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## **Are corporate tax incentives a waste?**

### **Expert says they might not pay off**

By Joe Baker  
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WARWICK — Attracting new industry to a state is a high-stakes game of chicken with the state driving blind.

That's the take of Greg LeRoy, founder and director of Good Jobs First, a national group that promotes responsible economic development. LeRoy was the speaker at a Thursday morning conference at the Crowne Plaza Hotel sponsored by The Poverty Institute, an organization that lobbies for equitable state tax and budget policies.

LeRoy, who wrote "The Great American Jobs Scam: Corporate Tax Dodging and The Myth of Job Creation," said tax subsidies are near the bottom of reasons a corporation uses to locate its business. But states, ignorant of boardroom discussions about potential relocations, fall over themselves to offer tax incentives to attract new businesses, he said.

In his book he quotes former Secretary of the Treasury Paul O'Neill, who also was the CEO of Alcoa, on the issue.

"(As a businessman) I never made an investment decision based on the Tax Code," LeRoy quoted O'Neill as saying. "If you are giving money away, I will take it. If you want to give me inducements for something I am going to do anyway, I will take it. But good business people do not do things because of inducements. They do it because they can see that they are going to be able to earn the cost of capital out of their own intelligence and organization of resources."

State and local taxes make up, on average, about 0.8 percent of a company's net costs, LeRoy said, and are not a real factor in location decisions. But in the current "economic war among the states," companies play states against each other in an effort to reduce the tax portion of their overhead, thereby increasing their bottom line, he said.

In most cases, a company looking to locate a business somewhere will hire a site consultant, LeRoy said, who will analyze the company's needs for labor and access to material and transportation. The consultant normally will submit a list of several places to company officials, who will then factor in more personal issues, such as quality of life and personal amenities.

Often the company will know where it wants to go before approaching a state, LeRoy said. In those cases, even though a decision may have been made, the company will try to play the state against other, possibly fictitious locations in an effort to wring some tax subsidies from it. They could take the form of long-term property tax relief, relief from sales tax on building the facility or tax breaks for the promise of newly created jobs.

The practice of offering tax breaks to new companies also unfairly penalizes companies that already are located in a state, LeRoy said.

"Existing companies ... are absorbing the burden because the Johnny-come-latelys are getting not a free ride, but a cheap ride," he said.

Rhode Island is flying blind in another aspect, LeRoy said, because it does not have an accurate handle on the corresponding benefits from tax breaks it offers. The state Department of Taxation is required to submit a report every two years on tax subsidies, their costs and their ultimate benefit. In the 2006 report (the 2007 report was just submitted and has not yet been analyzed), the state identified 212 “tax preference items,” but could only identify the associated costs of 127 of those items, according to an analysis by The Poverty Institute.

Those 127 items cost the state \$1.4 billion in foregone tax revenue. Nearly half of that (\$690 million) was attributed to personal deductions, exemptions and rate reductions associated with the personal income tax. But many special incentives cannot be analyzed, leaving state officials — and the public — wondering if they are worth the money lost.

“You can’t compare cost benefits if you don’t know your costs. You’re really just throwing money at the issue and hoping it all works out,” LeRoy said.

In its analysis, The Poverty Institute estimated the state would have needed to create 8,410 new jobs at the average state income of \$17 an hour to raise \$297 million in annual income to make up for the \$33 million in taxes lost from the historic structures tax credit.

“Even if (these credits) create jobs, it’s not clear if those being created are cost-effective jobs,” said Ellen Frank, an economist who works for The Poverty Institute.

The most effective economic development stresses the quality of life in an area, with schools being high on the list, LeRoy said. Having skilled workers available for a company will attract them every time, he said. Maine, LeRoy said, recently offered an effective tax incentive to new college graduates, where if they stayed in the state for five years, a portion of their college loans would be forgiven.

“The best thing to do with your (economic development) money is to spend it on skills and infrastructure,” LeRoy said.