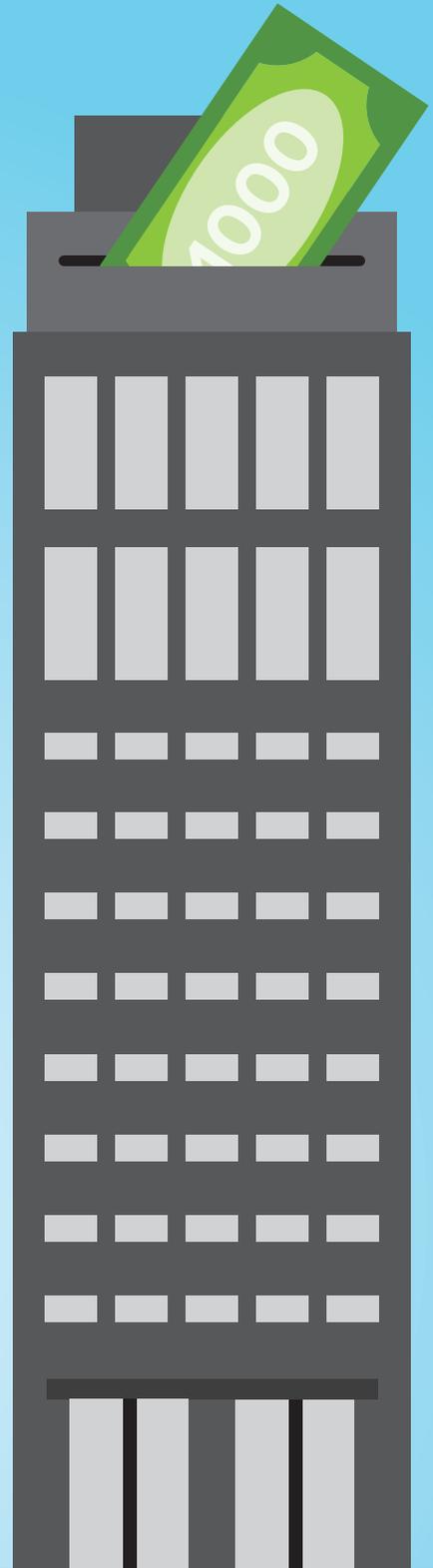


# SHORTCHANGING SMALL BUSINESS

How Big Businesses Dominate  
State Economic Development Incentives



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# Shortchanging Small Business

How Big Businesses Dominate State  
Economic Development Incentives

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# EXECUTIVE SUMMARY

An analysis of more than 4,200 economic development incentive awards in 14 states finds that large companies received dominant shares, ranging between 80 and 96 percent of their dollar values. The deals, worth more than \$3.2 billion, were granted in recent years by programs that, on their faces, are equally accessible to small and large companies. Yet big businesses overall were awarded 90 percent of the dollars from the programs analyzed, indicating a profound bias against small businesses.

The 4,228 awards were chosen for analysis after a careful review of more than 500 incentive programs in which we isolated 16 programs from 14 states: Florida, Indiana (two programs), Kansas, Kentucky, Louisiana, Missouri, North Carolina, New Mexico, Nevada, New York (two programs), Pennsylvania, Vermont, Virginia and Wisconsin. Programs were analyzed, when possible, over the most recent five years of available data.

The fact that there is a slight amount of variation in the degree of big-business dominance among the states is not meaningful, since the programs vary in their targeting as does the industrial composition of the states covered. The key finding is how consistently the programs favor big businesses.

This study errs to the generous in counting small businesses by assuming every award is to a small business unless proven otherwise. It also uses a multiple-variable set of criteria to define large businesses, informed by the small business groups whose opinions we recently published. Those criteria account for employment size as well as total number of establishments and local or independent ownership.

Given small businesses' important role in the economy—and their still-lingering credit access problems coming out the Great Recession—this massive allocation of tax breaks to big businesses is wasteful and ineffective economic development policy.

As a policy solution, we do not recommend a simple reallocation of deals and dollars. Incentives such as those analyzed here often mean little to small businesses. Small business leaders whom we surveyed in our recent report *In Search of a Level Playing Field*, say that public goods such as education, transportation and job training that benefit all employers deserve more support. They emphasized that the long-lingering credit crunch from the Great Recession is their greatest challenge.

To fund these public investments and credit-access needs, we recommend that states reform their incentive rules by narrowing eligibility to exclude large recipients. One could call it means testing corporate welfare. To do so is entirely consistent with the theory of incentives, which is to address “market imperfections,” or to “prime the pump” and then pull back when the market's invisible hand takes over.

At the very least, states should substantially reduce the total amount of subsidy dollars flowing to big businesses, using safeguards such as dollar caps per deal (to end the surge since 2008 in nine- and ten-figure “megadeals”), dollar caps per job (to prevent the astronomical subsidy rates associated with capital-intensive projects like micro-chip fabrication plants), and dollar caps per company (to prevent a dominant employer from distorting spending).

# INTRODUCTION

Small businesses account for a large share of the United States' GDP. A subset of firms that are young and high-growth generate a large share of new jobs. Locally owned firms have been found to generate greater local economic ripple effects than chain establishments or other non-locally owned companies. Though there have long been definitional debates about these firms and their economic contributions (and that is not our topic here), the Small Business Administration, for example, attributes almost half of private nonfarm GDP and almost two-thirds of net new private-sector jobs to what it calls small businesses.<sup>1</sup>

This special place in the job-creation landscape makes small, local and/or entrepreneurial firms a publicly revered class. Indeed, elected officials are given to warm hyperbole about them when making speeches about the economy or economic development.

But does the political rhetoric match spending reality? Are states investing economic development dollars in ways that most benefit small companies, especially those seeking to grow?

In our most recent study, *In Search of a Level Playing Field*, Good Jobs First interviewed 41 leaders of member-based small business organizations in 25 states representing 24,000 member firms to gauge their opinions of economic development incentives. Overwhelmingly, these leaders said that incentives in their respective states favor big business and do not meet the needs of small businesses seeking to grow. They called for a shift in priorities, from focusing on incentive programs that they believe largely benefit big businesses to promoting community-wide investments that benefit all firms; they also

identified access to credit as their members' greatest single challenge.

Hence this study, to check the accuracy of their perceptions. Here we quantify the actual distribution of subsidy deals and dollars between small and large firms for 16 programs in 14 states. Are small business leaders correct in perceiving that big businesses are being subsidized at the expense of policies that support their members?

Two of our prior studies show a strong bias against small businesses, but neither of them set out to examine isolated, controlled subsets of data the way we do here. In *Subsidizing the Corporate One Percent*, we reported that \$110 billion, or 75 percent of the dollar value of state and local incentive deals captured in our Subsidy Tracker database, went to just 965 ultimate global parent companies. And in *Uncle Sam's Favorite Corporations*, we detailed how certain companies such as General Electric and JP Morgan Chase rank high on recipient lists of multiple kinds of subsidies, and we also named some large foreign banks and energy companies as surprisingly prominent beneficiaries of the U.S. federal stimulus.

