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# Are Michigan tax incentives for businesses worth the price?

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## MICHIGAN TAXES: WHAT EVERY VOTER SHOULD KNOW

- Are Michigan tax incentives for businesses worth the price?
- Who can get Michigan's \$30B in possible tax breaks?
- Find out where Michigan taxes flow
- See which Michigan tax generates the most cash
- What's the best mix of taxes in Michigan? Right vs. left weigh in
- Are Michigan taxes too high, too low or just right?

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Generous financial incentives were not enough to keep Electrolux AB in Greenville in 2003. The plant was later demolished. (Photo courtesy Grand Rapids Press; used with permission) [LANCE WYNN](#)

**Editor's note:** To help voters sift fact from fiction in this fall's statewide election, this ongoing special report — 10 things every voter should know about Michigan taxes — tells it like it is on Michigan taxing and spending issues. This is part 6 of 10.

It's a mantra among tax-cut advocates that low taxes are key to attracting and retaining business. Research and real world events suggest it's not nearly that simple.

In 2003, when Electrolux AB threatened to close its refrigerator plant north of Grand Rapids, state and local officials put on the table **\$120 million in tax sweeteners** they could think of to stop the move, including:

- \$83 million in tax credits over 20 years through the Michigan Economic Growth Authority
- \$31 million over 15 years for a tax-free Renaissance Zone and forgiveness of the Single Business Tax
- Up to \$2 million in a block grant for public works for a new factory site
- \$3.9 million over 15 years in school tax reductions
- \$790,000 over 12 years in local property tax reductions
- \$500,000 for employee retraining

It didn't matter. In January 2004, the company announced it was closing the plant in Greenville and shipping operations to Mexico and another plant in South Carolina. Nearly 2,700 jobs were lost. The deciding factor in this case was wages, not taxes. Greenville's workers were paid about \$15 an hour compared with about half that in South Carolina. In Mexico, workers would be paid about \$1.57 an hour. A company official said competition from rivals with manufacturing plants in Mexico put the firm at a “large cost disadvantage.”

### **Some studies dismiss taxes**

**Analysis** by the University of Vermont found that taxes are often low among factors weighed by both manufacturing and white-collar businesses in deciding where to locate. It cited a 1997 study published in the New England Economic Review of company location decisions for manufacturing plants and offices tracked over a five-year period. For manufacturing plants, labor rated 36 on a scale of 1 to 100 as a cost factor, followed by transportation at 35, utilities at 17 and taxes at 4. For offices, labor rated 72, with utilities rated at 8 and taxes 5. The author of the study concluded that “site selection data do not suggest any correlation between low taxes and positive economic growth, or between high taxes and slow growth.”

In 2007, pharmaceutical giant Pfizer Inc. announced it would close research facilities in Ann Arbor and Kalamazoo and cut 2,400 jobs by the end of 2008. Looking to trim costs by \$2 billion a year, the firm planned to relocate Michigan research projects to sites in Connecticut, Missouri, California and England. A company official said tax incentives would have made no difference.

The Missouri Budget Project, a nonprofit public policy organization, **found** that state and local taxes “comprise a very small portion of the cost of doing business” and are much less important than factors like a skilled workforce and efficient transportation. It cited a 2012 survey by Area Development Magazine that ranked the top five location factors as highway accessibility, labor costs,



proximity to major markets, availability of skilled labor and available land. The corporate tax rate did not rank in the top 10.

Tax cut advocates are not convinced. In a 2012 [review](#) of literature on tax rates and economic growth, the Tax Foundation concluded that the evidence showed that high taxes are “a drag on the economy.” It added that cuts in corporate and personal income taxes lead to “more investment, more employment, higher wages, and a higher standard of living.”

Birgit Klohs is president and CEO of The Right Place, Inc., a West Michigan economic development organization, said there is no one-size-fits-all answer on the importance of tax rates for business retention and expansion.

“It depends. Generally speaking, the talent of the work force is the number driver of economic development,” Klohs said.

Klohs said the decision by [Booking.com](#) to open a [national call center](#) in suburban Grand Rapids had little to do with taxes. The center employs more than 500 workers.

“They never asked once about taxes. They asked how many college students do you have and how many languages are there in West Michigan.”

### **Critics: taxes drive expansion**

But for some high-tech manufacturers, Klohs said, questions about tax rates are “at the top.”

David Rhoa, president of Lake Michigan Mailers Inc., a Kalamazoo-based direct mail and document processing center, said tax rates can be a deal killer for small business. He is past president of the [Small Business Association of Michigan](#).

Rhoa said his firm was considering expanding operations in either Michigan or Indiana when the idea of expanding the state's 6 percent sales to a variety of services – including that of his business – came up for discussion in 2007. The \$725 million tax hike eventually was passed as part of a deal reached at 4 a.m., then repealed before it could take effect because of public backlash.

“It forced us to exclude Michigan as a possible area of expansion,” he said.

With Michigan out, the firm decided to open a processing center in South Bend, Ind.

Rhoa approves of repeal of the Personal Property Tax – approved by voters in August – and of Gov. Rick Snyder's push to eliminate the Michigan Business Tax and replace it with a 6 percent corporate tax. That cut business taxes in the state by about \$1.6 billion.

“I think Michigan is sending a message to the rest of the country that we are getting it together,” he said.

The relationship between taxes and business growth continues to spark fierce debate across the nation. New York and Washington are among those state [offering aggressive tax incentive deals to companies that can deliver jobs](#). Other states, like Idaho, [are less transparent than others](#) about where the credits and exemptions go.

In Kansas, GOP Gov. Sam Brownback presided over a 25 percent income tax cut in 2012 and another cut in 2013. But promised jobs growth has not yet materialized, as income tax collections plunged from \$3.3 billion to \$2.6 billion and revenues fell \$338 million short of projections for fiscal 2014. The Kansas economy [lagged in comparison](#) to five nearby states in nearly a dozen key measures associated with employment and business expansion, according to analysis by the Kansas Economic Progress Council, a nonpartisan coalition of business owners and organizations. In August, Standard & Poor's Ratings dropped the state's credit rating out of concern for the state's ability to balance its budget

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