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Taxpayer Funded Incentives to Business – Good or Bad?

Betty Bainbridge, Moderator

Florida Gives Hertz $85 Million in Incentives for $60 Million Headquarters

By William Patrick – May 15, 2013

If you're a large business and you want to relocate near the beach, then boy does Florida Gov. Rick Scott (R) have a deal for you.

In the latest example of northern flight to a Sun Belt state, Hertz Corp., best known as a rental car company, announced in late May it's packing up its corporate bags and moving its headquarters from New Jersey to the tiny Florida town of Estero.

Florida's "jobs" governor and the Lee County Economic Development Office are celebrating the Fortune 300 company's decision to move south from New Jersey and touting the potential economic gains.

Surprise Move

To many, the move comes as a surprise. Not just because the state and Lee County governments were exempt from disclosing Hertz as the company on the verge of receiving millions in taxpayer stimulus, but because the firm known previously as "Company A" has been rooted in the New York City metro area for the past 25 years.

Hertz acquired the Tulsa, Okla., car rental giant Dollar Thrifty last year and is looking to consolidate the corporate offices.

Why Estero? Neil Abrams, an auto industry analyst with Abrams Consulting in Purchase, N.Y., told the *Tulsa World* newspaper after the announcement, "The bottom line is that they [Hertz] probably got very good incentives to go down there."

It's true. Besides being a state with no personal income tax, one of the lowest corporate tax rates in the country, and a huge tourism and car rental market, Scott and Lee County officials greased the slide with about $85 million in taxpayer incentives. At face value that exceeds the company's own investment in the move, leaving questions about whether the amount was necessary.

In exchange for the public incentives, Hertz will deliver 700 jobs and spend $60 million toward construction of a new building.

Direct Payments, Credits, More

The company initially will receive $14.4 million directly from the state and another $4 million from Lee County. The remaining amount reportedly will be tax credits, tax refunds, and workforce training reimbursement grants.

The Florida Power and Light utility company also will provide electricity at a discounted rate for at least the next four years, and Hertz will have the option to buy the 34 acres of prime real estate for the project.

With reports of 550 employees relocating from New Jersey, 120 coming from Tulsa, and the possibility of others arriving from as far away as Dublin, Ireland, the 700 jobs figure begins to look less compelling.

Richard Broome, executive vice president for corporate affairs and communications for Hertz, wrote in an email, "We have committed that all of our New Jersey employees may retain their positions in Florida, and the same for the Tulsa based employees who will be staying with the company."

When asked whether the tax incentives were necessary, Broome said yes. "The incentives made our relocation possible because it is necessary to offset our costs to make this work over the long term."

Lower Costs Without Incentives

Broome did not mention the tax savings and lower costs of business that already exist in the Sunshine State. Hertz's corporate campus is in Park Ridge, N.J., where the state income tax rate is nearly 9 percent, the corporate tax rate is twice Florida's and sales tax is a full percentage point higher.

On the morning of the relocation announcement, Scott defended the taxpayer package in an interview on CNBC's morning business program *Squawk Box.*

"I've done over 300 [similar] projects since I've been governor," Scott said. "You've got to get a five-times return [on the taxpayer investment] over the next five years."

The move is a high-profile event for Scott's jobs agenda, and the relocation could inspire other businesses looking for a similar deal.

"I believe it will be clear that the incentives will be far more than offset by the economic stimulus Hertz will provide to Lee County and the state of Florida over many years," Broome said.

Estero is located in Lee County and 25 miles from Naples, where the governor and Hertz Chief Executive Officer Mark Frissora both have homes.

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Boeing, Recipient of the Largest State Tax Subsidy in History, Paid Nothing in State Corporate Income Taxes Over the Past Decade

November 14, 2013 – Citizens for Tax Justice (ctj.org)

On November 12th, Washington Governor Jay Inslee signed into law the largest state business tax break package in history for Boeing. The new law will give Boeing and its suppliers an estimated $8.7 billion in tax breaks between now and 2040. Even before this giant new subsidy, Boeing has already been staggeringly successful in avoiding state taxes. Over the past decade, Boeing has managed to avoid paying even a dime of state income taxes nationwide on $35 billion in pretax U.S. profits.

Nationwide, Boeing reported $96 million in net state income tax rebates over the 2003-2012 period.