# METHODOLOGY SUMMARY

(A fuller explication of our methodology is contained in the Methodology section in the Appendix of this study.)

## Program Selection

The 50 states plus DC have about 2,000 economic development incentive programs; however the vast majority of them are not suitable for this study. If a program is written for one specific industry (e.g., Washington State’s \$8.7 billion deal for Boeing and its suppliers), or a program requires a large private-capital outlay or a large new-hire quota, such a program could not provide a valid measure of small versus large-firm beneficiaries. Therefore, we chose programs for analysis that are ostensibly open to both small and large firms based on the following criteria:

- **No to low barriers to entry** – Program must require no more than 10 new jobs or \$100,000 in investment, with a preference for programs that have no thresholds for participation.
- **Data availability** – Recipient data is disclosed and is captured in Good Jobs First’s Subsidy Tracker database with a significant number of records within the last 10 years.\*
- **States** – We looked at all 50 states for eligible programs, looking first at those we have

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\* With the exception of the Missouri Works program, which is not yet in Subsidy Tracker but is publicly disclosed online on the Missouri Department of Economic Development website. The program will be added to Subsidy Tracker during the next update.

“graded” in past studies and those captured in our Subsidy Tracker database.

Applying these criteria we selected 16 programs in 14 states. This list includes two statutory (or “as of right”) program and 14 discretionary programs. The subsidies available under the selected programs predominantly take the form of tax credits or abatements with a few structured as grants or loans.

## Analysis Time Period

Programs were analyzed over the most recent five years of available data. Where five years of data were not available, we analyzed the longest time period available as long as there were at least 30 recipient records. We analyzed the newest data available to us as of the beginning of our project.

## Small Business Definition

Our definition of small business was developed to reflect the membership criteria of the groups that we surveyed for *In Search of a Level Playing Field*. These groups primarily consisted of independent and locally owned businesses, with 98 percent of their member firms employing 100 or fewer people. As such, we developed a definition of small business that uses the 100-employee threshold as a first test, then tests again for characteristics of local and independent ownership. Our definition is more targeted than many, such as the standard SBA definition, in order to tease out those firms that

are not just small but are also the most rooted in their local economies.

Specifically, we used these criteria:

- Small Business: 100 employees or less, **and** independently and locally owned, **and** with 9 or fewer establishments.
- Large Business: greater than 100 employees, **or** a company of any size that is not independently and locally owned, **or** has 10 or more establishments

For the balance of this study, then, when we say “small business,” that is shorthand for this hybrid definition that also seeks to capture local (or at least in-state) and independent ownership. By default, “large business” means everything else: multistate or multinational companies, of course, but also companies with many branches, more than 100 employees and/or remote ownership.

## Researching Program Recipients

In order to apply this definition to the several thousand recipients, we did extensive research on the firms to determine their size and ownership characteristics *in the year they were awarded the incentive*.<sup>\*</sup> To determine that, we first ran the recipient lists through our proprietary subsidiary-parent matching system created for our Subsidy Tracker database. The system now captures any subsidiary associated with 1,833 global corporate parent companies and is updated periodically to reflect mergers and acquisitions. When we ran the 16 recipient

lists through this matching system, it eliminated from the possible pool of small/local deals between 5 percent and 48 percent of each program’s list. (We use “eliminated” here to mean excluded from the small/local pool. That is another way of saying that our methodology errs to the generous counting of small firms; entries are deemed “small” until proven otherwise.)

Next we matched the recipient records to the 2012 National Establishment Time Series (NETS) and we found it necessary to do this manually. We were able to match another 55 percent of the program records overall. For the remaining records we used web-based research including Duns Market Identifiers Plus accessed through Lexis-Nexis, Reference USA, company websites, original program data, press releases and other news sources. Once this data was collected we coded records as small or large based on the specific data points.

As a final pass, we selected random records matched to NETS that were coded as small to ensure that this coding matched what we would have found through the more extensive web research done on the second batch of records. We found that 30 percent of these records were misclassified. That prompted us to review all of the records that had been coded as small based solely on NETS data, using the additional methods listed above.

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\* With the exception of the New Mexico High Wage Tax Credit Program, where only the year of tax credit claims are reported.

# BIG BUSINESSES DOMINATE, WITH 80 TO 96 PERCENT OF SUBSIDY DOLLARS

Despite differences among the programs examined and the industrial profiles of the states that offer them, there is an overwhelming national bias evident. Across the 16 programs in 14 states examined, large companies are receiving 80 to 96 percent of the subsidy dollars, and somewhat smaller but still very disproportionate shares of the deals (indicating that deals granted large businesses are more lucrative). Overall, big businesses received 90 percent of the \$3.2 billion awarded, and 70 percent of the deals.

The fact that there is a slight amount of variation in the degree of big-business dominance among the states is not meaningful, since the programs vary in their targeting as do the corporate demographics of the states covered. The key finding here is how consistently the programs favor big businesses.

Table 1 below summarizes the split for each program analyzed. Each program's results are discussed in detail in the following section.

**TABLE 1. Distribution of Deals and Dollars to Large Companies by Program**

State	Program	Years Analyzed	Deals		Dollars	
			Total Records Analyzed	% to Large Recipients	Total Value	% to Large Recipients
FL	Qualified Target Industry Tax Refund	2009–2013	346	77%	\$148,756,810	89%
IN	EDGE Tax Credits	2010–2014	654	67%	\$617,515,505	87%
IN	Hoosier Business Investment Tax Credit	2010–2014	159	83%	\$80,449,815	96%
KS	Promoting Employment Across Kansas (PEAK)	2010–2014	203	81%	\$43,936,329	95%
KY	Business Investment Program	2010–2014	485	75%	\$724,059,031	91%
LA	Quality Jobs Program	2009–2013	141	79%	\$559,940,498	94%
MO	Missouri Works	2013–2014	136	69%	\$47,506,659	89%
NC	One NC Fund	2008–2013	182	93%	\$26,376,376	95%
NM	High Wage Jobs Tax Credit	2011–2013	236	70%	\$77,659,445	93%
NV	Personal Property Tax Abatement	2007–2011	73	79%	\$56,149,992	96%
NY	Excelsior Program	2013–2014	282	65%	\$469,074,830	89%
NY	Industrial Development Agencies (NYC only)	2014	307	39%	\$82,471,363	80%
PA	Job Creation Tax Credit	2010–2014	243	74%	\$49,738,000	89%
VA	Virginia Jobs Investment Program	FY2011–2014	339	75%	\$36,688,378	91%
VT	Vermont Employment Growth Incentive (VEGI)	2009–2013	59	63%	\$49,948,440	83%
WI	Economic Development Tax Credit	2010–2014	383	55%	\$132,232,765	80%
<b>Totals and Shares</b>			<b>4,228 total awards</b>	<b>70% weighted award-share average</b>	<b>\$3,202,504,236 total awarded</b>	<b>90% weighted \$-share average</b>

# Results by State and Program

## Florida

### Qualified Target Industry Tax Refund

The Qualified Target Industry Tax Refund is available to companies in selected industries and to headquarters. To be eligible, a project has to result in 10 jobs or a 10 percent increase in employment. The program is structured as a refund of various taxes, including corporate income, sales, and ad valorem taxes.

