



Taxes at the Local Level

This month our Units will look at taxes at the local level and how residents are affected when a city decides to give a tax break/exemption or a tax incentive to a business.

One of the biggest factors that a large business will look at when deciding to either relocate or open a new branch/office park is what will the local municipality give me. The business will give jobs to the local economy which will make residents and politicians happy. But what makes the business happy? Paying less taxes of course!

But what impact does that have on the local community? If less tax will be collected from a business or in some cases if money would be given from the city to the business as an incentive, how will the city make up that difference?

The Ft Worth 2017 budget can be found here:

<http://fortworthtexas.gov/budget/fy2017/full/>

The Arlington 2017 budget can be found here:

<http://www.arlington-tx.gov/budget/wp-content/uploads/sites/19/2016/12/FY-2017-Adopted-Budget-Document.pdf>

This is the position of the League:

FINANCING STATE GOVERNMENT - 1975, 2003 - The League of Women Voters of Texas supports constitutional and statutory provisions for flexibility within a coordinated finance structure; equitable taxation system that assures adequate revenue; and increased accountability including the following:

- removal of provisions relating to dedicated funds, ad valorem tax exemptions, dollar amounts of debt limitations, and other such specific wording from the constitution and making them statutory
- budget execution to be a joint responsibility of the executive and legislative branches of state government
- application of appropriate fiscal management and business practices to conduct state business
- an equitable system of taxation which assures an adequate revenue; is easily administered; and is consistent with economic, social, and environmental goals
- appraisal of taxable property at full market value; state supervision to ensure equitable and uniform appraisal and taxing procedures

Ad valorem taxes can be property or sales taxes. The League supports the elimination of ad valorem tax exemptions.

A December 2012 article by the New York Times <http://www.nytimes.com/2012/12/03/us/winners-and-losers-in-texas.html?pagewanted=all> investigated this issue. They found that under Gov. Perry, Texas gave out more of the incentives than any other state, around \$19 billion a year. They also reported that:

“The free flow of tax breaks and subsidies in Texas makes it particularly fertile ground to examine these economic development deals and the fundamental trade-off behind them: the more states give to businesses, the less they have available in the short term to spend on basic services, a calculation made more stark by the recession.

To help balance its budget last year, Texas cut public education spending by \$5.4 billion — a significant decrease considering that it already ranked 11th from the bottom among all states in per-pupil financing, according to recent data from the Census Bureau. Yet highly profitable companies like Dow Chemical and Texas Instruments continue to enjoy hefty discounts on their school tax bills through one of the state’s economic development programs.”

In another article by the New York Times in December 2012, they identified more than 48 companies that had received more than \$100 million in state grants since 2007.

<http://www.nytimes.com/interactive/2012/12/01/us/government-incentives.html#co-amazon>

Questions for discussion:

- 1) What do you think about giving property tax exemptions or incentives to businesses? If a state wants to attract large businesses which would create jobs for its residents, what other incentives could be given to attract them?
- 2) If a state decides that it must give tax breaks to businesses to attract them, how should they offset this expenditure? Cuts to budget items like education? Raising homeowner taxes? Raising sales tax?
- 3) But relying on companies does not always turn out well. When Amazon set up a distribution center in Irving in 2005, it received incentives from the state. Six years later, when the company got into a tax dispute with the state over a \$269 million tax bill, it shut the warehouse, which employed as many as 2,000 people during its peak season. They went into negotiations with the state and ultimately most of the tax bill was dismissed with the promise that Amazon would open a new distribution facility and hire 2,500 workers. Does this seem fair? What do you think happened to the \$175,000,000 that Amazon saved by getting the tax bill dismissed with the promise to hire 2,500 workers at \$30,000 (warehouse workers make between \$20,000 - \$30,000 a year to equal \$75,000,000)?
- 4) How can cities strike a balance between attracting new businesses and creating new jobs and the needs of its residents? Should there be wage requirements for the new businesses if they are offered a tax incentive? Should businesses be required to do something to enrich the local community? For example, Samsung donated \$1,000,000 to a scholarship fund to the local school district where their new factory was located (they received \$231 million in tax incentives).