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STUDY FINDS OHIO IS THIRD FRIENDLIEST TAX STATE IN THE NATION

*Tax environment critical factor in site selection for new capital investments;
businesses retain more profits in Ohio*

COLUMBUS, Ohio (April 26, 2011) – Competition comes from every corner of the world and businesses need every advantage to survive and prosper. For investors, site selection is a critical decision because the ideal business location maximizes the value of the investment by delivering a perfect balance between access to mission-critical resources and low overhead costs.

Businesses find Ohio is uniquely able to deliver that perfect balance, and the state continues to gain recognition for its proactive, business-friendly redesign aimed at helping companies better compete in a 21st century global economy. Just one of Ohio's incentives includes a sweeping tax reform, which is now being recognized as a key contributor to keeping overhead costs down.

A new report by the Quantitative Economics and Statistics Practices (QUEST) of Ernst & Young in conjunction with the Council On State Taxation (COST), ranks Ohio as third in the nation for friendliest tax environment. The study, "[Competitiveness of state and local business taxes on new investment](#)," provides a state-by-state comparison of tax liabilities.

The top five states ranked with the lowest effective tax rate on new investment are: (1) Maine (3.0%); (2) Oregon (3.8%); (3) Ohio (4.4%); (4) Wisconsin (4.5%); and (5) Illinois (4.6%). The highest ETRs on new investment are found in: (1) New Mexico (16.6%); (2) District of Columbia (16.6%); (3) Rhode Island (11.5%); (4) Kansas (11.2%); and (5) Louisiana (11.1%).

"Tax environment is a critical factor in site selection for new capital investments," said former Ohio Tax Commissioner Thomas M. Zaino, J.D., CPA, now member in charge of the Columbus office of the McDonald Hopkins LLC law firm. "Ohio has phased in tax reforms over the last five years to become one of the most tax friendly states, despite a national recession that caused several other states to raise taxes."

Site selection experts are looking for a location that balances resources and low overhead costs that offers a higher chance of business success. Site selection projects typically occur in two phases. The first phase involves a high-level examination of operating cost and tax factors for a number of states. By

eliminating states with out-of-line tax and non-tax cost factors from further consideration, the investor narrows its investigation to a "short list" of states with favorable characteristics. Ohio's goal is to provide a tax environment that allows businesses achieve maximum ROI on a capital investment decision to invest in the state.

Tax environment is a very important factor CEO's and entrepreneurs consider when determining a location for capital investment. The more investment capital that actually makes it to product development and commercialization, the greater the probability of success. And, the faster the return on investment.

With that in mind, Ohio lawmakers dramatically revamped the state's tax structure to create the lowest tax rates in the Midwest and an extremely profit-friendly business climate for companies that locate in the state.

The most notable changes to Ohio's tax system include the elimination of two very burdensome business taxes – the corporation franchise tax and the tangible personal property tax. These taxes were replaced by a new, 0.26 percent Commercial Activity Tax (CAT), which applies only to in-state sales.

"If a business were to ship 100 percent of its sales out of Ohio, it would pay zero CAT," Zaino said. "This increases Ohio's appeal to companies that export goods out of the state or country."

"Because the CAT applies to receipts rather than profits, a more profitable business does not incur higher taxes," said Howard Fleeter, Ph.D., a partner in the Columbus-based economic analysis and public policy research firm of Driscoll & Fleeter. Companies in states that tax profits incur a "success penalty" because efficiency and productivity gains trigger higher taxes.

"Another important change is a 16.8 percent reduction in the personal income tax, which is scheduled to grow into a 21 percent reduction for 2011," Zaino said. This benefits individual wage earners, unincorporated businesses and entities such as S corporations and limited liability corporations (LLCs), which are increasingly popular business structures for growing businesses.

In addition, Ohio's unique state tax structure encourages small business profitability and wealth creation. Consider these examples:

- Companies with sales between \$150,000 and \$1 million to Ohio customers pay only a \$150 fee, while companies with the same income in surrounding states pay between \$2,650 and \$8,048 in taxes.
- A company that grows to achieve \$5 million in sales, half to clients outside the state, would pay \$4,050 in Ohio taxes. In other Midwest states, the same company would pay between \$13,425

and \$28,676.

Ohio businesses also pay no tax on capital investments, which frees up funds for investment in plants, equipment, inventory and personnel. And, because only business activity that takes place in Ohio is taxed by the state, entrepreneurs have an incentive to serve customers across the country and around the world.

In addition to a low tax burden, Ohio provides all the criteria needed to successfully start, grow or expand a business -- access to supply chain and markets, access to business capital and support services, access to knowledge and labor and access to a balanced life. An increasing number of executives are finding that they can enjoy professional success and a rewarding personal life without sacrificing one for the other in Ohio.

“In Ohio, work-life balance is more than a buzzword; it’s the way we do business,” said Ed Burghard, executive director of the Ohio Business Development Coalition, the nonprofit organization that markets the state for capital investment. “Companies are trying harder to help their employees achieve better work-life balance because this positively impacts a company’s bottom line. Ohio’s low-cost, low-stress communities and short commutes create the [State of Perfect Balance](#), where you can achieve both professional and personal success without sacrificing one for the other.”

About the Ohio Business Development Coalition

The Ohio Business Development Coalition is a nonprofit organization that provides marketing strategy and implementation to support Ohio’s economic development efforts. For more information, visit www.ohiomeansbusiness.com.

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