We analyzed this program from 2009 to 2013. Over this time period, there were 349 deals valued at \$149 million (total over the life of the awards); three of these deals were excluded due to lack of company data, thus 346 deals were analyzed at a total value of \$148.7 million. Large companies (for example, Ernst & Young) captured 77 percent of those deals and 89 percent of the dollars.

#### Florida Qualified Target Industry Tax Refund, 2009–2013

Deals			Dollars		
Total	# Large	% Large	Total	Sum Large	% Large
346	268	77%	\$148,756,810	\$132,115,910	89%

## Indiana

### Economic Development for a Growing Economy (EDGE) Tax Credit

Indiana’s EDGE program is an expensive discretionary refundable tax credit program available to a wide array of businesses that requires a local match. It is tied to job creation and wages, negotiated on a case-by-case basis; there is no minimum job creation or investment threshold. The credit is issued as a corporate income tax credit lasting up to 10

years, calculated as a percentage (not to exceed 100 percent) of the projected increase in tax withholdings generated from new job creation. Projects are evaluated on job creation, capital investment, and wages as well as a cost-benefit analysis.

We analyzed this program between 2010 and 2014, covering 654 deals valued at \$617.5 million. Large companies captured 67 percent of these deals and 87 percent of the dollars.

#### Indiana EDGE Tax Credit, 2010–2014

Deals			Dollars		
Total	# Large	% Large	Total	Sum Large	% Large
654	438	67%	\$617,515,505	\$536,962,624	87%

### Hoosier Business Investment Tax Credit

The Hoosier Business Investment Tax Credit is a more modest program, providing a discretionary non-refundable tax credit to a wide array of businesses. It is more focused on companies making significant capital investments and is negotiated on a case-by-case basis; there is no minimum job creation or investment threshold. The tax credits are calculated as a percentage of the eligible capital investment to support the project, and last up to ten years. The program requires a local match.

We analyzed this program from 2010 to 2014. During this period there were 159 deals valued at \$80.4 million. Large companies captured 83 percent of these deals and 96 percent of the dollars.

#### Indiana Hoosier Business Investment Tax Credit, 2010–2014

Deals			Dollars		
Total	# Large	% Large	Total	Sum Large	% Large
159	132	83%	\$80,449,815	\$76,994,315	96%

## Kansas

### Promoting Employment across Kansas (PEAK)

Promoting Employment across Kansas is a highly controversial program that has contributed to the Kansas-Missouri “economic border war” within Kansas City metro region. To be eligible, companies have to create at least 10 jobs in metropolitan counties and five jobs in all other counties. PEAK allows eligible companies to retain 95 percent of the incremental state payroll withholding tax for five to seven years.

We analyzed this program from 2010 to 2014, when there were 206 deals valued at \$44.1 million; we excluded three deals from the analysis due to a lack of company data, leaving for analysis 203 deals with a total value of \$43.9 million (one-year value). Large companies captured 81 percent of those deals and 95 percent of the dollars.

### Promoting Employment Across Kansas, 2010–2014

Deals			Dollars		
Total	# Large	% Large	Total	Sum Large	% Large
203	164	81%	\$43,936,329	\$41,617,329	95%

## Kentucky

### Business Investment Program

The Kentucky Business Investment Program targets companies in non-retail sectors, primarily in manufacturing, agribusiness as well as any headquarters locations. To be eligible a company must create a minimum of 10 new fulltime jobs and make a minimum investment of \$100,000. The subsidy is given as a corporate income tax credit for up to 15 years.

We analyzed this program from 2010 to 2014, when there were 490 subsidy deals valued at \$732 million. We dropped five deals from our sample because we were not able to locate any information on the recipients, leaving a total sample of 485 deals valued at \$724 million. Large companies (including Lockheed Martin, General Motors and subsidiaries of ConAgra Foods) captured 75 percent of these deals and 91 percent of the dollars.

### Kentucky Business Investment Program, 2010–2014

Deals			Dollars		
Total	# Large	% Large	Total	Sum Large	% Large
485	362	75%	\$724,059,031	\$659,243,531	91%

## Louisiana

### Quality Jobs Program

The Quality Jobs targets companies in selected industry sectors. To be eligible, companies have to create a minimum of five new jobs, provide and contribute to a basic health benefit plan, and pay a minimum wage of \$14.50 an hour. The subsidy is given for up to 10 years as cash rebate equal to 6 percent of annual wages and either a sales and use tax rebate or a refundable investment tax credit.

We analyzed this program from 2009 to 2013, with 145 deals valued at \$568 million (total over life of awards). Four deals were dropped from the analysis due to lack of company data, leaving 141 deals valued at \$560 million. Large companies captured 79 percent of those deals and 94 percent of the dollars.

### Louisiana Quality Jobs Program, 2009–2014

Deals			Dollars		
Total	# Large	% Large	Total	Sum Large	% Large
141	111	79%	\$559,940,498	\$527,175,232	94%

## Missouri

### Missouri Works

We analyzed three of the five components of the Missouri Works program: Zone, Rural, and Statewide. These components are mainly statutory and are accessible by small businesses by requiring creation of at least two jobs and a \$100,000 investment, or at least 10 new jobs but no investment. The main subsidy provided by the program is retention of 100 percent of state withholding tax of new jobs for up to six years. The Statewide component also provides discretionary a tax credit.

We analyzed this program from 2013 to 2014, spanning 136 deals valued at \$48.1 million (total over life of awards). Five records had to be excluded due to lack of company data, leaving 141 deals valued at \$47.5 million. Large companies captured 69 percent of those deals and 89 percent of the dollars.

#### Missouri Works, 2013–2014

Deals			Dollars		
Total	# Large	% Large	Total	Sum Large	% Large
136	94	69%	\$47,506,659	\$42,422,965	89%

## Nevada

### Personal Property Tax Abatement

The Nevada Personal Property Tax Abatement is a ten-year abatement of as much as 50 percent of the personal property taxes owed by companies locating or expanding in the state. To be eligible, projects must meet at least two out of three requirements related to wages, jobs, and capital investment.

We analyzed this program between 2007 and 2011, when there were 73 deals valued

at a total of \$56.1 million. Large companies captured 79 percent of these deals and 96 percent of the dollars.

#### Nevada Personal Property Tax Abatement, 2007–2011

Deals			Dollars		
Total	# Large	% Large	Total	Sum Large	% Large
73	58	79%	\$56,149,992	\$54,147,960	96%

## New Mexico

### High Wage Jobs Tax Credit

High Wage Jobs is a tax credit against gross receipts, compensating, and withholding taxes for each job created. There is no specific job creation requirement but each created job must pay \$40,000 or \$60,000 per year (\$28,000 and \$40,000 for jobs created before July 2015), depending on their location, and companies must make more than 50 percent of their sales outside of the state.

We analyzed this program from 2011 to 2013, with 236 deals valued at \$77.7 million (one year value). Large companies (including, for example, Fidelity Investments) captured 70 percent of those deals and 93 percent of the dollars. The program awards were obtained via freedom of information request.

