

BUSINESS TAX EXPENDITURES: *MOVING TOWARD TRANSPARENCY AND ACCOUNTABILITY IN WEST VIRGINIA*

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What are tax expenditures?

- WV Code § 11-10-5s(c) defines tax expenditures as “exclusions, deductions, tax preferences, credits and deferrals designed to encourage certain kinds of activities or to aid taxpayers in special circumstances.”
- Examples of Business Tax Expenditures:
 - **Examined Business Tax Credits:** Economic Opportunity, Manufacturing Investment, Strategic Research & Development, and High-Growth Business Investment.
 - **Unexamined Business Tax Credits and Expenditures:** Film Industry Investment (up to \$11m), Qualified Capital Additions to Manufacturing Facilities (\$8.6m), Natural Gas Industry Jobs Retention Credit (\$?), Thin-Seamed Coal Tax Credit (\$75m), Manufacturing Property Tax Credit (\$11m), etc.

Tax Expenditures vs. Direct Spending

- *“...because they [tax expenditures] result in the loss of revenue that would otherwise be collected by the government—they are equivalent to direct government expenditures. That's why tax and budget experts refer to them as "tax expenditures."*

Martin Feldstein, Harvard Economist and Romney Advisor



Simpson/Bowles on Tax Expenditures or “backdoor spending”

“America’s tax code is broken and must be reformed. In the quarter century since the last comprehensive tax reform, Washington has riddled the system with countless **tax expenditures, which are simply spending by another name. These tax earmarks – amounting to \$1.1 trillion a year of spending in the tax code – not only increase the deficit, but cause tax rates to be too high.**”



PHOTO: MARK WILSON/GETTY IMAGES

WV Tax Credit Review & Accountability Report

- Reviews four business tax credits:
 - Economic Opportunity Tax Credit
 - Strategic Research and Development Tax Credit
 - Manufacturing Investment Tax Credit
 - High-Growth Business Investment Tax Credit
- Published once every three years.
- Reviews number of businesses claiming the credit, amount of credit, jobs created by businesses receiving the credit, credit per job created, and job growth of industry and tax credit recipients.

Shortcomings of WV Tax Credit Review & Accountability Report

- Does not provide data or analysis to determine if tax credits led to additional jobs or economic impact.
- Does not provide demographic information about workers hired.
- Does not provide timely information. The data is three years old and it is only published once every three years.
- Includes only four business tax credits.
- Does not disclose recipients or location of tax credits.
- The findings of the report are repeated (15 of the 18 major findings of the 2012 report appeared in the 2009 report and seven of those findings are repeated from the initial 2003 report).
- Findings are inconclusive and provide virtually no evidence if tax credits are “working”.

WV Tax Credit Disclosure List -11-10-5s(b)

- Provides name, address, and value range of credit received of every business receiving the following credits:
 - Industrial Expansion and Revitalization Credit
 - Aerospace Industrial Facility Credit
 - Capital Company Credit
 - Coal Loading Facility Credit
 - **Economic Opportunity Credit**
 - Historical Rehabilitation Building Credit
 - **Manufacturing Investment Credit**
 - Research and Development Credit
 - Residential Housing Credit
 - **Strategic Research and Development Credit**
 - Super Credit (Business Investment and Jobs Expansion)
 - Telephone Low Income Credit
 - Utility Low Income Credit
- **Value ranges:** \$0-\$50K, \$50K-\$100K, \$100K-\$250K, \$250K-\$500K, \$500K-\$1MM, and \$1MM and over.
- Published once every five years (2007 data is published in 2012).

Shortcomings of the WV Tax Credit Disclosure List

- While the report provides company-specific information, it does not provide the exact value of the credit – just a range.
- It is not available on the WV Tax Department's website.
- Information is highly out of date.
- Does not include other significant expenditures, for example:
 - Thin-seam coal tax credit (\$75 million)
 - Qualified Capital Additions to Manufacturing Facilities (\$8.6 million)
 - WV Film Tax Credit (up to \$11 million)
- Mostly includes terminated investment tax credits.

WV Tax Expenditure Study 11-10-5s(c)

- Includes all tax expenditures, including expenditures on sales and use, excise, B&O, personal & corporate income, business franchise, property, business registration, and special business taxes.
- Published once a year, but on a three-year rotating basis.
- Provides a description of the expenditure, the value, and the rationale behind the expenditure.

