All of the foregoing, we believe, poses a strong argument that tax reform in Ohio has been a success that has produced the desired and intended result. But where are the hard numbers that provide the strong, irrefutable evidence?

Our 16 years as research analysts has taught us that business votes with its investments. With apologies to our eighth-grade grammar teacher, private enterprise, by its very definition, truly "puts its' money where its' mouth is." And to test that grammatically coarse theory, we turn to Ohio companies that have invested more than \$50 million in new start-ups and expansions since tax reform was enacted. The following graphic tracks that investment from 2006 to 2008.

Companies with +\$50 million investments, 2006-08



The following table lists those companies that invested \$50 million or more in new start-ups or expansions in 2008.²⁶

Investment	Company	County
\$5,500,000,000	Baard Energy	Columbiana
\$354,000,000	Middletown Coke Co	Butler
\$322,000,000	American Financial Group	Hamilton
\$317,000,000	GM Corp	Trumbull
\$180,000,000	Nationwide Mutual Insurance Co	Franklin
\$175,500,000	Modular Genetics Inc	Franklin
\$170,000,000	Eaton Corp	Cuyahoga
\$150,000,000	Eramet Marietta Inc	Washington
\$150,000,000	First Solar Inc	Wood
\$122,500,000	FlightSafety International	Franklin
\$105,000,000	Willard & Kelsey Solar Group	Wood
\$100,000,000	Bridgestone	Summit
\$82,000,000	Rotek Inc	Portage
\$80,000,000	CSX Corp	Wood
\$80,000,000	Husky Oil	Allen
\$73,000,000	NetJets Inc	Franklin
\$66,000,000	Shearer's Foods Inc	Stark
\$64,000,000	Republic Special Metals Inc	Mahoning
\$63,500,000	DMAX	Montgomery
\$58,000,000	PNC Bank	Cuyahoga
\$56,000,000	Cincinnati Bell Technology Solutions	Warren
\$56,000,000	Solsil Inc	Washington
\$55,000,000	GE Aviation	Butler
\$52,200,000	Gorman-Rupp Co	Richland
\$50,000,000	CSX Corp	Franklin

In fact, when all private investment is taken into account (including those with less than \$50 million investment), the growth in investment has more than doubled from \$5.4 billion in 2006 to \$11.5 billion in 2008.²⁷ In just the three years from 2006 to 2008, the Ohio Department of Development says Ohio businesses have invested more than \$22 billion in the state that account for more than 67,653 jobs.²⁸

Based on the most recent average weekly wage in Ohio posted by the U.S. Department of Labor Bureau of Labor Statistics²⁹ those jobs represent more than \$2.6 billion in additional payroll alone to the state. Would that investment have occurred in Ohio without the tax reform? It is, of course, impossible to unravel time and the fabric of tax reform to test that hypothetical. But, in our view, the quickened pace of private

²⁶ *Ohio Private Investment Survey 2006, 2007, 2008, Companies with investments over \$50 million, 2008*, Ohio Department of Development Policy Research and Planning Office, March 2009.

²⁷ IBID.

²⁸ IBID. *Annual Summaries*, pg. 2.

²⁹ *Table 4. Covered establishments, employment, and wages by state, third quarter 2008*, U.S. Department of Labor Bureau of Labor Statistics, released April 8, 2009.

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investment in Ohio from 2006 to 2008 is the most tangible evidence that the tax reform of 2005 is working and achieving its intended result.

It is difficult to imagine, in the absence of tax reform, that Ohio businesses would step up the pace of private investment on a scale that more than doubles the historic outlay witnessed in the years since tax reform was enacted. It is even more difficult to imagine that scale of investment taking place with business so greatly restrained by the yoke of onerous and repressive tax burdens such as taxes on capital investment, inventory, sales of goods and services to customers outside of Ohio, and corporate income and franchise taxes.

We think the evidence is compelling that tax reform in Ohio is working and that its success is measurable both quantitatively and qualitatively. The tax reform of 2005 is a monument and legacy to bipartisan accomplishment, an indication of what government can accomplish when working for the common good.

That concludes our report to the Ohio Metro Chambers and the Ohio Chamber of Commerce.

Executive Summary

Ohio's tax climate for business and jobs is warming

Evidence of the success and impact of tax reform on economic development in the State of Ohio might be found in the higher private investment in start-ups and expansions the last three years, according to research conducted by Columbus-based Underwood & Associates.

Since 2006, growth in private investment has more than doubled from \$5.4 billion in 2006 to \$11.5 billion in 2008. Ohio businesses have invested more than \$22 billion in the state during the past three years, resulting in more than 67,000 jobs. The Underwood analysis says those jobs represent more than \$2.6 billion in additional payroll alone in the state.

The research, sponsored by the Ohio Metro Chambers and the Ohio Chamber of Commerce, says it is difficult to imagine that without tax reform private business would invest on that level.

The report also wades into the debate between the State and the National Taxpayer Foundation, which has consistently ranked Ohio as a high-tax state, despite tax reform enacted in 2005. Underwood cites two other reputable national tax rankings by the Federation of Tax Administrators (FTA) and the Small Business Entrepreneurship Council (SBEC) that ranks Ohio among the lowest-tax states in the nation. The FTA ranking puts Ohio at 12th lowest in the nation for business tax and the SBEC says Ohio is 10th best in the nation as a low-tax state.