Boeing's Total State Corporate Income Taxes 2003-2012
($-millions)

Year	US profit before state tax	State corporate income tax	Overall state tax rate
2003	1,037	–32	–3.1%
2004	1,960	–58	–3.2%
2005	2,605	–86	–3.8%
2006	3,067	–58	–4.1%
2007	5,901	+139	+2.4%
2008	3,794	+3	+0.1%
2009	1,638	+144	+8.8%
2010	4,310	–137	–3.3%
2011	5,083	–22	–0.6%
2012	5,647	+11	+0.2%
10 Years	**$35,042**	**–96**	**–0.3%**

Source: Boeing's 10-K Annual Reports
Citizens for Tax Justice, November 2013

Boeing also has aggressively pursued sales and property tax breaks in states around the country. It employs an army of site location and tax consultants, whose job has been to blackmail states into giving Boeing lavish tax breaks.

Things are not any better at the federal level. From 2003 to 2012, Boeing received $1.8 billion in federal income tax rebates on its $35 billion in U.S. profits.

Perhaps Washington State's new $8.7 billion tax subsidy will be a wake-up call to state lawmakers about how damaging their competition with other states has become and that they need to reject the policy of creating special corporate subsidies.

Corporations lead taxpayers to the shearing

Boeing is likely to be this year's trendsetter in corporate extortion. It's seeking big incentives from states for its 777X airliner production.

January 05, 2014 | Michael Hiltzik

Here's a business practice likely to keep booming in 2014: corporate extortion.

We don't mean extortion *of* corporations, as is practiced by Somali pirates or entrepreneurial Russians. We mean extortion *by* corporations.

In this field the victims are taxpayers, and what makes it a beautiful business is that the taxpayers think they're getting a great deal, even as they're led to the shearing. And a lucrative shearing it is, for business: By the estimate of the Washington-based Institute on Taxation and Economic Policy, state and local tax incentives funnel $50 billion in tax revenue into corporate coffers every year. On a national basis, ITEP says, this is worse than a zero-sum game: The incentives are "much more likely to reshuffle investment between geographic areas than … to spur genuinely new economic activity."

The trendsetter for the coming year may turn out to be Boeing. The aerospace company has been dangling the prospect of a big airliner production facility in front of several states, including California, since mid-November. That's when union machinists in Everett, Wash., rejected its demands for big concessions on pension and healthcare benefits. The process started only days after Washington Gov. Jay Inslee signed the biggest state tax break in history into law — a package that will give Boeing up to $8.7 billion in benefits through 2040.

Boeing's shopping the production program to other states goaded the International Assn. of Machinists to schedule a second vote Friday. As this column went to press the results were unavailable. The company said it would keep much of the production of its new 777X airliner in Everett if the contract passes, though some work may go to other locations anyway.

"What I've heard is that we're still in the running," Rep. Alan Lowenthal (D-Long Beach) told me. Lowenthal, who says he's spoken with Boeing executives, says that would be true even if the machinists approved the new contract.

So the competition may continue in some form, whatever the outcome of the union vote. The company's specifications for an alternative site are exacting. Its "desired incentives," according to a Seattle Times report on the confidential list, include a plant "at no cost, or very low cost," to the company; infrastructure improvements such as rail and highway access at the expense of the bidder; and "significantly reduced" income, property, excise and sales taxes.

But Boeing is also looking for a workforce of high quality and productivity, which usually results from good educational systems, which in turn have to be paid for with, you know, income, property, excise and sales taxes. It is also seeking to cut its pension contributions to employees.

In other words, this global manufacturer wants all the good things that come from excellent physical and educational infrastructures, but wants someone else to pay. By the way, the company also wants to pay low wages. Who wouldn't want to live in Boeing's nirvana? Great infrastructure, an educated workforce — and all at minimal cost.

It's proper to observe that Boeing is a veteran at such scheming. Back in 2001 it held a nationwide auction for the right to host its corporate headquarters, which it had decided to relocate from Seattle. The company said its rationale was to shed its image as a maker of commercial airliners, which it built in Washington state, and reposition itself as a diversified aerospace company. A laudable goal, no doubt, but does anybody really believe that its ultimate choice of Chicago had nothing to do with the $60 million in tax breaks and other giveaways to be parceled out over 20 years by the state of Illinois?

Despite the discrepancy between what Boeing wants and what it will pay for, state and local governments have fallen all over themselves crafting incentive packages to lure it from Washington state. Missouri, which is hoping that Boeing will expand the St. Louis facilities it acquired by taking over McDonnell Douglas in 1997, is

offering as much as $1.74 billion, not counting whatever breaks the company can extract from local jurisdictions in the area.

