Testimony of
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Before the
House Judiciary Subcommittees on Commercial and Administrative Law and the Constitution

May 24, 2005

Good morning, Chairmen Cannon and Chabot and members of the subcommittees. I am Michele Kuhrt, Director of Taxes and Financial Administration at The Lincoln Electric Company in Cleveland, Ohio.

I am pleased to have the opportunity to testify today about my company's experience with the Ohio manufacturer's tax credit and how it has impacted our business planning.

Lincoln Electric is a 110-year old Cleveland-based manufacturing company and the world leader in the design, development and manufacture of arc welding and cutting products. Our major operations and headquarters are located in Ohio, where we employ over 3,200 people. Lincoln also has U.S. manufacturing sites in California and Georgia, and 26 international manufacturing locations.

Lincoln has provided excellent-paying, secure manufacturing jobs for generations of workers in Greater Cleveland. Unlike many manufacturers, Lincoln has never laid-off an employee. Our guaranteed lifetime employment policy provides that after three years of employment, our workers can rest assured that the tides of the business cycle will not leave them without work.   Our piece-work and company-wide bonus programs allow Lincoln employees to take a great deal of their personal fortune in their own hands. This incentive management philosophy has been the basis for a number of business case histories studied in business schools around the world and is one of the most widely used case studies at the Harvard Business School.

The Ohio manufacturer's tax credit has played a major role in determining where to deploy our capital. Without this tax credit, our investments in Ohio would certainly have been less. Since 1995 when the Ohio manufacturing credit began, Lincoln Electric's capital expenditures in Ohio have exceeded one-quarter of a billion dollars. In recent years, we have added significant manufacturing capacity and physical expansion to our plants in Ohio, including new lines to manufacture welding consumables, such as filler rod and flux cored welding wire, and new equipment to expand our steel processing capabilities.

Each investment decision was evaluated based on a number of return-on-investment criteria, including taxes. In many of the investment analyses we prepare, taxes are a significant and, in some cases, a deciding factor on where to locate our capital. The Ohio manufacturing credit is an important benefit to Lincoln Electric, one that has "tipped the scales" in several investment evaluations.

The global economy also forces us to consider investment opportunities outside the United States, particularly in low-cost manufacturing locations. Many other locations offer exceptional tax incentives, low wages and no litigation costs. For a company with a culture like Lincoln Electric, our preference is to create jobs inside the United States – we excel in manufacturing here. However, the economic factors presented by many other jurisdictions can make an investment decision to locate outside the United States overwhelming.

Keep in mind that, from a State of Ohio perspective, Lincoln's investments create tax revenue as well as new jobs. Our Ohio investments increase the State's revenue from personal property tax, corporate income tax, and, what I believe most significant for the state, the individual income tax generated from the new job creation. In this respect, the state's incentives are by no means a "give-away" – they are a calculated and wise one-time investment made by the State with an unusually high return given the recurring nature of the tax revenues they generate.

For example, the expansions I mentioned earlier allowed Lincoln to hire 481 new employees in Ohio. This added Ohio payroll of $42 million year-over-year. I estimate the additional wage base provided Ohio new, recurring individual income tax revenue of $1 million each year. In return for this new revenue, the State of Ohio gave Lincoln a manufacturer's credit of $250,000 a year for seven years. In the end, the State of Ohio made a wise investment in Lincoln Electric. And remember this example does not consider the impact of additional State corporate income tax, use tax and personal property tax related to the same investment. Likewise, the municipality of Euclid earned 2.85% on the additional payroll. In the end, it's an excellent deal for the State of Ohio.

As we speak, Lincoln Electric is planning a $20 million expansion of our consumable manufacturing capabilities, and evaluating locations in Ohio, Mexico and Canada. The tax liability associated with operating in each of these jurisdictions is vastly different. And we currently cannot rely on the continuation of the manufacturing credit in Ohio given the *Cuno* decision.

We like doing business in the United States and in Ohio – all other economic factors being close, we prefer it. But we can't afford to stay without the cooperation of the Federal, State and Local governments. Other jurisdictions are in competition for corporate investment dollars. They see our government's weakness and have been very aggressive in pursuing those investments outside the United States.

Conclusion:

State tax incentives, like the Ohio manufacturer's tax credit, in many cases are a critical factor for companies like Lincoln Electric to construct new facilities, buy new equipment, and hire additional workers. Thank you for your interest in this issue and for supporting legislation that would ensure that states can continue to provide tax relief that helps spur economic development.

Thank you again for this opportunity and I look forward to answering any questions you may have.