

# Impact of Ohio's Tax Reform on Capital Investment



OBDC Survey, August 2006



Ohio Business  
Development Coalition

# Ohio's new tax structure is a competitive asset for attracting capital investment

## Survey Background

The Ohio Business Development Coalition (OBDC) is a nonprofit – 501(c)3 – organization charged with creating and executing targeted, proactive marketing and sales strategies that position Ohio to effectively compete for new business investment. In addition to telling the Ohio story, OBDC also focuses on using data to identify opportunities for improving Ohio's competitiveness. The net of OBDC's efforts helps to create and sustain a globally competitive Ohio brand.

A brand is more than a logo and a tagline, it is a promise of what companies or executives will experience if they choose to invest capital in Ohio. It is important that the promise and the experience are aligned. Improving the experience often requires public policy change. Ohio's recent tax reform has the potential to positively impact the overall business climate, making Ohio a preferred choice for capital investment.

In August 2006, OBDC commissioned a telephone survey of executives from companies that chose Ohio for capital investment. The purpose of the study was to understand the role Ohio's new tax structure played in their decision. A total of 62 interviews were completed. This summary reports on the most significant findings of the survey. It is important to note the Ohio branding initiative is targeted to C-level executives (CEO, COO, CFO) and key consultants who influence capital investment decisions.



## DEMOGRAPHICS OF RESPONDERS

Characteristic	Data
Company size in annual sales	43.5% < \$100M
	35.5% ≥ \$100M
	20.1% refused to answer or didn't know
Job title	40.3% C-level executive
	59.7% other executive

## C-level executives view Ohio's new tax structure as an important consideration in the capital investment decision.

The cost of doing business accounted for by state taxes is one of several practical considerations in making a capital investment decision. In this survey, responders were asked to rate the importance of Ohio's tax reform as a factor in their decision. On a total respondent basis, 55% indicated the new tax structure was "somewhat to very important." *Among the C-level executives, 60% indicated it was a "somewhat to very important" consideration in selecting Ohio for their recent capital investment.* On an editorial note, this would be expected, C-level executives place a greater importance on tax implications than do plant managers and project leaders. To them, the reform is an indication of a profit-friendly business environment and important confirmation the public and private sectors in Ohio can collaborate on important policy issues. This finding suggests the Ohio economic development community needs to fully leverage tax reform improvements whenever talking with C-level executives.

**In addition to Ohio’s new tax structure, there are other key rational drivers in the capital investment decision that should not be overlooked.**

The top reason cited for selecting Ohio was the presence of an existing company facility in Ohio (42% of total responders). This finding also is not unexpected and reinforces the importance of ensuring companies already doing business in Ohio feel part of a vibrant and appreciated business community. A strong local retention and expansion program is a key enabler. This finding is supported by other national economic development studies that conclude the majority of capital investment comes from in-state company expansion versus new capital attraction.

Additional drivers included labor pool (36.9%) defined by cost, quality and availability; proximity to customers (24.2%); and tax structure and state/local incentives (24.1%).

**Ohio’s most significant competition for capital investment decisions are Kentucky and Michigan.**

In this survey, more than 85% of respondents said competitive states and countries were considered in their decision process. Based on total responses, the survey indicated Kentucky was considered as a competitive location option 22.7% of the time; Michigan 20.8% of the time; followed by Indiana, North Carolina and West Virginia each considered a competitive option 11.3% of the time. This survey simply reinforces the importance of ensuring Ohio has a strong value proposition versus these competitive states.

**Some aspects of the tax reform are perceived as more appealing.**

Not surprising, different aspects of Ohio’s new tax reform have differing appeal, reflecting the fact different companies have varying business situations.



Attribute	% rated appealing
Elimination of the property tax on investments in machinery and equipment	83.9
No business tax on products sold to customers outside Ohio	82.3
21% lower personal income tax	79.0
All companies taxed the same	59.7
First \$1 million in gross receipts are tax-free	56.5

**Ohio can win or lose a deal based on the impression left from individual interactions with a company and its executives.**

When asked what set Ohio apart from the competition, a positive interaction with Ohio representatives at all levels (state, regional, local) was cited as making a difference (17%). For perspective, location (30%), overall tax liability including tax incentives (21%), quality and availability of labor (17%) were the other attributes cited.

**Thirty-five of the responders felt positive enough about the tax reform they were willing to provide endorsements of Ohio’s positive business climate.**

This level of proactive advocacy is impressive, and suggests tax reform has positively contributed to further improving the perception of Ohio as a business friendly state among those executives who are aware significant reform has taken place. The key is to ensure other executives and consultants are aware.

**About the Ohio Business Development Coalition**

The Ohio Business Development Coalition (OBDC) is a nonprofit organization—501(c)3—that provides marketing strategy and implementation to support Ohio’s economic development efforts. It is funded with a combination of public and private sector funds. The objective of OBDC is to provide the state’s regional economic development organizations and the Ohio Department of Development qualified leads and tools to attract new companies and promote expansion in Ohio.

For more information, please visit [www.OhioMeansBusiness.com](http://www.OhioMeansBusiness.com).



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