California has assembled its own package in the name of keeping Boeing in Long Beach, another former McDonnell Douglas location where production of the C-17 Globemaster III cargo jet will be wrapping up next year. The 777X project could last until 2020.

So far, California's offer is being kept a secret between Gov. Jerry Brown's office and Boeing. "Our office has not shared the proposal," Brook Taylor, a spokesman for the governor's business development staff, told me by email. Well, not shared it with the taxpayers who would be fronting the bennies. That's one way of avoiding the embarrassment of public skepticism, as when Missouri's largest newspaper, the St. Louis Post-Dispatch, labeled that state's process "legalized bribery." But if you're preparing to give away the farm, as Brown could be (for all we know), shouldn't you let the farmers in on the news first?

Lowenthal, for his part, urges the governor and Legislature to devise a strong package to attract a program he says would be "an amazing coup for Southern California." What's the limit? He won't say. "You don't give up your values or do something stupid, but you have to see what it will take."

The last year has brought encouraging signs that some states and municipalities are fed up with being held up. Cupertino, Calif., for example, pared back its 1997-vintage sales tax rebate to Apple in November, even as Apple was presenting plans for a huge new headquarters complex in the Silicon Valley community.

The original deal, crafted when the company was flirting with bankruptcy, required Cupertino to rebate 50% of the sales taxes it collected on Apple-related purchases. Now that Apple is one of the world's most successful consumer companies, the new deal rebates only 35%. As my colleague Chris O'Brien reported in November, the new deal could be worth nearly $2 million a year to Cupertino at the outset and much more as the headquarters expansion unfurls.

Illinois, which rolled out that cherry-red carpet for Boeing more than a decade ago, refused to do the same last month for the commodity firm Archer Daniels Midland, which was hoping to obtain as much as $30 million in payroll tax incentives to move its world headquarters to Chicago from Decatur, Ill.

The deal ran into resistance from Democratic Gov. Pat Quinn and Democratic legislators, who became sensitive to the spectacle of handing out millions in corporate welfare while demanding pension cutbacks from public employees. "I find it very difficult to support tax giveaways for corporate CEOs and millionaire shareholders," said state House Speaker Michael Madigan, "while middle-class families and taxpayers face an increasing number of burdens."

The state also turned down incentives for Office Depot, which merged last year with Illinois-based OfficeMax. The merged office supply company will move its corporate headquarters to Florida, the home of the pre-merger Office Depot. But Archer Daniels Midland will go through with its relocation to Chicago, albeit at a smaller scale than it originally planned.

That's a signal that tax abatements and other incentives often play a smaller role in corporate siting decisions than the companies let on — though they're not above squeezing cities and states for everything they can get. The most recent survey of corporate relocation consultants by Site Selection magazine identified the availability of a "skilled" and "qualified" workforce as the most important factor, followed by transportation infrastructure and proximity to clients and markets.

Incentives ranked further down the list. The consultants said that "incentives should never be the major driver of a location decision, although they can play a decisive role later in a project to tip the scales between locations that otherwise fulfill all requirements," the magazine reported.

Still, politicians' faith in the magic of industrial incentives is hard to shake. A perfect example is the film incentive, which has gotten etched into the tax code of dozens of states despite consistent evidence that the giveaways to movie and television producers cost more than they deliver in terms of economic development.

In California, where the Legislature is under pressure to expand the state's film incentive program as much as fourfold from its current budget of $100 million a year, no objective study has shown that the program produces more revenue than it spends. The only study to make that claim, by the Los Angeles County Economic Development Corp., was financed by the incentive-hungry Motion Picture Assn. of America. (Cannily, the LAEDC's study didn't disclose the MPAA's role.)

Even worse, as my colleague Richard Verrier recently reported, the film incentives have become the grist of a nationwide trade in tax breaks worth as much as $1.5 billion a year.

A Hollywood producer snags a few million in credits to shoot a picture in Georgia, Pennsylvania or Illinois, say, then sells them to a middleman who hawks them in turn to Kohl's, or Macy's, or Bank of America, or the power plant company Exelon.

The studio gets its money more quickly than if it had to wait for a tax refund. The buyers cut their state tax bills as much as 15%. The middleman makes a profit.

Everybody wins, its seems — except for taxpayers, who get hosed.

Such is the natural harvest of a system that hands out tax breaks, regulatory exemptions and other benefits to business just for the asking. You get to the point where no smart businessman will make a move without expecting a payoff. As long as politicians aren't smart enough to turn them away, why should they expect anything different?

