Guest Columnist

Tax Incentives for Business: Bright Light on Previously Dark Matters

For years, states and localities have used tax incentives to attract and retain businesses. There's always been some question as to how effectively they actually accomplish that. But perhaps worse, until recent Governmental Accounting Standards Board rules went into effect, the forgone revenue figures were impossible to find in the majority of state and local governments. The following guest column, by Greg LeRoy of Good Jobs First, delves into the actual benefits of these programs; and then mounts a fervent and persuasive argument in favor of the utility of the GASB regulations. As LeRoy writes, "Embrace the Rule. It serves your self-interests."

by Greg LeRoy, executive director, Good Jobs First

As you've probably heard, a new Governmental Accounting Standards Board (GASB) reporting rule has taken effect, requiring most local and state governments to disclose how much revenue they lose to economic development tax break programs.

Soon, I suspect, claims will be made that the new data could mislead taxpayers. Advice may be issued to states and localities, from various sources, about how to barely comply, or even avoid compliance, with the rule. Or how to "balance" the new cost data with positive stories about the benefits of tax breaks.

My fervent advice to state a city officials and other stakeholders: Embrace the rule; it serves your self-interests.

The new rule is GASB Statement No. 77 on Tax Abatement Disclosures, with "abatement" as GASB's umbrella term for any kind of economic development tax break (sales, income or property tax). It's GASB's first-ever Statement on any kind of tax expenditure, and it drew almost 300 public comments 2014-2015, making it one of GASB's most heavily-debated proposals ever.

I know that some of your national associations filed a chilly comment on the proposed Statement, arguing that GASB should require the disclosure of incentive-deal benefits as well as their costs. But let's be honest. Not only would that be double counting (since successful deals generate tax revenue already captured in the Comprehensive Annual Financial Report, or CAFR), it would also ignore the history officials have always touted the projected jobs and other benefits of tax-break deals and programs, while the full costs have remained stubbornly opaque.

For example, we at Good Jobs First dug deeply into the costs of Nissan's incentive package in Canton, Mississippi. Everyone remembered a special legislative vote on a package worth $295 million, but we found total costs more than four times greater: $1.3 billion (largely composed of far-flung property tax abatements and diversions of state personal income taxes).

You need GASB 77 data because market forces are causing you to overspend on nine- and ten-figure "megadeals." No one remembers that the total supply of deals for which states and cities could compete crashed by two-thirds before the Great Recession, and as of 2016 it had still not recovered to half of 1999 levels. With supply depressed and demand heightened (that's you who are elected needing to appear aggressive on jobs), the number and cost of megadeals has soared since 2008.

The average cost of megadeals? $658,000 per job, a rate at which taxpayers will always lose, because the typical worker at such a facility will never pay $658,000 more in state and local taxes than public services she and her family consume. Megadeals can only be accurately described as a transfer of wealth from taxpayers to big-company shareholders.

Such gross distortions—so many eggs in so few baskets—are not sustainable. They make it impossible for you to adequately fund those proven, low-risk investments that benefit many employers: infrastructure, education and training, cluster strategies and entrepreneurial aid.

You need GASB 77 data because almost no local government has ever published a tax expenditure budget, and the states' are riddled with gaps, missing major programs such as investment credits, film and media credits, and even tax breaks for data centers. Think of GASB 77 as sonar for the "budget icebergs" you've been hitting.

You need GASB 77 data because there's no end in sight to austerity from Uncle Sam. Even if Congress dilutes President Trump's radical budget proposals to completely defund programs like the Manufacturing Extension Partnership and the Economic Development Administration, the long-term trend of declining federal support for development of every kind—workforce, community and economic—is cast.

You need GASB 77 because taxpayers have rising expectations about government transparency. This is spending in the name of jobs, and jobs today are hyper-politicized. When the new data begins to flow, many taxpayers will chafe when they see it does not include the names of recipients or the costs of individual deals. The solution? Follow the lead of cities like Birmingham, Alabama and disclose specific deals and all of their costs, present and future. Follow states like New Mexico, which is requiring company-specific data from localities and is preparing to combine and publish all the data online.

You need GASB 77 because this is America's long-overdue chance to have an informed debate about the "Second War Between the States" (a phrase coined by Business Week—in 1976!). Our governors, state legislatures, finance officers, economic developers, Congress and U.S. Supreme Court have all failed to address it. Federalism, as allowed to play out in economic development, has run amok. Now we are finally being allowed to see the price tag, which has been silently ballooning and becoming unsustainable.

Stand on the right side of history. Embrace robust transparency with GASB 77 and encourage the resulting debate over spending priorities. It's the only way we can build an enlightened left-right consensus about fair and effective policies on jobs.