#### New Mexico High Wage Jobs Tax Credit, 2011–2013

Deals			Dollars		
Total	# Large	% Large	Total	Sum Large	% Large
236	166	70%	\$77,659,445	\$71,950,155	93%

## New York

### Excelsior Program

The Excelsior Jobs Program is a discretionary state tax credit made available to eligible companies in certain targeted industries. It consists of two tracks, the Jobs Growth Track and the Investment Track. Companies enrolled in the Investment Track must retain a minimum of 25 employees (or 10 employees if the firm is a manufacturer), and must make significant capital investments to a facility in New York State yielding a cost-benefit ratio of \$10 of investment per \$1 of tax credit. For the Jobs Growth Track minimum job requirements vary by industry and whether the company is considered regionally significant; job requirements range from 5 to 75.

Credits are performance based; companies can claim credits worth 6.85 percent of gross wages per new job created, two percent of qualified investments, and 50 percent of the federal research and development credit for up to three percent of research spending in New York State.

We analyzed this program between 2013 and 2014, when 284 deals were made, valued at \$470.6 million.\* Two deals were excluded due to lack of company data, leaving 282 deals valued at \$469 million. Large companies captured 65 percent of these deals and 89 percent of the dollars.

#### New York Excelsior Program, 2013–2014

Deals			Dollars		
Total	# Large	% Large	Total	Sum Large	% Large
282	182	65%	\$469,074,830	\$416,975,731	89%

\* In the case of the Excelsior data we used, the value of each subsidy is the potential tax credit available to a firm, if full job creation projections are met.

## New York City Industrial Development Agency

The New York City Industrial Development Agency provides subsidies through a variety of programs in an effort to retain, attract and assist companies seeking to expand in New York City. While there are no defined selection criteria, companies seeking subsidies will be reviewed by NYCIDA staff and a project's proposed investment, potential for job creation, alternative locations, and other factors are weighed in a cost-benefit analysis. Individual project agreements define the specific terms of each subsidy, including the time period over which benefits will be conveyed (usually between 10 and 25 years), the value of the subsidy, as well as any requirement to create or retain jobs.

We analyzed the NYCIDA's activity in 2014, reviewing 307 deals valued at \$82.5 million. Large companies captured 39 percent of these deals and 80 percent of the dollars. New York City's history of large corporate retention deals has benefitted companies such as Goldman Sachs, Chase Manhattan, and the New York Yankees. While these projects were approved in previous mayoral administrations, these firms continue to reap annual benefits.

#### New York City Industrial Development Agency, 2014

Deals			Dollars		
Total	# Large	% Large	Total	Sum Large	% Large
307	121	39%	\$82,471,363	\$66,135,092	80%

## North Carolina

### One North Carolina Fund

The One North Carolina Fund is a broadly defined program requiring a local government match. There is no minimum threshold for job creation/retention or investment, however projects must pass a wage test and an economic impact analysis is used to review each project and determine the level of subsidy. Funds are disbursed as cash grants in installments as project benchmarks are met.

We analyzed this program from 2008 to 2013, with 182 deals valued at \$26.4 million. Large companies (such as General Electric, Smithfield Foods, Goodyear and Bayer) captured 93 percent of these deals and 95 percent of the dollars.

### One North Carolina Fund, 2008–2013

Deals			Dollars		
Total	# Large	% Large	Total	Sum Large	% Large
182	169	93%	\$26,376,376	\$25,041,176	95%

## Pennsylvania

### Job Creation Tax Credit

The Pennsylvania Job Creation Tax Credit awards a \$1,000 tax credit per new job created within three years. The tax credits can be applied to eight different business tax liabilities, including corporate and personal income taxes. Small businesses are eligible if they increase employment by ten percent or more over three years; companies with over 100 employees must add 25 new jobs or increase employment by 20 percent. The program specifies that 25 percent of the tax credits must be awarded to companies with fewer than 100 employees.

We analyzed this program between 2010 and 2014, when there were 244 deals valued at \$49.8 million; just one of these deals was

removed from our final sample due to lack of data, leaving 243 deals valued at \$49.7 million. Large companies (including Comcast, Boeing, Office Depot, and Verizon) captured 74 percent of these deals and 89 percent of the dollars.

### Pennsylvania Job Creation Tax Credit, 2010–2014

Deals			Dollars		
Total	# Large	% Large	Total	Sum Large	% Large
243	181	74%	\$49,738,000	\$44,347,000	89%

## Vermont

### Vermont Employment Growth Incentive

The Vermont Employment Growth Incentive (VEGI) program is structured as a cash grant disbursed in five annual installments pending continued performance. There is no minimum job creation/retention or investment threshold nor any limitation on industry sector however the new jobs must meet a wage standard and provide a minimum level of benefits. Each potential project is evaluated against nine “quality guidelines” and a cost-benefit analysis is used to determine the size of the award.

We analyzed this program’s recipients between 2009 and 2013, when there were 60 awards valued at \$50 million; just one of these deals was removed from our final sample, leaving 59 deals valued at \$49.9 million. Large companies captured 63 percent of the deals and 83 percent of the dollars.

### Vermont Employment Growth Incentive, 2009–2013

Deals			Dollars		
Total	# Large	% Large	Total	Sum Large	% Large
59	37	63%	\$49,948,440	\$41,484,504	83%

## Virginia

### Virginia Jobs Investment Program

The Virginia Jobs Investment Program is targeted to what the state considers basic industries and facility types: manufacturing, regional distribution centers, corporate headquarters for companies with multiple facilities, information technology services exclusively for businesses and research and development facilities. Businesses with under 250 employees company-wide must create five new jobs and make a minimum investment of \$100,000. For businesses over 250 employees company-wide the job threshold is 25 with a minimum investment of one million.

We looked at recipients of the VJIP program between fiscal year 2011 and 2014, when there were 341 subsidy deals valued at \$36.8 million; two of these deals were removed from the sample due to lack of data, leaving 349 deals valued at \$36.7 million. Large companies (including Tyson Farms, DuPont and Home Depot) captured 75 percent of those deals and 91 percent of the dollars distributed.

### Virginia Jobs Investment Program, FY2011–2014

Deals			Dollars		
Total	# Large	% Large	Total	Sum Large	% Large
339	255	75%	\$36,688,378	\$33,231,094	91%

## Wisconsin

### Economic Development Tax Credit

The Wisconsin Economic Development Tax Credit is a discretionary program offering a tax abatement up to 50 percent of personal property taxes. To be eligible a project must create new full-time, permanent jobs; there is no specific minimum threshold but recipients must meet at least 85 percent of their promised job creation and maintain the jobs for five years. Created jobs must also meet wage and benefit standards. There is a \$5 million set-aside for businesses smaller than 100 employees and/or located in rural areas.

We analyzed this program between 2010 and 2014, when there were 283 deals valued at \$132.2 million. Large companies captured 55 percent of these deals and 80 percent of the dollars.