Michael Hiltzik's column appears Sundays and Wednesdays. Read his new blog, the Economy Hub, at latimes.com/business/hiltzik, reach him at mhiltzik@latimes.com, check out facebook.com/hiltzik and follow @hiltzikm on Twitter.

Tax Incentives: Costly for States, Drag on the Nation

August 14, 2013 – Institute on Taxation and Economic Policy (itep.org) – footnotes omitted

Tax incentives are intended to spur economic growth that would not have otherwise occurred. More specifically, these narrowly targeted tax breaks are usually offered in an attempt to convince businesses to relocate, hire, and/or invest within a state's borders.

But state and local tax incentives come at an enormous cost. While a comprehensive accounting of these programs is impossible, the best available estimates suggest that states and localities are devoting some $50 billion to tax incentives every year.[i] Unfortunately, despite the enormous expenditures being made on these

programs, the evidence suggests that tax incentives are of little benefit to the states and localities that offer them, and that they are actually a drag on national economic growth.

Tax Incentives Face Many Pitfalls

The academic literature indicates that states are significantly limited in their ability to influence business behavior through tax incentives, and that spurring true economic growth through the use of incentives is even more difficult.[ii] Despite the hopes of lawmakers and their constituents, there are simply too many ways in which tax incentives can fail to live up to their stated goals.[iii]

1. Windfall benefits: Tax incentives are rarely the deciding factor in whether a business chooses to hire or invest within a state's borders. State and local taxes are only a small part of the cost of doing business—about 1.8 percent on average.[iv] Even large tax reductions are therefore of limited impact to a firm's balance sheet. Based on the "consensus" estimates in the academic literature about the responsiveness of business decisions to taxes, as many as 9 out of 10 hiring and investment decisions subsidized with tax incentives would have occurred even if the incentive did not exist.[v] These large and mostly unavoidable windfall benefits significantly reduce the cost-effectiveness of virtually every tax incentive.

2. Runaway benefits: Given the interconnected nature of the U.S. economy, it is impossible to design a tax incentive so that its benefits remain entirely in-state. Even in the rare cases where tax incentives are the deciding factor in a business' decision to hire or invest, the incentive's benefits will quickly leak outside of a state's borders if, for example, the company purchases equipment manufactured outside of the state. Similarly, current residents may see little benefit from an incentive if the incentivized company hires non-residents to fill its new job openings, especially since bringing in workers from outside the state creates new pressures on government services.[vi] Moreover, given that the federal government allows businesses to deduct many of their state and local tax payments, many tax incentives can actually trigger a federal tax increase for the companies receiving the incentive. Up to a third of the amount that states and localities spend on tax incentives can flow into the federal government's coffers in this way.[vii]

3. Displacement, not growth: One company's gain is often another company's loss. In the case of retail, as much as 90 percent of the apparent direct benefits of tax incentives are offset by losses among the subsidized retailer's local competitors.[viii] While this figure is likely to be lower for industries serving a more national market, states constantly run the risk of harming existing businesses within their borders when they attempt to give some companies a competitive edge through the use of tax incentives. Local tax incentives are particularly troublesome in this regard, as job or investment growth that one locality might consider "new" is often simply "poached" from another locality in the same state.[ix]

4. Neglected alternatives: The $50 billion in state and local tax incentives offered every year must be paid for somehow, and oftentimes that means reductions in the public services that businesses use every day. The net economic impact of a tax incentive depends critically on how those funds would have otherwise been used. If offering more tax incentives requires spending less on public education, congestion-relieving infrastructure projects, workforce development, police and fire protection, or high technology initiatives at public universities, the overall impact on a state's economy could actually be negative. While the long-term economic benefits of education and infrastructure investments may not be as flashy as incentive-backed ribbon-cutting ceremonies, these investments are even more fundamental to any successful economy.

5. The wrong signal: While small tax incentives are unlikely to affect business behavior, large tax incentives can harm a state or locality's reputation. Business owners sometimes interpret the presence of lucrative incentives as a signal that a location may have other serious weaknesses, or that the government is mismanaged or desperate.[x]

A National Perspective

From the perspective of individual states and localities, the evidence regarding the ineffectiveness of tax incentives is fairly clear. Even clearer, however, is the folly of these incentives when viewed from a national perspective. State tax incentives are often described as a zero-sum game in the aggregate, but as the below discussion indicates, the reality is probably even more grim.

