Ineffective Business Tax Credits Should Not be Expanded

Position Statement Opposing House Bill 872

Given before the House Ways and Means Committee

Past evaluations by the Tax Credit Evaluation Committee and legislative staff have raised serious concerns about the cost and effectiveness of Maryland's myriad tax credits intended to incentivize business expansion in the state. Evidence shows that these credits already cost the state millions of dollars a year and fail to deliver new jobs that would not be generated otherwise. Funneling more money into the Enterprise Zone Credit and creating a new Maryland Jobs Development Credit will not solve this problem. Expanding these business tax credits could harm existing businesses that are not eligible for the credit and necessitate cuts or tax increases elsewhere in the state's budget. Budget cuts would endanger investments that, unlike these credits, are proven to grow the economy. For these reasons, the Maryland Center on Economic Policy opposes House Bill 872.

State reimbursements for enterprise zone property tax credits totaled $131.2 million from 2001 to 2014.[i] Despite this significant cost, analysis shows that the credit has not accomplished its goals. It is not clear the Enterprise zone credit increases net economic development and employment in Maryland, it is not effective at employing residents of disadvantaged areas, errors in administration granted $700,000 in improper property tax credits in Baltimore City, and private employment growth averaged an annual increase of only 0.7 percent in enterprise zones.[ii] Additionally, in 2014 the Department of Legislative Services suggested that criteria be established restricting the expansion of enterprise zones citing concern of "diluted impact" and rising costs of the credit. The proposed bill not only fails to restrict expansion but creates a brand new tax credit that authorizes the Secretary of Commerce to establish new enterprise zones based on a subjective assessment of "likelihood of producing economic development."

As the bill notes, Maryland has many "enviable assets" already attracting businesses to locate in the state. These include a highly educated workforce, strong transportation networks, military and federal facilities, and a high quality of life. These and other factors are more important than tax rates in determining where companies locate. One survey found only 5 percent of entrepreneurs cited taxes as a factor in deciding where to launch their company.[iii] Nationally, taxes account for on average only 2 percent of business expenses, significantly less than things like labor costs, averaging around 18 percent of business expenses.[iv] This is evidenced by the significant number of enterprise zones with limited and decreasing numbers of businesses claiming credits. Of 27 zones established for more than five years, 10 have fewer than five businesses claiming a credit and seven had reimbursements totaling less than $10,000.[v]

The evidence clearly shows Maryland's business tax credit incentives are not cost effective. When the state forgoes revenue to support a negligible amount of economic activity, it loses money that could have gone to quality schools, safe streets, and strong infrastructure. These are the building blocks of our economy that benefit families and businesses alike. The proposed legislation relies on a flawed model of economic development that has been proven ineffective.

For these reasons, the Maryland Center on Economic Policy respectfully requests that the House Ways and Means Committee give an unfavorable report to House Bill 872.

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[i] Department of Legislative Services. August 2014. "Evaluation of the Enterprise Zone Credit." Accessed February 24, 2017. http://dls.state.md.us/data/polanasubare/polanasubare_taxnfispla/WEB-Evaluation-of-the-Enterprise-Zone-Tax-Credit.pdf
[ii] Ibid.
[iii] Endeavor Insight, "What Do the Best Entrepreneurs Want In a City? Lessons from the Founders of America's Fastest Growing Companies," February 2014, p. 12, http://issuu.com/endeavorglobal1/docs/what_do_the_best_entrepreneurs_want.
[iv] Tannenwald, Robert. November 4, 2010. "Testimony of Robert Tannenwald, Senior Fellow, Before the New Hampshire Tax Commission." Accessed February 24, 2017. http://www.cbpp.org/testimony-of-robert-tannenwald-senior-fellow-before-the-new-hampshire-business-tax-commission.
[v] Department of Legislative Services. August 2014. "Evaluation of the Enterprise Zone Credit." Accessed February 24, 2017. http://dls.state.md.us/data/polanasubare/polanasubare_taxnfispla/WEB-Evaluation-of-the-Enterprise-Zone-Tax-Credit.pdf