### Wisconsin Economic Development Tax Credit, 2010–2014

Deals			Dollars		
Total	# Large	% Large	Total	Sum Large	% Large
383	212	55%	\$132,232,765	\$105,202,790	80%

# POLICY CONCLUSION: TIME TO NARROW ELIGIBILITY AND CAP DOLLARS

State economic development incentive programs—even those that are facially neutral as to company size or have very low qualifying barriers—are profoundly biased against small, local and entrepreneurial businesses. States, which legally enable and regulate incentives (even those administered by local governments) are failing to walk the talk when it comes to valuing small business job creators.

When on average only two percent of a state’s employers have more than 100 employees<sup>2</sup>, yet such firms are receiving 80 or 90+ percent of incentive dollars, there is a deep policy mismatch that disfavors most U.S. employers.

Our recommended policy solution, however, is not a reallocation of subsidy deals and dollars. Indeed, a large majority of small business leaders we interviewed for *In Search of a Level Playing Field* told us that traditional incentives, like those examined here, mean less to their members than other forms of assistance.

Instead, many interviewees volunteered that they would like to see increased investment in public goods that benefit all employers such as job training, education, and transportation, and that stronger job quality standards are needed in order to lift consumer buying power critical to so many small businesses. Better access to credit remains the single greatest need for many small businesses represented in our interviews; any state serious about strengthening its small business employer base must have an intentional credit-access program in effect.

To fund these public investments and credit-access efforts, we recommend that states reform their incentive rules by narrowing eligibility to exclude large recipients. One could call it means testing corporate welfare. To do so is entirely consistent with the theory of incentives, which is to address “market imperfections,” or to “prime the pump” and then pull back when the market’s invisible hand takes over.

Large companies by definition are less likely to need help: they have management depth, access to credit, and established markets for their products or services. Subsidizing large companies is, on its face, not “leveraging” something that would not have happened otherwise, yet that is the definition of the word “incentive.”

Spending taxpayer money where it is not needed is a waste of money, pure and simple. In the same spirit, we have in other studies criticized deals granted in wealthy areas that don’t need help to attract investment while areas hard-hit by plant closings are getting almost no public support via incentive deals. Our solution there is also to

reform eligibility rules, in that case so as to deny unneeded subsidies to affluent areas and instead steer job creation where it is most needed.

At the very least, states should substantially reduce the total amount of subsidy dollars flowing to big businesses, using safeguards such as dollar caps per deal (to end the surge since 2008 in nine- and ten-figure “megadeals”), dollar caps per job (to prevent the astronomical subsidy rates associated with capital-intensive projects like micro-chip fabrication plants), and dollar caps per company (to prevent a dominant employer from distorting spending).

Our recommending big-business disqualification and/or dollar caps may seem like arbitrary solutions, but we come to them after decades of growing power asymmetry between the private and public sectors in the site location process, and after seven years of surging “megadeals” that show no signs of abating. If state policymakers want to walk the talk for the small businesses they are so quick to praise, they need to quit the tax-break race to the bottom, abandon “buffalo hunting,” and embrace their incumbent small employers.

Finally, we acknowledge that states also offer programs specifically intended to assist small businesses, but we believe they are typically dwarfed in dollar value by programs benefitting large firms. In our next study, we will drill down further in three of the states analyzed here, asking about “bang for the buck:” how do they compare by such metrics as subsidy cost per job—small employers versus big businesses?

# APPENDIX

## Methodology

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### Program and Deal Selection

In order to test whether incentive distribution was biased toward big businesses we selected programs for evaluation that had no or low eligibility requirements for entry, meaning that small businesses could easily qualify for them. We set a threshold that programs for analysis should not require creation of more than 10 jobs and/or private investment of more than \$100,000.

We also, of course, needed programs with good available recipient data. All programs except one, Missouri Works, are captured in Subsidy Tracker, Good Jobs First's database of economic development subsidy awards from all 50 states, numerous localities and federal agencies.<sup>3</sup> Many of the program awards are disclosed online by state economic development agencies or state departments of revenue. Two programs, New Mexico's High Wage Jobs Tax Credit and Virginia's Virginia Jobs Investment Program, have no online disclosure. The data for those programs was obtained through freedom of information requests we submitted while growing Subsidy Tracker.

We started with the approximately 240 major state programs that we know best because have "graded" them in several past studies on various accountability metrics. Next we examined more than 300 additional programs for which we have recipient data in Subsidy Tracker. In each case, we had to review program requirements to look for entry barriers.

After a careful review of more than 500 programs nationally, we isolated 16 from 14 states. Programs were analyzed over the most recent five years of available data. Where five years of data were not available, we analyzed the longest time period available as long as there were at least 30 recipient records.

We decided to keep deals in the study pool even if they were later terminated for poor or non-performance (for some programs in states such as Florida and New York we know which deals those are; for others, such as in Virginia, information on terminated deals came up during the research process). We did so because here we are evaluating the resource-allocation decisions agencies make (not what happens afterwards) and because information on terminated deals is not available for all programs and deals.

### Small Business Definition

In this analysis, subsidy recipients are categorized as small businesses or large businesses based on characteristics of the business in the year they were awarded the subsidy (with an exception of the New Mexico program where we only have the years of tax credits claimed). Our size definition was developed to reflect the characteristics of the businesses that were represented by the organizations we interviewed in our small business survey report.<sup>4</sup> As such, our definition comprises not just size but also ownership characteristics that make a firm local and independent. In our survey of leaders of small business organizations, we found that these groups tended to focus not strictly on firms that are small based on employment but rather

firms that are locally and independently owned. In practice, however, 98 percent of the firms they represent have fewer than 100 employees and 60 percent of the firms have fewer than 10 employees.

Such firms, as studies by groups such as Civic Economics have found, have larger economic ripple effects than do non-local companies because they are more highly engaged with the local economy, tending to bank, advertise, volunteer, participate philanthropically and procure more locally. By contrast, multinational firms that are based outside of a state are generally more connected to national or global economic networks, hiring and/or procuring more from outside the local economy. While these firms may have greater output, they generate less impact locally because they have fewer local linkages.

Based on this we developed the following definitions:

- Small Business: 100 employees or less, **and** independently and locally owned, **and** with 9 or fewer establishments.
- Large Business: greater than 100 employees, **or** a company of any size that is not independently and locally owned, **or** has 10 or more establishments

In order to apply these definitions we researched subsidy recipients through our own proprietary subsidiary-parent database, the National Establishment Time Series (NETS) dataset and other online and news sources detailed below.

## Researching Program Recipients

Three primary methods were used to research program recipients and understand their

employment and ownership characteristics at the time of the awarded subsidy. First, we used our Subsidy Tracker to look for larger corporate parents and also to identify job creation goals so large as to disqualify a recipient as “small.” If a recipient had a known corporate parent it was categorized as large. Similarly if the recipient promised to create more than 150 jobs, according to Subsidy Tracker data, it was categorized as large. Because firms do not always meet their job creation expectations we set this threshold higher than the 100-employee threshold in the base definition. Using Subsidy Tracker this way enabled us to exclude from the “small” pool between 5 and 48 percent of each program’s recipients.