1. Zero-sum game: To the extent that state and local tax incentives affect business behavior at all, they are much more likely to reshuffle investment between geographic areas than they are to spur genuinely new economic activity.[xi] But while luring a company away from its current location may be of benefit to the state in which the company relocates, it is clearly of no help to the national economy. In recent years, businesses have become increasingly adept at playing states and localities off of each other in order to extract the most lucrative tax incentive packages possible. This competition sometimes becomes so intense that states have found themselves offering incentives not to spur new growth, but simply to retain the businesses already located within their borders.[xii]

2. Inefficient business decisions: From the perspective of economic efficiency, any tax incentive that actually manages to affect a business' location decision is likely to be a drag on the national economy. This is because when incentives affect behavior, they do so by encouraging businesses to locate in areas that would not otherwise be optimal—including areas that are located farther away from important markets or infrastructure, or from the best possible employee talent pool. As a result, incentives can cause businesses to consume more energy or infrastructure resources than they otherwise would, and can contribute to excessive sprawl, traffic congestion, pollution, and other negative outcomes. Moreover, in cases where incentives cause a company to abandon a previous facility where public investments have already been made to accommodate it, those investments may be wasted at the old location and must be duplicated at the new one.

3. Weakened economic foundation: As indicated above, the presence of tax incentives can lead to cuts in state and local services that are central to the success of the American economy. If states' decisions to spend scarce public resources on tax incentives lead to a less educated citizenry or a deterioration in infrastructure quality, the results will be felt throughout the country. A tax incentive civil war is a costly distraction from the country's economic fundamentals.

Recommendations

Given their extremely limited economic benefits, states and localities should sharply reduce their reliance on tax incentives and should work with neighboring states and the federal government to accomplish this goal. Even the best designed tax incentives suffer from the problems of windfall benefits, out-of-state benefits, and the other pitfalls identified above. To the extent that states and localities insist on continuing to offer incentives, those programs should be redesigned in order to reduce their susceptibility to these common pitfalls, and they should be closely scrutinized in order to weed out or reform the least effective programs. [xiii]

1. Curtail use of tax incentives: Despite their ineffectiveness, unilaterally cutting back on the use of tax incentives can be politically challenging if it creates the impression that elected officials are not doing everything in their power to help their state compete in the national economy. Accordingly, states should seek out opportunities to partner with their neighbors in amicably ending the worst aspects of the tax incentive arms race. Business leaders in the bi-state Kansas City community recently called on their elected officials to do just this, urging that Missouri and Kansas lawmakers work together to end the practice of luring businesses back-and-forth across the state line with expensive incentive packages.[xiv] A more comprehensive version of this sort of agreement would require that states lobby the federal government to get involved, possibly by cutting

back on grants in aid to states that do not revise their tax incentive programs to target job creation that it truly new, rather than just "new to the state."[xv]

2. Improve tax incentive design: Given that tax incentives are unlikely to disappear any time soon, lawmakers should ensure their incentives are designed so as to minimize their vulnerability to the pitfalls identified above. Accomplishing this goal means requiring that the jobs created with tax incentive dollars come with a living wage and benefits so that the employees of subsidized companies do not have to rely on government programs like food stamps and Medicaid to survive. Moreover, the incentives should be targeted toward the localities and regions most in need of an economic boost, and toward areas where adequate transit options exist so that lower-income workers without vehicles can benefit from any new jobs created. All tax incentives should also include a "clawback" provision, or money-back guarantee, where the government recoups the incentive payment if the business fails to live up to its job creation or investment promises.[xvi] Finally, most tax incentives should include a cap on their overall size to ensure that the program doesn't grow far beyond the amount that lawmakers intended.[xvii]

3. Put remaining incentives under the microscope: Given all the potential pitfalls facing tax incentives, even a comparatively well-designed incentive program can yield disappointing results. Because of this, it's important to monitor the effects of all incentives on an ongoing basis in order to identify particularly ineffective programs. Accomplishing this goal requires disclosing basic data about the impact of the incentive, including which companies benefited, how many jobs they added, how well those jobs paid, and any other related outcomes.[xviii] But lawmakers should also go beyond basic transparency by mandating systematic and rigorous reviews that attempt to control for problems like windfall benefits and displacement in determining whether the incentive has been of any benefit to the state's economy. A number of states have recently made meaningful progress in reviewing some of their tax incentives in this manner, but every state still has significant room for improvement.[xix]