Shortcomings of WV Tax Expenditure Study

- Not incorporated into the budget process.
- Does not report value of all tax expenditures separately.
- Only published once every three years.
- Does not evaluate tax expenditures.
- Does not include number and description of recipients.
- Does not include year of enactment.
- Does not show distribution of benefit by income level.

Other important considerations

- What about local business tax expenditures?
 - When local governments reduce property taxes it directly impacts the state budget via school-aid-formula (Public School Support Program).
 - Examples:
 - Property tax abatements (Macy's)
 - Leasing of equipment and machinery (GeStamp)
 - Tax Increment Financing (Macy's and Cabela's)
- Disclosure of recapture or “claw-back” for companies receiving credits that fail to meet job or benefit agreements.
 - While the Tax Department has the authority to conduct audits and require refunds for noncompliance, this information is not published.

How does WV rank in evaluating business tax incentives?



2012 Pew Center on States Report: “Evidence Counts: Evaluating State Tax Incentives for Jobs and Growth”

West Virginia is among 29 states “trailing behind” in evaluating business tax incentives.

West Virginia fails to evaluate all tax incentives, review them on regular basis, measure their economic impact, or determine if they are achieving the state’s goals.

Good Jobs First: West Virginia Ranks Below Most States in Transparency and Accountability of Economic Development Subsidies

- Money for Something: 26th
- Show Us The Subsidies: 33rd
- Money-Back Guarantees for Taxpayers: 29th

Money-Back Guarantees for Taxpayers

Clawbacks and Other Enforcement
Safeguards in State Economic Development
Subsidy Programs



GOOD
JOBS
FIRST

January 2012

Money for Something

Job creation and job quality standards
in state economic development
subsidy programs



GOOD
JOBS
FIRST

December 2011

Show Us The Subsidies

An evaluation of state government online
disclosure of economic development subsidies



GOOD
JOBS
FIRST

December 2010

Moving toward transparency and accountability

1. Publish the WV Tax Credit Review and Accountability Report, Tax Expenditure Study (complete), and WV Tax Credit Disclosure List on an annual basis.
2. Disclose company-specific information pertaining to tax credits and incentive programs, including the recipients, amounts, demographics, and job-related outcomes.
3. Publish all reports in an online, easily accessible, searchable database.
4. Publish information identifying amounts of subsidies subject to redetermination and recapture and ensure that all major business tax incentives are subject to these provisions.
5. Consider a unified state economic development budget that includes local economic development deals.
6. Consider “sunset” provisions for tax expenditures.

Best Practices: Illinois Corporate Accountability for Tax Expenditure Act

- Requires that all recipients of corporate tax incentives to report annually on their progress in achieving state investment and employment goals, including wages and health benefits.
- The 2003 Act requires state agencies to issue annual reports disclosing the number of tax subsidies issued as well as the number of organizations and corporations failing to meet their obligations.
- The state's searchable online database provides access to PDF reports submitted by companies. The database reveals which companies got subsidies, where the company located, how much it received, and what the results were in terms of job creation and wages.

Illinois web portal for corporate tax subsidies


Corporate Acco...

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acct.com/corpacct/ProgressReport.aspx

DCEO - Illinois Corporate Accountability

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Illinois Corporate Accountability Progress Reports

According to Section 20 (b) of the Act: "For each development assistance agreement (as defined by the Act) for which the date of assistance has occurred in the prior calendar year, each recipient shall submit to the Department a p
Section 20(d) further indicates that "by June 1, 2005 and by June 1 of each year thereafter, the Department shall compile and publish all data in all of the progress reports in both written and electronic form."

Instructions

You may use one or more of the following filters (drop down lists) to view the list of available progress reports.
As soon as you click on one of the filters, the system will display all reports that meet the criteria.
The default sort order is ascending by company. You can change the sort order by clicking on a column heading. Clicking the same heading again will sort in the reverse order.
To view a progress report, click on the [View Report](#) link for a particular company/site.
The report is a pdf document which will be opened in a new browser window.