Next we attempted to match all recipients to the National Establishment Time Series (NETS) 2012 dataset, the enormous U.S. business census from Walls and Associates, created with Dun & Bradstreet. This dataset includes a high level of detail on individual establishments with fields including annual employment, number of related establishments, subsidiary status, and foreign ownership. Recipients were matched to this dataset one at a time; where a recipient name and location from Subsidy Tracker matched the company name and location in NETS, this was taken as a definite match. Where the name matched but the location did not, the match was verified or disqualified through other sources – such as company website, press releases and/or Secretary of State incorporation records.

Once records were matched we were able to code the recipients as small or large based on the NETS data fields in the year closest to when they were awarded a subsidy. Coding was based on the following data fields:

1. **EmpXX:** employment at the establishment in the year of the award
2. **PubPriv:** where Y = Public, N = Private or Government
3. **Subsidiary:** where Yes = 50 percent or more owned by another corporation
4. **ForeignOwn:** where N = not foreign owned, Y = foreign ownership
5. **Related + Kids:** where “Related” gives the number of establishments with the same HQ, “Kids” gives the number of establishments with this record as parent

We then spot-checked the records to ensure that the coding was appropriate; during this process we found that a high percentage (around 30 percent) of the randomly checked records that had been coded as small (based on NETS matches) were in fact large companies. That prompted us to go back and individually check all of the records that were initially coded as small based on NETS data, to ensure that firms were not misclassified. This research was based on Dun & Bradstreet records accessed through the Market Identifiers Plus database in Lexis-Nexis, Reference USA, company websites, original program data, press releases and other news sources. While the NETS dataset is based on Dun & Bradstreet records, accessing the D & B information through Lexis-Nexis was still often helpful due to the three-year age of the NETS data.

For records that we were not able to match to NETS, research was done using web-based sources to determine the recipient’s size, corporate parentage, headquarters location, and number of establishments. The primary sources for this research were again the Market Identifiers Plus accessed through Lexis Nexis,

Reference USA, company websites, original program data, press releases and other news sources. A small number of firms could not be located through any of these sources and these were excluded from the sample, as noted in our narrative results by program. These excluded records accounted for less than .01 percent of the total original sample across all programs and no more than 3.6 percent for any individual program.

## Program Descriptions

### Florida: Qualified Target Industry Tax Refund

The Qualified Target Industry Tax Refund (QTI) was enacted in 1995 with the intent to “spur job creation in Florida’s target industries.” The program also aims to create jobs “at higher than average wages.”<sup>5</sup> The newest cost figures for the program are \$47.9 million in approved subsidies in FY 2014 and \$6.3 million in subsidies paid out that year on contracts signed in previous years.<sup>6</sup>

QTI is structured as a refund of various taxes, including corporate income, sales, and ad valorem taxes. Companies are eligible for a tax refund of \$3,000 per job but larger benefits are available depending on other factors, for example, location of the new jobs. Also, businesses paying more than 150 percent of average annual wage are eligible for additional per-job benefits. Companies can claim the subsidy for four to ten years.

QTI is a discretionary, performance-based program. In order to receive the tax benefit a company has to meet its job creation and wage requirements stipulated in a contract with

the state and has to maintain those jobs for a minimum of three years.

There is no specific job creation requirement but, according to the statute, a project has to result in 10 jobs or increase in the employment by 10 percent (so that on a base of, for example, 20 employees, only 2 new jobs would be required).<sup>7</sup> Companies have to be in selected targeted industries: Aviation and Aerospace, Life Sciences, Manufacturing, Defense & Homeland Security, Information Technology, Financial & Professional Services, Logistics & Distribution, Cleantech, and Headquarters. Localities where the company locates must contribute 20 percent of the total tax refund.

## **Indiana: Economic Development for a Growing Economy (EDGE)**

EDGE Tax Credits are an expensive discretionary refundable tax credit program available to a wide array of businesses in Indiana.<sup>8</sup> It is frequently tied to job creation and wages with those standards negotiated on a case-by-case basis. The program was enacted in 1994.

There is no strict job creation requirement other than a positive number of net new permanent full-time jobs to the state; however, contracts often include job creation standards negotiated on a discretionary basis. Similarly, the program lacks a pre-determined wage standard, but agreements often include wage standards tied to averages and payroll negotiated on a case-by-case basis. There is no capital investment requirement, and although companies can be required to make a certain capital investment in their agreement, frequently it is not required. Localities are required to have offered some sort of additional incentive as well.

Each project is said to be evaluated on job creation, capital investment, and wages as well as a cost-benefit analysis. Projects are required to attest that “but-for” the subsidy, the project would not occur. The credits are phased over a 10 year period.

In 2014, \$223.7 million in EDGE Tax Credits were awarded.<sup>9</sup>

## **Indiana: Hoosier Business Investment Tax Credit**

The Hoosier Business Investment Tax Credit is a modest discretionary non-refundable tax credit program available to a wide array of businesses in Indiana more narrowly focused on companies making significant capital investments and negotiated on a case-by-case basis.<sup>10</sup> It was enacted in 2003.

The program does not contain a strict job creation requirement other than a net positive number of new permanent full-time jobs to the state. Contracts often include job creation standards negotiated on a discretionary basis. Similarly, there is no pre-determined wage standard. Agreements often include wage standards tied to averages and payroll negotiated on a case-by-case basis. This program contains a strict capital investment requirement and ties the size of the subsidy to the amount of capital investment made. Localities are required to have offered some sort of additional incentive as well.

Each project is said to be evaluated on job creation, capital investment, and wages as well as a cost-benefit analysis. Projects are required to attest that “but-for” the subsidy, the project would not occur. The credits are phased over a 10 year period.

In 2014, \$7.3 million in Hoosier Business Investment Tax Credits were claimed and awarded on tax returns.<sup>11</sup>

## **Kansas: Promoting Employment Across Kansas**

Promoting Employment Across Kansas, or PEAK, is a highly controversial program that has contributed to the Kansas-Missouri “economic border war” within the Kansas City metro region.<sup>12</sup> The program was enacted in 2009 to compete with a similar Quality Jobs Program in Missouri (since then replaced with Missouri Works).

PEAK is a performance-based, discretionary program that allows eligible companies to retain 95 percent of state payroll withholding tax for five to seven years. Originally, the program was available only to new or relocating to Kansas companies but later it was changed to allow benefits to expanding Kansas companies.

Companies have two years to create a minimum of 10 jobs in metropolitan counties and five jobs in all other counties. They are also required to pay above the county median wages and make available and contribute to an “adequate” health benefit plan. Businesses must submit a PEAK application before they locate or create jobs in the state. The last readily available cost figure for the program is \$12.5 million in 2012.

## **Kentucky: Business Investment Program**

The Kentucky Business Investment Program is a discretionary program which targets companies in non-retail sectors, primarily in manufacturing, agribusiness as well as any headquarters locations.<sup>13</sup> It was created in 2009 through combining and streamlining four other

incentive programs: Kentucky Rural Economic Development Act, Kentucky Industrial Development Act, Kentucky Jobs Development Act, and Kentucky Economic Opportunity Zone Act.<sup>14</sup>

To be eligible a project must create a minimum of 10 new fulltime jobs and have a minimum investment of \$100,000. The new jobs must pay 125 to 150 percent of the federal minimum wage (a very low bar), depending on project location, and provide a minimum level of benefits. As a performance-based program, if these requirements are not met prior to the activation or upon annual review, the award can be terminated.

