MDCEP
MARYLAND CENTER ON ECONOMIC POLICY
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Additional Manufacturing Tax Breaks Offer Scant Bang for the Buck

Position Statement in opposition to House Bill 531

Given before the House Ways and Means Committee

Allowing a certain category of businesses to pay no property or income taxes creates an uneven playing field and sets a bad precedent by exempting some businesses from paying their fair share for the services we all benefit from. In addition, allowing these tax incentive zones virtually anywhere in the state would eliminate the already unlikely prospect that these new jobs will benefit communities with high unemployment. For these reasons, the Maryland Center on Economic Policy opposes House Bill 531.

Manufacturers already receive preferential treatment in Maryland's tax code, because the single sales factor formula allows them to pay no tax on income earned from selling their products out of state. Yet it is clear that state tax policy is not the primary motivator for where manufacturers choose to locate, as the number of manufacturers in Maryland has continued to decline.

The proposal outlined in House Bill 531 is largely based on a program in New York State that has had disastrous results. New York spent roughly $53 million promoting its program and created just 76 jobs in the first year – a cost of nearly $700,000 per job – and there is no reason to expect better results in subsequent years. This is clearly not a good model for boosting Maryland's economy.

This bill also is similar to other programs that Maryland has tried over the last three decades, such as Enterprise Zones and One Maryland. Despite public investments totaling hundreds of millions of dollars, there is very little to show in terms of actual job creation resulting from these tax breaks.

Since 2000, the state has given out an average of $900,000 in enterprise zone income tax credits each year. From fiscal year 2001 to 2014, state reimbursements to local governments for this program totaled $131.2 million—as the state is responsible for half the cost of the enterprise zone property tax credits.[i] State agencies have not developed adequate ways of tracking the jobs created by these credits, so there is no way of knowing what, if anything, Maryland has gotten in return for its significant investment.

When the Department of Legislative Services evaluated Maryland's enterprise zone tax credit in 2013, it found that they are not effective in creating employment opportunities for enterprise zone residents.[ii] The DLS review and research on enterprise zones in many other states has consistently found that most, if not all, job growth that takes place in enterprise zones is due to normal economic activity that would have happened anyway—that is, businesses growing to meet demand.[iii]

While the idea behind enterprise zones was to create good jobs in areas of high unemployment, House Bill 531 removes that pretense, allowing localities to create manufacturing zones virtually anywhere. This could result in the state giving up significant revenue in the form of tax breaks to companies that are moving into a Maryland location that was already highly desirable to the company for other reasons. It also reduces the incentive to locate businesses in more disadvantaged areas.

It's important to keep in mind that when the state foregoes this revenue to give tax breaks to businesses, it is money that could have been invested in schools, transportation, safe communities, and other building blocks of broad prosperity.

In addition to the significant loss in revenue that the state would incur, creating tax-free zones for companies and exempting workers from paying state income tax is an unproductive strategy for a number of reasons.

First, by giving very favorable tax treatment to certain businesses, the plan could harm the existing businesses that do not receive this favored treatment. This, in turn, would reduce the profitability of those existing businesses, and reduce the resources available for public investment that builds a strong economy.[iv]

Second, the budget cuts or other tax increases needed to offset the revenue loss would cancel any short-term stimulus. Corporate tax-cut advocates often argue that they encourage job creation by "letting businesses keep more of their money" to invest in local economies. But Maryland must balance its budget, so it would have to fully offset the revenue loss from these proposed corporate tax breaks for manufacturers through some combination of cuts in services and increases in other taxes. Those steps would cancel out whatever boost to the state's economy that corporations might provide by spending their entire tax cut in-state (which they are unlikely to do).

Third, corporate tax cuts weaken long-term growth by leading to cuts in public services. Businesses need and demand the high-quality education systems that produce skilled workers. They need well-functioning infrastructure to get their employees and supplies to their plants and their products to customers. They need police and fire protection. If Maryland pays for tax breaks in ways that impair the quality of these services, even the tax cuts' modest positive potential impacts likely won't materialize.

Fourth, such tax credit programs are easy to subvert and hard to enforce. Even though House Bill 531 includes a process for certifying that the company is new to Maryland, businesses have been known to game these systems. For example, companies sometimes shut down operations and immediately reorganize under a new name so that they can participate in the program.

Fifth, large tax breaks for manufacturers could reduce the overall level of economic activity in Maryland. Some of corporations' tax savings would likely go to their out-of-state shareholders in the form of higher dividends, which is good for the shareholders but worthless to the state.

Recent research from the Center on Budget and Policy Priorities confirms that almost 85 percent of Maryland job growth is due to homegrown startups and fast-growing in-state companies.[v] Supporting these companies would be a more effective way for Maryland to create jobs and build a strong economy than proposals like manufacturing zones that use expensive tax giveaways in an attempt to lure business from other states.

For these reasons, the Maryland Center on Economic Policy respectfully requests that the Ways and Means Committee report House Bill 531 unfavorably.

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[i] "Fiscal and Policy Note: Maryland Strong Manufacturing Development Act." Department of Legislative Services. 2015. http://mgaleg.maryland.gov/2015RS/fnotes/bil_0007/sb0507.pdf

[ii] "Evaluation of the Enterprise Zone Tax Credit." Department of Legislative Services. November 2013. http://mgaleg.maryland.gov/Pubs/BudgetFiscal/2013-Evaluation-Enterprise-Zone-Tax-Credit-Draft.pdf

[iii] David Neumark, Jed Kolko. "Do Enterprise Zones Create Jobs?" National Bureau of Economic Research. December 2008. http://www.nber.org/papers/w14530

[iv] "'Tax-Free NY' is now 'Start-Up NY' – Still Bad Tax Policy, Still Bad Economic Development Policy." Fiscal Policy Institute. July 2013. http://fiscalpolicy.org/tax-free-ny-is-now-start-up-ny-still-bad-tax-policy-still-bad-economic-development-policy

[v] Michael Mazerov and Michael Leachman. "State Job Creation Strategies Often Off-Base." Center on Budget and Policy Priorities. February 2016. http://www.cbpp.org/research/state-budget-and-tax/state-job-creation-strategies-often-off-base