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 Senate Bill 317

Given before the Senate Budget and Taxation Committee

Exempting a certain category of businesses from nearly all state taxes – and potentially allowing some businesses to receive more tax breaks than the amount of taxes they owe – would create an uneven playing field and set a bad precedent, absolving some businesses of their responsibility to pay their fair share for the services we all benefit from. For these reasons, the Maryland Center on Economic Policy opposes Senate Bill 317.

Manufacturers already receive preferential treatment in Maryland's tax code. The single sales factor formula allows them to pay no tax on income earned from selling their products out of state. Such efforts to subsidize the manufacturing industry do not appear to have achieved their goals, as the number of manufacturers in Maryland fell sharply in the years after the single sales factor tax break was enacted.[i]

The proposal outlined in Senate Bill 317 are similar to other programs that Maryland has tried over the last three decades, such as Enterprise Zones and One Maryland. Despite subsidies totaling hundreds of millions of dollars, there is very little to show in terms of actual job creation resulting from these tax breaks.

When the Department of Legislative Services last evaluated Maryland's enterprise zone tax credits in 2013, it found 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 is, businesses growing to meet demand.[iii]

Maryland is not the only state that has found tax breaks to be an ineffective way to lure businesses. Reports released last year show that a similar program in New York State has had disastrous results. As of early last year, New York had appropriated more than $200 million for marketing its program – not including the cost of the tax breaks it will eventually give out – while linking fewer than 500 jobs to that program in the first two years.[iv] This is clearly not a good model for boosting Maryland's economy.

Building on this flawed model by exempting manufacturers from the majority of state taxes for 10 years would be costly and ineffective. While the direct fiscal impact of Senate Bill 317 will depend on the number of businesses that eventually claim tax breaks under the program, the bill has a number of weaknesses.

- State and local taxes are a minor cost for most businesses, especially fast-growing businesses that aren't yet profitable but create a large number of jobs.[v] Because taxes are not a major cost for many businesses, they do not drive location decisions. Surveys show that executives are more concerned about access to a skilled workforce, reliable transportation, and a high quality of life than they are about taxes or subsidies.[vi]
- Any direct stimulative effect from these tax breaks is likely to be minimal. A large portion of the money businesses gain from tax breaks would likely go toward dividends—a boon to shareholders who mostly live out of state, but of little value to Maryland's economy.[vii] Furthermore, companies that are not eligible for the tax breaks would become less competitive, potentially leading to weaker profits, less hiring, and lower tax payments.
- Because Maryland is constitutionally required to balance its budget, the state will have to compensate for lost tax revenue by raising other taxes or cutting public services. Cuts to public investments would jeopardize the things that make Maryland attractive to employers, like excellent schools, modern transportation networks, and safe communities.
- Business tax credit programs are easy to subvert and hard to enforce. Even though Senate Bill 317 in theory excludes businesses that shift jobs within Maryland rather than creating new positions, businesses have been known to game these systems.[viii] Even when businesses truly hire new employees rather than shifting jobs, there is no way to confirm that tax breaks were necessary to create these jobs.

Adding one more component to Maryland's already extensive suite of business subsidies will do little to bring manufacturing jobs to the Maryland communities with the greatest needs, but it will jeopardize the public investments that make Maryland attractive for business.

For these reasons, the Maryland Center on Economic Policy respectfully requests that the Budget and Taxation Committee make an unfavorable report on Senate Bill 317.

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[i] The single sales factor formula was enacted in 2001. From 2000 to 2015, manufacturing employment declined by more than 68,000 jobs, or 40 percent. "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] "The Business Incentives Report," *Empire State* Development, 2016, https://cdn.esd.ny.gov/Reports/2015_ESD_Business_Incentives_Report.pdf
Ron Deutsch et al., "A Shared Opportunity Agenda: New York Economic and Fiscal Outlook 2016–2017," *Fiscal Policy* Institute, 2016, http://fiscalpolicy.org/wp-content/uploads/2016/02/NYS-Economic-and-Fiscal-Outlook-FY-2017.pdf
Although New York officials project that more jobs will be eligible for Start Up NY tax breaks in the future, current data are not available to verify this.

[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

[vi] "Site Selection Factors/Strategy." Area Development. 2016. http://www.areadevelopment.com/corporate-site-selection-factors/

[vii] Marshall Steinboum, Eric Bernstein. "Fool Me Once: Why another Corporate Tax Cut Won't Boost the Economy." Roosevelt Institute. February 2017. http://rooseveltinstitute.org/wp-content/uploads/2017/02/FoolMeOnce_Feb17.pdf

[viii] See "Performance of the Excelsior Jobs Program." New York State Office of the State Comptroller. 2016. http://www.osc.state.ny.us/audits/allaudits/093016/15s15.pdf