A non-refundable \$1,000 application fee is required. Applicants are also required to pay an administrative fee equal to .25 percent of the authorized incentive, up to \$50,000, as well as all legal fees associated with the preparation of the incentive agreement.

The subsidy is given for 10 to 15 years dependent on project location through two mechanisms: a tax credit of up to 100 percent of corporate income or limited liability entity tax, and wage assessment of up to five percent of gross wages per new employee. The program cost varies greatly year to year; in 2013 the total value of the incentives authorized was \$158.9 million.<sup>15</sup>

## **Louisiana: Quality Jobs Program**

Quality Jobs Program was enacted in 1995 and its purpose is to “to encourage business to locate or expand existing operations in Louisiana and create quality jobs.”<sup>16</sup>

It is a discretionary, performance-based program that provides to approved companies: a cash

rebate of six percent on 80 percent of annual wages for five years (with an option to prolong the payments for another 5 years) for new hires; and either a four percent sales and use tax rebate on capital expenditures or a 1.5 percent refundable investment tax credit on the total capital investment. The cost of the program in FY 2014 was \$55.8 million (Louisiana Department of Revenue projects that in FY 2016 the program will cost the state about \$60.7 million).<sup>17</sup> Companies in selected industry sectors are eligible: Bioscience, Manufacturing, Software, Environmental Technology, Food Technology, Advanced Materials, or Oil and Gas Field Service.

In order to receive the benefits, a company has to create a minimum of five new jobs, provide and contribute to a basic health benefit plan, and pay its workers minimum of \$14.50 per hour in wages and healthcare benefits. Companies of 50 workers or less must also achieve within three years a payroll of \$250,000 for the new jobs (\$500,000 for larger companies).

## Missouri: Missouri Works

Missouri Works program was created in 2013 and went into effect on August 28th of that year.<sup>18</sup> It replaced several older subsidy programs in the state. The purpose of the program is to “facilitate the creation of quality jobs by targeted business projects.”<sup>19</sup>

Missouri Works has five components: Zone, Rural, Statewide, Mega 120 and Mega 140, and Retention Works. We are analyzing only three components which, in our opinion, are accessible to small businesses: Zone, Rural, and Statewide Works. (The Mega Works components we excluded require creation of at least 100 jobs

and the Retention portion requires retaining 50 jobs, well above our thresholds.)

Zone and Rural Works require creation of a minimum of two jobs and \$100,000 investment and the Statewide Works component requires at least 10 new jobs but has no investment requirement. The wage requirement is 80, 90 and 90 percent of county average wage, respectively. Companies also must provide and contribute to a health benefit plan for workers.

Zone and Rural Works are statutory, performance-based components that allow companies to retain 100 percent of state withholding on the new jobs for five years (six years for existing Missouri companies). Statewide Works has the same statutory withholding tax benefit as the other two components, but in addition it allows a refundable tax credit that equals six percent of new payroll to selected companies.

The amount of tax credits issued each year has been capped: \$106 million for FY 2014, \$111 million for FY 2015, and \$116 million for FY 2016 and forward.

## Nevada: Personal Property Tax Abatement

Nevada’s Personal Property Tax Abatement is a ten-year abatement of as much as 50 percent of the personal property taxes owed by companies locating or expanding in the state.<sup>20</sup> The program began in 1997.

Eligibility requirements vary depending on the location of the project (urban or rural), the industry of the recipient (manufacturing related or not), and whether the recipient is new to the state or an expansion within the state. For each type of project, the recipient must meet two out

of three sets of requirements tied to job creation, wages, and/or capital investment.

For urban areas, the average hourly wage must be equal to or greater than the average statewide hourly wage. For rural areas, a business may also qualify by meeting the county-wide average wage.

Businesses that are expanding may qualify through the wage standard, by investing 20 percent of the value of tangible property currently owned by the property, and/or increasing the number of employees on payroll by 10 percent (with a minimum of 25 employees in urban areas or 6 employees in rural areas).

Businesses that are new to the state in urban areas may qualify by meeting the wage criteria, investing \$1 million (\$5 million if manufacturing related), or hiring 50 employees. For rural areas, those standards drop to \$250,000 (\$1 million for manufacturing related industries), or hiring 10 employees.

In fiscal year 2014, the program cost \$16.4 million.<sup>21</sup>

## **New Mexico: High Wage Jobs Tax Credit**

The High Wage Jobs Tax Credit was created in 2004 “to provide an incentive for urban and rural businesses to create and fill new high wage jobs in New Mexico.”<sup>22</sup> The High Wage program grants companies a credit against gross receipts, compensating, and withholding taxes for each job created. The credit equals 10 percent of wages and benefits paid to each new worker, up to \$12,000 per job. Even though it is a statutory program, companies have to apply for the approval of the credit.

There are no specific job creation requirements but the jobs now must pay either \$40,000 or \$60,000 per year (\$28,000 and \$40,000 for jobs created before July 2015, which applied to all of the deals analyzed here), depending on a location. Companies must also be expanding and must sell more than 50 percent of their goods or services outside of the state. The companies must also be certified for the Job Training Incentive Program.

The latest cost figure for the program is \$21.5 million in FY 2013. The program is currently slated to sunset on July 1, 2020.

## **New York: Excelsior Jobs Program**

The Excelsior Jobs Program is a discretionary tax credit made available to eligible companies in certain targeted industries. Enacted in 2010, the Excelsior Jobs Program was intended as a replacement for the seriously flawed Empire Zone program. Eligible companies must first be approved by Empire State Development (ESD) to be enrolled in the program. The amount of credits awarded is also approved at the discretion of ESD.

The program consists of two tracks, the Jobs Growth Track and the Investment Track. Companies enrolled in the Investment Track must retain a minimum of 25 employees (or 10 employees if the firm is a manufacturer), and must make significant capital investments to a facility in New York State yielding a cost-benefit ratio of \$10 of investment per \$1 of tax credit.

Firms enrolled in the Jobs Growth Track may qualify for refundable tax credits over ten years in four categories: jobs created, building and infrastructure investments, research and development, or, in some cases, a property

tax credit. Credits are issued to companies enrolled in the program after employment or investment thresholds are met. Companies can claim credits worth 6.85 percent of gross wages per new job created, two percent of qualified investments, and 50 percent of the federal research and development credit for up to three percent of research spending in New York State. Firms may qualify for a state property tax credit if considered “regionally significant” by committing to higher job creation or investment targets, or if located in distressed areas pre-designated as “investment zones.”

