MDCEP
MARYLAND CENTER ON ECONOMIC POLICY

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Business Property Tax Giveaway Takes Away Local Choice, Won't Create Jobs

Position Statement Opposing Senate Bill 239

Given before the Senate Budget and Taxation Committee

The proposal to eliminate personal property taxes for new businesses and businesses that relocate to Maryland echoes the larger state-level business tax credits that have proven to be ineffective. Research shows that businesses grow to meet demand, not because of tax breaks. Forcing local governments to reward businesses for creating jobs that they likely would have created anyway unnecessarily cuts into local budgets. For these reasons the Maryland Center on Economic Policy opposes Senate Bill 239.

Under existing state law, local governments have the option whether to collect business personal property taxes. Most jurisdictions have chosen to do so, while some have not. This proposal would take options away from local leaders who are in the best position to make decisions about what is best for their community.

This bill would also create another policy that essentially punishes local jurisdictions for successfully growing their economies. For example, Baltimore City is currently experiencing strong economic growth but that also means absorbing a $45 million hit to state education funding. If the city were to also lose the additional personal property tax revenues from all the new businesses moving or starting up in the city, it would make it even harder to continue to invest in the things that make the city attractive to new businesses and residents.

Further, there is ample evidence that these types of incentives are not effective at creating jobs. A business receiving this credit would likely only save a few hundred dollars at most – not enough to even pay for a "Help Wanted" ad, let alone create any additional jobs. At the same time, local governments would have less money to invest in the services that residents and businesses alike rely on.

Even the larger business incentives at the state level confirm what research tells us – that tax credits don't affect business decisions or grow our economy. For example, when the Department of Legislative Services evaluated Maryland's enterprise zone tax credit in 2013, it found that it is not effective in creating employment opportunities for enterprise zone residents[i]. Most, if not all, job growth that takes place in enterprise zones is due to normal economic activity that would have happened anyway[ii].

Taxes represent only one item on the list of many things company owners and CEOs take into consideration when making business decisions. A report to the 2015 Maryland Economic Development and Business Climate Commission by Moody's Analytics said business taxes "prove not especially onerous in Maryland" and that other factors such as utility costs are more important.

Maryland does have a lot of assets that are important to businesses: a highly educated workforce, affluent customers, good quality of life for employees, and transportation connections to other markets. To strengthen Maryland's business climate we should focus on providing adequate funding to critical programs such as education, infrastructure and healthcare. Forcing local governments to eliminate personal property taxes for new businesses would undermine these efforts.

For these reasons, the Maryland Center on Economic Policy respectfully requests that the Senate Budget and Taxation Committee give an unfavorable report to Senate Bill 239.

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[i] "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

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