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Where Are Workers' Taxes Actually Going?

Report: State Withholding Taxes Increasingly Pay for Corporate Subsidies Rather than Public Services

April 12, 2012—Nearly $700 million a year in state income taxes withheld from worker paychecks in 16 states is being used to provide lavish subsidies to corporations rather than paying for vital public services. These diversions have gone to more than 2,700 companies, including major firms such as Sears, Goldman Sachs and General Electric. Few if any of the affected workers are aware, because no state requires they be informed on their pay stubs.

These are the key findings of *Paying Taxes to the Boss: How a Growing Number of States Subsidize Companies with the Withholding Taxes of Workers*, a study published today by Good Jobs First, a non-profit, non-partisan research center based in Washington, DC. It is available at www.goodjobsfirst.org.

"Diversion of personal income tax revenues into subsidies violates how economic development has been defined," said Good Jobs First Executive Director Greg LeRoy. "States are draining a revenue source that helps many of them address structural deficits."

Paying Taxes to the Boss traces the rise of 22 subsidy programs derived from personal income taxes (PIT) that together cost about $684 million a year. "These programs are justified in the name of job creation, but they often end up subsidizing companies to move existing jobs from one state to another. In other cases, they go to employers that threaten to move unless they get paid to stay put," said Philip Mattera, research director of Good Jobs First and principal author of the report.

"We recommend that states seriously consider abolishing PIT-based subsidies. Short of that, we urge Truth in Taxation: that companies be required to disclose the details of how much money is going where on every pay stub of affected workers," LeRoy added.
The report examines the following PIT-based subsidy programs:

- Colorado: Job Growth Incentive Tax Credit
- Connecticut: Job Creation Tax Credit
- Georgia: Job Tax Credits
- Georgia: Research and Development Tax Credit
- Illinois: Economic Development for a Growing Economy (EDGE) Tax Credit

- Indiana: Economic Development for a Growing Economy (EDGE) Tax Credit
- Kansas: Promoting Employment Across Kansas (PEAK) Program
- Kentucky: Kentucky Business Investment (KBI) Program
- Kentucky: Kentucky Industrial Revitalization Act (KIRA)
- Maine: Employment TIF (ETIF)
- Maine: Shipbuilding Facility Credit
- Mississippi: Impact Withholding Rebate Program/Existing Industry Withholding Rebate Program
- Mississippi: Mississippi Advantage Jobs Incentive Program
- Missouri: Quality Jobs Program
- Missouri: The Missouri Automotive Manufacturing Jobs Act
- New Jersey: Business Employment Incentive Program (BEIP)
- New Mexico: High Wage Jobs Tax Credit
- North Carolina: Job Development Investment Grants (JDIG)
- Ohio: Job Creation Tax Credit
- Ohio: Job Retention Tax Credit
- South Carolina: Job Development Credits
- Utah: Economic Development TIF (EDTIF)

Some of the programs have been around since the 1990s, but in recent years more states have enacted them: six of the 22 programs (and portions of others) were enacted since the beginning of 2009.

The programs work in various ways. Some allow employers to immediately retain (and never remit to the state) a large portion of the withholding taxes generated by designated new or retained workers. Some provide cash rebates or grants calculated the same way. Others provide credits against corporate income taxes or other business levies, with the value of those credits based on the withholding taxes of new or retained workers. (Some of these credits are cash-refundable if the credit exceeds the company's tax liability.)
The share of withholding taxes diverted into subsidies can be as high as 100 percent (such as EDGE tax credits in Illinois and Indiana) and the duration can be as long as 25 years (such as Mississippi’s Withholding Rebates). Twelve programs divert 75 percent or more of withholding, and 18 do so for ten years or longer.

The most expensive program is New Jersey’s BEIP, which in FY2011 approved new grants worth up to $73.2 million over their multi-year terms and disbursed $178 million during the year for previously approved contracts. Among states with subsidy recipient disclosure, those with the largest number of participants in PIT-based programs are: Ohio (567), Kentucky (509), Illinois (315), New Jersey (306) and Indiana (283).

The report also highlights how such programs fuel the “economic war among the states” and “job blackmail.” For example, Kansas gave AMC Entertainment $47 million in PEAK subsidies last year to get the movie theatre chain to move its headquarters from downtown Kansas City, Missouri about 10 miles across the state line to suburban Leawood. In Illinois, Motorola Mobility (now part of Google) last year got state officials to provide $100 million in EDGE tax credits over ten years to keep its headquarters in the Chicago suburb of Libertyville.