

## Tax Giveaways to Corporations Deserve a Look As Floridians Mark Tax Day

As Floridians file their federal income tax returns – some marking Tax Day with objections to the level of taxation and government spending – it is useful to remember all the different ways state government spends tax dollars.

Often overlooked are the many programs that give away tax money collected from Floridians to select corporations. Those programs are particularly noteworthy as the legislature cuts appropriations for vital services and considers creating an economic development superagency that would provide more money and more latitude for the governor to award “economic development incentives”.

Any additional money for tax-giveaway “incentives” would worsen Florida’s budget problem. The governor and current legislative leaders are already insisting on large budget cuts alone to balance the budget, without closing any of the many loopholes in state tax laws.

*Florida diminishes revenue that could be used to avoid cuts to services like education and health care in several ways, including subsidies paid to profitable corporations for “economic development.”*

This initial report examines a small portion of the many “economic development incentive” programs funded by the legislature that direct tens of millions of tax dollars each year to corporations under the guise of job creation. Whether the subsidies work often is open to question. Official state reports suggest that half or more of the companies receiving incentive funds would have expanded or relocated in Florida anyway, even without receiving tax dollars.<sup>1</sup>

### Already Inadequate Revenue for State Services Is Diminished Further By Special Tax Breaks for “Economic Development”

Florida diminishes potential revenue that could be used to avoid cuts to services like education and health care in several ways:

- declining to tax the sales of many products and most services, forgoing billions of dollars in potential revenue annually;<sup>2</sup>

- making no attempt to collect sales taxes legitimately owed on purchases from Internet and other remote sellers;
- eliminating taxes paid almost entirely by the wealthy (the intangibles tax and the estate tax), costing the state treasury at least \$2 billion each year;<sup>3</sup>
- directly giving away \$24 million in tax money each year to profitable sports franchises and to sports associations;<sup>4</sup>
- limiting the corporate income tax to a small group of corporations only;<sup>5</sup>
- creating and expanding tax refund, tax credit, and business grant programs every year, as it is doing this year;<sup>6</sup> and
- crafting special legislation that would benefit a single corporation, as in a recent case involving Darden Restaurants,<sup>7</sup> or proposed legislation that would direct most film production tax breaks to Universal Orlando).<sup>8</sup>

Passing laws that direct tax revenue to specific companies puts the state in the position of picking winners and losers among businesses in Florida. Special benefits are awarded to a few businesses, while their competitors are disadvantaged.<sup>9</sup>

These special tax breaks are defended on the grounds that providing such “economic development incentives” leads to job growth.

## **State Subsidies for Job Creation Are Inefficient and Starve Government Of Money for Services It Should be Providing**

Most studies of so-called “incentives” for job creation find that they seldom create new jobs. Often they merely reward corporations for doing what they would have done anyway. Furthermore, they skew a state’s tax system and prevent government from making necessary investments that lead to real job growth.

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The conservative Tax Foundation, which gives Florida high marks overall for its attractive “business climate,” nevertheless criticizes the state for its giveaways to business. “Tax credits complicate the tax system, narrow the tax base, drive up tax rates for companies that do not qualify and distort the free market,” the Tax Foundation says.<sup>10</sup>

The authors of a review of a study on jobs studies say state leaders often have an unrealistic view of the effectiveness of tax giveaways that purport to create jobs. “[M]any public officials appear to believe that they can influence the course of their state or local economies through incentives and subsidies to a degree far beyond anything supported by even the most optimistic

evidence,” the study concludes.<sup>11</sup> Governments should adopt “a more sensible view of the role of government – providing the foundations for growth through sound fiscal practices, quality public infrastructure, and good education systems — and then letting the economy take care of itself.”

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State job subsidies don’t work well because they’re a minor part of a business-location decision. “Usually the decision on where to locate is based on more important economic factors than taxes,” the Institute on Taxation and Economic Policy says.<sup>13</sup> “That’s why heads of major corporations will candidly admit that taxes are not very important in their location decisions.”

“The factors that businesses look for,” ITEP says, “include the quality of life in the community, a good supply of highly skilled and educated men and women to fill demanding technical and management positions, good roads and adequate transportation, public safety, and the quality of health care.”

## **Florida Refunds Taxes to Many Profitable Corporations for “Job Creation”**

Despite doubts about the effectiveness of state and local jobs subsidies, Florida offers more than a dozen programs administered by Enterprise Florida and the governor’s office that direct tax money to corporations ostensibly to create jobs.<sup>14</sup> In the 2009-10 fiscal year, a Florida Senate committee reported, the legislature appropriated \$146.5 million in direct and indirect financial subsidies for “economic development” incentives.<sup>15</sup> (Other business incentives provided by state law and administered by other departments of state government – for example, sales tax exemptions for specific industries and business activities and a \$1,000 per worker Jobs for the Unemployed Program created by the legislature in 2010<sup>16</sup> -- will be examined in a future report.)