Minimum job requirements vary by industry and whether the company is considered regionally significant. Firms in scientific research, software development and agriculture must create a minimum of five jobs. Manufacturing companies must create 10 jobs. Other types of industries are held to a higher job creation threshold, such as financial services and back office operations which must create 50 jobs, and distribution centers which must create 75 jobs. Regionally significant projects must commit to more jobs as well as a minimum investment. For example, a scientific research firm, if considered regionally significant, would need to create 20 jobs rather than just five, and also commit to a minimum investment of \$6 million. Despite some higher job creation requirements for certain industries, the program was included in our study because its minimum job creation threshold falls within our selection criteria and because Excelsior is one of New York State’s primary programs for encouraging firm expansions.

Annual total program cost is capped at \$250 million. The state can issue up to \$50 million in new credits each year. In fiscal year 2014, 198 businesses are expected to claim \$46 million<sup>23</sup>

in new tax credits. The estimated cost of credits issued in fiscal year 2014 is \$200 million.<sup>24</sup>

## **New York City: Industrial Development Agency**

The New York City Industrial Development Agency (NYCIDA), a public benefit corporation administered by the New York City Economic Development Corporation, is the largest of the state’s 109 active Industrial Development Agencies (IDAs). As with all of the IDAs, the NYCIDA is governed by a board of directors which must approve all benefits conveyed to companies. IDAs are authorized to provide property and mortgage recording tax exemptions, as well as state and local sales tax exemptions for equipment or construction materials purchased. They are also authorized to issue tax-exempt bonds. In general, companies receiving a property tax exemption will enter into an agreement with the IDA to make a payment in lieu of taxes (PILOT). Benefits are provided to a number of project types including commercial, retail, finance, industrial and manufacturing in accordance with an IDA’s adopted uniform tax exemption policy.

The NYCIDA provides subsidies through a variety of programs in an effort to retain, attract and assist companies seeking to expand in New York City. In fiscal year 2014, NYCIDA provided subsidies to 583 companies.<sup>25</sup> While there are no defined selection criteria, companies seeking subsidies will be reviewed by NYCIDA staff and considerations regarding a project’s proposed investment, potential for job creation, alternative locations, and other factors are weighed in a formal cost-benefit analysis. Individual project agreements determine the specific terms of a subsidy, including the time period over which benefits will be conveyed (often between 10 and 25 years), the value

of the subsidy, as well as any requirement to create or retain jobs. The project agreement also outlines any recapture provisions that will take effect if a project does not comply with its job creation targets, or if a company relocates during the benefit period. Pursuant to the Fair Wages for New Yorkers Act of 2012,<sup>26</sup> any project receiving \$1 million or more in subsidies is required to pay the City's living wage rate, which is adjusted annually based on the Consumer Price Index. In FY2015, the net tax expenditure of the NYCIDA was \$208.7 million, after PILOTs.<sup>27</sup>

### **North Carolina: One NC Fund**

The One North Carolina Fund is a broadly defined program requiring a local government match that began in 1993.<sup>28</sup> Eligible projects can be expansions or new locations but must be in competition with another location outside the state. The program is funded through nonrecurring appropriations, so funding is limited.

There is no minimum threshold for job creation/retention or investment, however projects must pass an average wage test and an economic impact analysis is used to review each project and determine the level of subsidy. It is a performance-based program and all job creation and contract requirements must be met before disbursement. Funds are disbursed as cash grants in installments as project performance goals are met, typically in four equal installments over three years.

The One NC Fund is used alone and in combination with the Job Development Investment Grant (JDIG) program, the state's largest incentive program. The annual cost for 2013 was \$4.8 million.<sup>29</sup>

### **Pennsylvania: Job Creation Tax Credit**

The Pennsylvania Job Creation Tax Credit was established in 1971. It awards a \$1,000 tax credit per new job created within three years of application (increased to \$2,500 if the job is filled by a previously unemployed person).<sup>30</sup> The tax credits can be applied to eight different business tax liabilities including corporate and personal income taxes.

In 2012 the program was extended to specifically include small businesses with fewer than 100 employees; 25 percent of the tax credits must be awarded to small businesses. Small businesses are eligible if they increase employment by ten percent or more over three years; companies with over 100 employees must add 25 new jobs or increase employment by twenty percent. As of 2012 the program is capped at \$10.1 million annually.

### **Vermont: Employment Growth Incentive (VEGI)**

The Vermont Employment Growth Incentive program, enacted in 2007, is a self-financing program structured as a cash grant paid from the incremental tax revenues generated by the authorized projects.<sup>31</sup> Applicants earn the incentives over a period of up to five years and then are given annual grant installments over a period of up to nine years pending continued performance.

VEGI has no minimum job creation/retention or investment threshold and no limitation on industry sector. Each potential project is evaluated against nine "quality guidelines" relating to job quality, local sourcing and community relationships. Eligible jobs must be new, full-time, permanent positions that

pay 140 to 160 percent of the state's minimum wage, depending on project location. The positions must also provide a minimum level of benefits. A cost-benefit analysis is then used to determine the size of the award.

In 2013 the total cost of the program was \$3.1 million.<sup>32</sup>

## Virginia: Jobs Investment Program

The Virginia Jobs Investment Program was established in 1965 to provide funding and services to companies that are expanding or adapting to technological changes.<sup>33</sup> It is targeted to manufacturing, regional distribution centers, corporate headquarters for companies with multiple facilities, information technology services exclusively for businesses and research and development facilities.

There is a wage requirement of at least \$10 an hour. Businesses with under 250 employees company-wide must create five new jobs and make a minimum investment of \$100,000. For businesses over 250 employees company-wide, the job threshold is 25 with a minimum investment of \$1 million. It is a performance-based program and funds are not disbursed until the required investment has been made and jobs created.

In fiscal year 2013 the total program cost was \$7.4 million.

## Wisconsin: Economic Development Tax Credit

The Economic Development Tax Credit is a large discretionary transferable tax credit program commonly used to subsidize companies of all sizes in Wisconsin.<sup>34</sup> The program requires

jobs to be full-time and permanent positions; however, there is no fixed minimum for job creation. Each recipient is required to meet a discretionary threshold set by the agency. Recipients must meet at least 85 percent of their promised job creation, although exceptions can be granted. Jobs must be maintained over a five-year period.

Jobs must pay 150 percent of the federal minimum wage in total compensation (meaning the value of wages combined with benefits). Companies are required to either have half their employees utilizing health insurance provided to employees or for the employer to cover at least 50 percent of the premium costs. The size of subsidy increases in proportion to the number of jobs and level of wages. In order to qualify as a significant capital investment, the project must have the lesser of \$10,000 in capital for each job or \$1,000,000. Companies meeting this threshold are allotted greater benefits.

Companies locating in targeted economically-distressed areas may also receive a 50 percent increase in tax credits. Targeted deals may receive bonuses on a per job basis. Subsidies may not be awarded to retail establishments, financial institutions, and small tourism based businesses. Businesses have three years in which to earn credits and those credits may then be carried forward in future year tax liabilities.

Wisconsin sets aside \$5 million on an annual basis for businesses smaller than 100 employees and for rural areas.

The amounts awarded for 2012, 2013, and 2014 were \$36.2 million, \$34.5 million, and \$18.7 million, respectively.<sup>35</sup>

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