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## Governor looks to create 'bright spots'

By [JAMES DREW](#)

**BLADE COLUMBUS BUREAU CHIEF**

COLUMBUS - Gov. Bob Taft says there are not enough "bright spots" in Ohio's economy, which has seen the loss of 236,000 jobs over the past four years.

"If we are to create tomorrow's jobs we can't remain frozen in yesterday's tax system," Mr. Taft told legislators in his Feb. 8 State of the State address.

"Unless we change it, our progress will be slow, our people will suffer, and Ohio will not grow," he added.

Ohio and Michigan were the only states last year that did not have an increase in nonfarm jobs - with Ohio declining by 200 and Michigan by 46,500 jobs, according to the U.S. Bureau of Labor Statistics.

Mr. Taft said his plan to overhaul the state's tax code - a five-year plan to reduce personal income tax rates by 21 percent, phase out the tangible personal property and corporate franchise taxes, and enact a new business tax on gross sales - "will unleash Ohio's economic potential."

But some researchers say that state and local government taxes play a minor role in investment decisions and lower taxes fail to create large numbers of jobs.

Robert G. Lynch, chairman of the economics department at Washington College in Charleston, Md., said his nationwide research found that public services including education and transportation improvements spur economic growth and influence where businesses choose to locate.

"On the contrary, by forcing reductions in public services, tax cuts and incentives may retard economic and employment growth," wrote Mr. Lynch, in a report published last year by the Economic Policy Institute, a left-leaning research group based in Washington, D.C.

John Mahaney, president of the Ohio Council of Retail Merchants, said it is a mistake for Mr. Taft to advertise his tax proposals as the way to jump-start the economy.

"If you want to say our tax system is out of kilter, that is fair. And if you want to say it is out of date, that is fair. But if anybody thinks that will cause people to suddenly pour dollars into Ohio, I think it won't. We have the same system as when George Voinovich was governor in the mid to late 1990s when the state was booming. There are factors beyond Ohio's control - Taiwan, India, Thailand, and Singapore just to name four that come to mind," Mr. Mahaney said.

But Mr. Taft and other GOP leaders say that taxation and state government spending are two factors that Ohio can control to improve its business climate. Spending must be controlled and an outdated tax system must be overhauled, he said.

And several Ohio businesses facing domestic and international competition say any help they can get from state government to cut their costs is welcome.

A day after his State of the State address, Mr. Taft toured Millbury-based Service Spring Corp., which manufactures springs for the overhead door industry.

In an interview last Friday, Mike McAlear, Service Spring's chief executive officer, said the phase out of the corporate franchise tax and the phase-in of a new business tax would be a "wash."

The other major change, phasing out the tangible personal property over five years, would be a benefit, Mr. McAlear said.

The tangible personal property tax is applied to machinery, equipment, and inventories - and businesses say it is outdated because companies must buy more equipment more frequently to remain competitive.

"The governor does recognize that all of us are being squeezed," said Mr. McAlear, who employs 113. "There needs to be incentives for me to do what I have to do, which is invest back in the business."

Mr. Taft's proposed gross receipts tax, which he calls the "commercial activities tax," would be phased in over five years, with a rate of 0.26 on gross sales in Ohio of \$1 million and above.

Zach Schiller, research director for Policy Matters Ohio, a nonprofit group based in Cleveland, said he does not see evidence tying lower taxes to an improved Ohio economy.

"We have a business tax system that has delivered a reduced share of the tax burden. If businesses pay even less, will that generate more jobs?" he asked.

When Mr. Taft called for a 21 percent, across-the-board reduction in personal income tax rates over five years, he noted that 300,000 small businesses would benefit.

"These entrepreneurs employ 2.5 million workers, and they create most of our new jobs," he said.

Mr. Schiller said on the individual side, Mr. Taft's plan would cut taxes to the wealthy by \$8,000 a year and \$12 to the poorest Ohioans.

The result will be an increased tax burden on the middle-class and lower-income residents, Mr. Schiller predicted.

"The strategy is, 'Let's take money from most Ohioans and hope that will improve the economy.' I don't consider that to be economic development. I consider that to be an income shift under the guise of economic development,"

he said.

Republican legislative leaders disagree sharply with this assessment.

House Speaker Jon Husted (R., Kettering) said "fiscal discipline, tax reform, and regulatory reform" will change the state's economic climate, leading to more and higher-paying jobs.

Mr. Husted, a former economic development specialist for the Dayton Area Chamber of Commerce, said he traveled around the country to try to recruit businesses and Ohio's tax code was considered an obstacle.

"The people who are starting businesses have to start off paying very high tax rates and that is not the kind of environment an entrepreneur is going to start their business in.

"We're in competition not just for jobs. We're in competition for people," he added.

The Ohio Chamber of Commerce is analyzing whether Ohio should overhaul its corporate franchise tax as an alternative to a gross receipts tax, which is in place in Washington and New Hampshire.

Dan Navin, a lobbyist with the chamber of commerce, said the gross receipts tax "would not take into account the profitability of a company and hurt retailers, some manufacturers, and a lot of small businesses that have high volume of sales and low profit margins. "

Similar to Michigan's single business tax, the gross receipts tax would shift some of the tax burden to businesses that sell into Ohio and don't have operations here, said Eileen Granata, interim chief operating officer of the Regional Growth Partnership, the Toledo area's leading economic development group.

Mr. Husted said Ohio needs a business tax with a broad base and a low rate.

"We have only a few businesses pulling the wagon and a lot of people riding in it," said Mr. Husted. "Now we're going to say, 'Everybody is going to pull the wagon a little bit, and we're going to benefit everybody.' "

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