*Many of the recipients of state tax subsidies are large, profitable corporations with existing operations in Florida.*

Each of these economic development subsidy programs reduces a corporation’s tax liability in exchange for retaining or adding high-wage jobs in targeted areas or in targeted industries. One of the largest programs, the Qualified Target Industry (QTI) Tax Refund program, is noteworthy because Enterprise Florida is required by state law to report which companies received funding in the program,<sup>17</sup> although detailed information about the projects is not reported.<sup>18</sup>

QTI tax refunds are available to companies in a target industry that create at least 10 new jobs or, if an existing company, increase employment by at least 10 percent. The annual wage of the jobs must be at least 115 percent of the local average wage. The subsidy is worth \$3,000 for each job created or retained, with additional thousands of dollars for each job paying high wages or located in distressed areas.<sup>19</sup>

The QTI program is “used to induce businesses to create high quality, high wage jobs in Florida that would otherwise not be created in this state, but for the incentive,” Enterprise Florida said in its annual Incentives Report. Corporations received tax credits of \$16.9 million in 2010 and retained or created 7,427 jobs, Enterprise Florida reported,<sup>20</sup> and other tax subsidy programs it administers retained or created even more jobs in 2010, the agency says – in a year in which total Florida employment actually declined by about 24,000 jobs.<sup>21</sup>

But in a 2003 review, a Senate committee surveyed businesses about their experiences with the QTI program and found that 20 of the 38 respondents said “they ‘probably’ or ‘definitely’ would have relocated or expanded in Florida even without the QTI incentive.”<sup>22</sup>

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Similarly, a 2005 study of the QTI program examined its return on state investment. The study found that “What appears to have happened is that some significant number of firms that created jobs in Florida’s target industries over the last 9 years also sought to receive a QTI tax refund. This raises several questions concerning the amount of net new job creation attributable to the QTI program, such as whether: the projected jobs would have been created if the QTI program had not existed (i.e., in other words, the jobs would have been created anyway....”<sup>23</sup>

Because QTI refund recipients are required to be divulged by state law, it becomes apparent that many are large, profitable corporations with existing operations in Florida: for example, Beall’s, Coca-Cola, Fidelity National Financial, JetBlue Airways, Kaplan University, and Lockheed Martin. (See Qualified Target Industry Tax Refund chart below.)

Those tax refund recipients join others that received refunds in 2009, such as Carnival Corporation, Coca-Cola, Disney Worldwide, Family Dollar, Publix Super Markets, Target Corporation, and Wal-Mart, and a similar list in 2008, including Nestle Water North America, Inc.<sup>24</sup>

(For more information about the QTI program and other jobs tax-break programs in Florida, see “AccountableUSA—Florida,” Good Jobs First <http://www.goodjobsfirst.org/states/florida>)

## **Legislature Considers Bills to Create Jobs Superagency, Give Governor More Power**

Both the Florida Senate and House of Representatives are considering bills that would combine several state agencies to create a new department focused on jobs, as Governor Rick Scott has proposed as part of his pledge to create new jobs.

The Senate version would create a new department called Jobs Florida by combining the Agency for Workforce Innovation, the Department of Community Affairs, and the Office of Tourism, Trade, and Economic Development.<sup>25</sup>

The proposal in the House of Representatives goes further. Its new Department of Economic Opportunity would consolidate the same agencies as the Senate bill, but would also merge the Florida Sports Foundation, Visit Florida, and the Florida Black Business Investment Board into Enterprise Florida, Inc.<sup>26</sup>

Furthermore, the House bill would also transfer the appropriations and related trust funds for those agencies into the new department and give the governor authority over the funds and the ability to expedite “incentive” awards to companies. That structure would expand existing subsidy programs, including a \$16 million Quick Action Closing Fund already available to the governor “to respond to unique requirements” of a business promising job creation.<sup>27</sup>

The House bill would place in the hands of the governor a \$400 million economic development fund that captures trust funds currently devoted to affordable housing and transportation.

## **Conclusion**

Florida’s already inadequate tax and revenue structure is further skewed by the growth of tax subsidies of questionable benefit to large, profitable corporations. These subsidy programs that spend state tax money deserve as much attention as appropriations for education, public safety, or Medicaid.

By design, economic development tax breaks direct state tax dollars to a selected few corporate winners and leave out thousands of other Florida employers, including small businesses that also created jobs. Furthermore, these corporate subsidy programs diminish tax dollars that otherwise could be invested in public infrastructure that contributes to a high quality of life attractive to companies looking to relocate.

## Selected Fiscal Year 2010 Qualified Target Industry Tax Incentive Refund Payments

Company	Amount of Subsidy
Aetna Rx Home Delivery/Specialty Pharmacy	\$381,144
Beall's, Inc.	\$135,000
Chase dba (doing business as) Global Clearing & Trade Finance Services/ Pricing, Billing & Commerce Solutions	\$332,362
CIT Technology Financing Services, Inc.	\$229,500
Coca-Cola Enterprises, Inc – Shared Services	\$315,000
Connexions.net, Inc.	\$337,500
DHL Express (USA), Inc./ Worldwide Express	\$900,000
Electronic Arts, Inc. - Tiburon	\$625,000
Family Dollar Services, Inc.	\$255,300
Fidelity Global Brokerage Group, Inc.	\$348,949
Fidelity National Financial, Inc. & Subsidiaries	\$5,735,625
Iowa College Acquisition Corporation dba (doing business as) Kaplan University	\$354,750
JetBlue Airways Corporation	\$266,000
Kaman Aerospace Corporation	\$315,000
Lockheed Martin Financial Services	\$200,000
Mitsubishi Power Systems, Inc.	\$234,000
New Millennium Building Systems, LLC	\$693,746
PRC, LLC	\$526,889
PSS World Medical, Inc.	\$518,267
The Bank of New York	\$276,345
The Depository Trust & Clearing Corporation	\$1,250,000

(Source: Enterprise Florida)

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## Endnotes

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