



Tax Breaks to Create More Jobs: What the Real Story Is!

As of fiscal year 2010 – 2011, Florida has enacted tax preferences that total almost \$35 billion. These include exemptions, deductions, allowances, exclusions, credits, preferential rates, subsidies, and deferrals in state taxes. For instance, no sales tax is paid on the rental of limousines, bottled water, charter boat fishing, ostrich feed or alcoholic beverages used by businesses for tasting. Sports franchises receive tax subsidies. Many types of businesses pay no corporate income tax and some businesses do not pay their share of profits earned in Florida. The affluent do not pay any tax on their investment earnings. These and many other tax preferences – tax breaks - represent foregone revenue that reduce state governmental funds and compete with programs funded by appropriations from tax resources.

In this election cycle, most candidates running for public office are calling for **more** tax breaks as a means to create jobs. Although it is very important to create more jobs for those who are unemployed or want better jobs, additional tax breaks will not necessarily cause businesses to create more jobs (see [“Tax Breaks Shift Money to a Few Winners and Compete for Limited State Revenue,”](http://www.fcfe.org) at www.fcfe.org.) Instead, more tax breaks may simply increase profits, often because if there is not more demand for a business’s goods or services, they will not hire additional people simply because they have a new tax break. Also, tax breaks are likely to shift dollars from critical budgetary needs to a few corporate winners.

Is it prudent to reduce state revenues with additional tax breaks at a time when the state is looking at a \$6 billion shortfall for next year’s budget and tens of thousands of people who need state services languish on waitlists because there is insufficient funding?

Proponents of expanding tax incentives argue that taxes paid by the people in the new jobs will replace the lost revenue. Even if new tax preferences do indeed influence businesses to create more jobs, will an adequate number of those new jobs be created soon enough or at all, to replace the revenue?

The table below illustrates the challenge. It assumes that \$100 million in foregone state tax revenues is enacted through new tax breaks. It further assumes that the new jobs created by the tax breaks would be compensated at the state average of \$37,400. According to the Institute on Economic and Tax

Policy, the estimated state tax revenues (sales and excise taxes) generated by these new jobs would be 6.2% of income (\$2,319 a year).¹

Tax Preferences for Jobs – Do they Pay for Themselves? An Illustration			
Value of New Tax Preferences	Average Family Income Per New job	State Tax Obligation	New Jobs Needed to Replace Lost Revenue
\$100 million	\$37,400	\$2,319	43,122

This means that over 43,000 new jobs must be created to replace the lost revenue – revenue that will be lost annually in the future. Consider also that it may take many years for those jobs to be created, if at all.

Postulating that new tax breaks will pay for themselves with the jobs they create is unrealistic and is further illustrated by calculating the relationship between the monetary value of the tax break relative to the cost of new jobs that would be borne by business – less than 10% of the cost. Also, this does not take into consideration the jobs lost due to the elimination of \$100 million in state revenues, which could include classroom teachers and health care professionals – workers who are paid from state taxes and who provide a necessary service to Floridians.

The rest of the story is that very little is known about the extent to which already existing tax breaks – \$34.5 billion worth – have really influenced the creation and continuation of jobs and in effect, pay for themselves. Unlike appropriations, the legislature does not annually examine and debate the merits of tax breaks. The economic value and fairness of many existing tax breaks are highly questionable and as we have recommended in previous reports and will examine again along with other characteristics of Florida’s tax policy in a forthcoming report, the legislature should routinely examine all tax preferences and repeal them if they serve no compelling public purpose. The revenue from repeal would help fund programs needed by struggling families.

So, when candidates promise jobs through enacting more tax breaks and say that the new jobs will pay for the loss of revenue, this analysis raises serious doubts about such claims. The voters should ask them what services they would cut to make up for the shortfall if it does not happen.

This report was written by John Hall, Executive Director.

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¹ “Who Pays Florida Taxes, November 2009”