Report Year:

Award Year:

Program Type:

2011 ▾

ALL ▾

ALL ▾

	Company	Project Site	Award Year	Report Y
View Report	A Finkl and Sons	Chicago	2009	2011
View Report	Accretive Health, Inc.	Chicago, Illinois	2010	2011
View Report	Advanced Technology Services, Inc.	Peoria	2011	2011
View Report	Afni, Inc.	Bloomington/Peoria	2007	2011
View Report	Alamo Group (IL) Inc.	Gibson City	2007	2011
View Report	Allstate Insurance Company	Rochelle	2008	2011
View Report	Alpha Baking Company, Inc.	Chicago	2009	2011
View Report	Alply Insulated Panels, LLC	Litchfield	2011	2011
View Report	Amada America, Inc.	Schaumburg	2007	2011
View Report	Ameren Energy Generating	Coffeen	2009	2011
View Report	American Aluminum Extrusion Company, LLC	Roscoe	2011	2011
View Report	American Bottling Company	Harvey	2011	2011
View Report	American Equipment & Machine, Inc.	Centralia	2010	2011
View Report	American General Life Insurance Company	Springfield	2007	2011

Home

This Site

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Progress Reports

Recapture Program

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Best Practices: Minnesota & Local Business Tax Incentives

- 1995 Minnesota Business Subsidy Law
 - Requires all state agencies and local governments (in towns with populations over 2,500) that provide financial assistance to businesses and other organizations to file annual reports that include the recipient's name and the number and value of all subsidies.
 - This information is then consolidated in a comprehensive statewide report, which compares data over the most recent four years and comments on the state's progress in achieving its economic development goals.
 - The Minnesota Department of Employment and Economic Development makes this information available online.
- Minnesota Jobs Opportunity Building Zone Program (JOBZ) requires a statement from the business that it would not have located, relocated, or expanded with the benefits provided under JOBZ.

Website portal of Business Assistance Reports in Minnesota

subsidy_reporting/Business_Subsidy_Annual_Reports/Non-JOBZ_Business_Assistance_Reports_2.aspx

POSITIVELY Minnesota
Department of Employment and Economic Development

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- SHOVEL-READY SITES
- PUBLIC FACILITIES AUTHORITY
- BUSINESS SUBSIDY REPORTING**

NON-JOBZ BUSINESS ASSISTANCE REPORTS

2011 Reporting Year

SELECT FROM THE FOLLOWING REPORTS

- 2011 MBAF Report Activity (January 1, 2010 - December 31, 2010)
- 2010 MBAF Report Activity (January 1, 2009 - December 31, 2009)
- 2009 MBAF Report Activity (January 1, 2008 - December 31, 2008)
- 2008 MBAF Report Activity (January 1, 2007 - December 31, 2007)
- 2007 MBAF Report Activity (January 1, 2006 - December 31, 2006)
- 2006 MBAF Report Activity (January 1, 2005 - December 31, 2005)
- 2005 MBAF Report Activity (January 1, 2004 - December 31, 2004)
- 2004 MBAF Report Activity (January 1, 2003 - December 31, 2003)
- 2003 MBAF Report Activity (January 1, 2002 - December 31, 2002)
- 2002 MBAF Report Activity (January 1, 2001 - December 31, 2001)

TABLE OF CONTENTS

- Overview
- 2011 Reporting Year**
- 2010 Reporting Year
- 2009 Reporting Year
- 2008 Reporting Year
- 2007 Reporting Year
- 2006 Reporting Year
- 2005 Reporting Year
- All Other Reporting Years

Reports include number of jobs by occupation type, wage and benefits, statement of goals in subsidy agreement, reason for relocation and a list of all financial assistance received.

Best Practices: Unified Economic Development Budget

- It would compile all on-budget and off-budget economic development spending into a single document.
- Enables policymakers to see how subsidies are distributed from various public agencies between regions, industries, and companies.
- Without a unified economic development budget, it makes it difficult for policymakers to target subsidies.
- Five states, Rhode Island, New Jersey, Vermont, Texas, and Illinois, have enacted some type of unified economic development budget.

Best Practices: Reviewing Business Tax Expenditures

- Create Sunset Dates:
 - In 2009, Oregon put expiration dates of six years for most tax credits. Similarly, the Nevada State Constitution stipulates that all newly enacted tax expenditures include an expiration.
 - Ensures a thorough and regular review by the legislature – a dynamic that is missing from the current budget process.
- Include tax expenditures in Governor's Budget:
 - On budget spending is approved each year, but most tax expenditures have no effective termination date.
- Properly Evaluate Business Tax Expenditures
 - Minnesota's legislative auditor found that 79 percent of the jobs reported from its JOBZ Program would have been created with the incentives.
 - The Massachusetts Department of Revenue analyzed the impact of the state's film-industry tax incentives and found that it was paying \$300,000 per job created.

Questions?