The Underwood study notes that in 2004, SBEC ranked Ohio the 40th worst state for business taxes, elevating it to 10th place in its most current 2009 ranking.

While the report offers some new data and information since the Ohio Business Roundtable published its two-year review of tax reform last year, this study focuses on "qualitative" evidence of how the tax reform is playing out in the state. Underwood & Associates researched and interviewed business owners and business leaders about what they have observed about tax reform over the past four years.

The study cites actual examples of companies that have put down roots in Ohio or have expanded current operations and facilities. Among the companies included in the report is Lincoln Electric Co., headquartered in Cleveland. The report includes a statement from the company that says, "Ohio's tax reform has reduced Lincoln Electric's cost of doing business in Ohio significantly, has encouraged us to make recent large investments in our Euclid and Mentor facilities, and

maintained our Ohio factories as an important hub for Lincoln's global growth."

Also listed in the report is Amylin Pharmaceuticals in Butler County which invested \$500 million to expand its manufacturing facilities in West Chester to produce a new drug for the treatment of diabetes. Underwood reports that company officials noted Ohio's tax reform as an indication of how Ohio "provides an inviting and collaborative environment to help businesses succeed."

Underwood also notes the decision by Goodyear Tire and Rubber Co. to remain in Akron and expand its headquarters as yet one more indication of how tax reform played a role in that decision. With South Carolina and Virginia aggressively wooing Goodyear, those close to the negotiations to keep Goodyear in Akron said "tax discussions were not an insignificant topic." Tax reform, Underwood says means Goodyear will save \$30 million over the next 15 years in commercial activity tax (CAT) payments.

But the Underwood report says the real "face" of tax reform is represented by the owner of a small corrugated container company in Perrysburg in Northwest Ohio. Greg Hammer, owner of B&B Box Co., said tax reform has benefitted his company and its 15 employees.

The Underwood report quotes Hammer as saying, "As a manufacturer, we are affected by everything. But anytime we don't have to pay taxes or our taxes are less means we can do more for our customers and our employees."

The report says Hammer is typical of the small businesses that have enjoyed significant relief and represent the kind of businesses in Ohio that fuel the state's economic engine. "As small business in Ohio goes, so goes the State of Ohio," Underwood says in the report.

Included in the report is data from the Ohio Department of Taxation that shows more than 170,000 Ohio businesses paid the commercial activity tax last year and that more than 124,500 of them paid the minimum tax under the new CAT. The CAT generated more than \$929 million in revenues for the State of Ohio in Fiscal Year 2008, but Underwood said that number will trend higher now that the full tax rate (0.26 percent) took effect in April.

The Underwood report says about 64 percent of the CAT is paid by the state's manufacturing, retail and wholesale industries. Manufacturers paid \$286.6 million in CAT payments last year. Wholesale business provided \$136.1 million in CAT revenue and the retail sector contributed \$166.5 million in CAT payments.

Ohio business leaders also say that tax reform has made a huge difference in marketing the state. Jay P. Foran, senior vice president of Team Northeast Ohio, said, "With tax reform and the associated expansion of the base with a corresponding reduction in rates, the tax structure is now very compelling to prospective companies looking to invest. A strong business case for Ohio is made by low tax rates combined with simple tax codes."

Calling tax reform a monument and legacy to bipartisan accomplishment by the Ohio General Assembly, the Underwood report concludes that the "evidence is compelling that tax reform in Ohio is working and that its success is measurable both quantitatively and qualitatively."

In the discussion about increased private investment in Ohio, Underwood writes, "It is even more difficult to imagine that scale of investment taking place with business so greatly restrained by the yoke of onerous and repressive tax burdens such as taxes on capital investment, inventory, sales of goods and services to customers outside of Ohio, and corporate income and franchise taxes."

Underwood & Associates is a Columbus-based company that has conducted research for a range of clients, including the Ohio State Bar Foundation, Lloyds of London, the Ohio Lottery, the City of Cincinnati and the Cleveland Browns, just to name a few.

About Jim Underwood and Underwood & Associates



Jim Underwood is president of Underwood & Associates, a strategic research company he launched in 1993. Underwood also is a Professor of Journalism at Ohio Wesleyan University where he is celebrating his 16th year as a faculty member at that institution.

Underwood & Associates has conducted research for a number of high-profile clients including Lloyds of London, Conrail/CSX, the Ohio State Bar Foundation, AT&T, the Women's' Fund of Central Ohio, the Ohio Lottery Commission and the City of Cincinnati, just to name a few.

Before starting his business and teaching at Ohio Wesleyan, Underwood was an award-winning journalist who worked for a number of Ohio daily newspapers, including *The (Cleveland) Plain Dealer*, where he was Statehouse Bureau Chief. As a reporter and editor, Underwood was honored by a number of groups and organizations including the NAACP and the Society of Professional Journalists. In 1987, he was inducted into the Bowling Green State University Journalism Hall of Fame.

Former President Jimmy Carter recognized Underwood, who served in the U.S. Marine Corps, as one of the nation's Outstanding Vietnam Veterans and in 1992, former Ohio Governor and now U.S. Sen. George Voinovich said of him, *"Few people will ever be as knowledgeable about the workings of state government, politics and journalism as Jim Underwood."*

Underwood is married to Michelle Kelly-Underwood, CPA, Finance Director for the City of Hilliard, Ohio.

Questions about this research?

If you have questions about this research product, we welcome your letter, phone call or email. Here is our contact information:

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