

## **Tax Abatements: Jobs or Corporate Welfare?**

The most recent figures from the State classify 1,810 McMinn County residents as unemployed. Like most caring individuals the City Council of Athens and the McMinn County Commission want the unemployed to have jobs. Since 1995 the City and County have spent over \$1.8 million on industrial and economic development. In an effort to expand the job market in the area those two bodies have now adopted a tax abatement program. The program was pushed forward without any opportunity for public comment and without the thorough public debate that such a program warrants.

No politician is willing to vote against such a program which is touted as creating jobs. The question before us should not be whether one is for jobs, but will the tax abatement program create jobs, or is it just another form of corporate welfare.

The abatement program is intended to work by enticing both new businesses to locate to our area and existing businesses to expand, but it only applies to businesses that are large enough to invest 10,000,000 dollars.

On the surface it sounds as though tax breaks might actually induce such behavior by business, but in reality the evidence indicates otherwise. A 1993 survey of eight hundred corporate real estate executives revealed they ranked incentive packages as not very important in their location decisions - 14<sup>th</sup> out of 17 listed factors; less than one-fourth of those polled rated incentives as "important."<sup>1</sup> A 1994 survey of North Carolina manufacturers found that among 43 factors considered for site selection, state and local inducement programs ranked in the bottom half.<sup>2</sup> No doubt companies do ask for such enticements. But what they are really asking for is icing on the cake. Once they have decided to locate, there seems to be no ethical limit to milking taxpayers. A company wanting to locate in Tennessee will face a 5.6 tax rate in Knoxville, 3.83 in Cleveland, 5.57 in Chattanooga, and 3.19 in Athens - if escaping property tax were the defining factor then why is Athens the smallest community with the highest unemployment?

There are localities where abatements have been in place for decades. The St. Louis Business Journal reported that St Louis' use of tax abatement during the past 30 years has exacted a heavy toll on the city, in particular its public schools, while producing little measurable public benefit.<sup>3</sup>

A Level Four incentive investment in real property would mean a company could be exempt from City and County taxes for ten years if they hire 801 employees. This would total at least \$1.27 million in corporate welfare in the first year alone at a cost of as much as \$1,593 per job created, and there would be nine more years of abatements to follow.

A local business recently ran an advertisement in the DPA stating it has been in business since 1909. Through all those years, it, along with countless other businesses has paid its taxes in both the good and bad times. Now, the existing businesses are being told they are second class, and will be taxed to support other businesses. Only the largest of businesses will be able to take advantage of the tax abatement; it will be mom & pop stores subsidizing the Goliaths. Property owners should keep in mind it is not just businesses which will subsidize the growth, residential taxpayers will do the same.

Part of the abatement programs requires the new jobs to pay the average prevailing wages in the county. This on the surface sounds good, unless you are one of the businesses which currently pays less than the prevailing wages - you may lose employees to the new business which you are being forced to subsidize.

Governor Bredeson's plan to equalize teacher pay across the state is destined to place more of the cost of education on local property taxes.<sup>4</sup> If the abatement program were to entice new businesses, the new jobs would eventually mean more students and expanding schools. Local governments would then face the prospect of again raising taxes on those of us who do pay taxes.

The City of Athens was prepared to implement a tax increase last fall. Due to public opposition it has been postponed until at least after the fall elections. How is it that one moment the City wants to increase taxes and 4 months later it wants to cut taxes - for a selected few?

If the two political bodies really want to see happiness in our area the best thing they can do is keep the crime rate low, keep the roads in good condition, keep the schools above par and make property taxes low for everyone, and especially treat all businesses equally.

### **Endnotes**

- 1.<http://www.cato.org/pubs/regulation/reg19n2b.html>
- 2.<http://www.cato.org/pubs/regulation/reg19n2b.html>
- 3.<http://www.bizjournals.com/stlouis/stories/1998/01/12/story1.html>
4. Daily Post Athenian, March 18,2004 p5

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