Maryland Business Tax Reform Commission
Business Incentives in Tax Code Subcommittee
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Testimony of
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Chairman Wacks and Members of the Subcommittee, thank you for the opportunity to appear before the Business Incentives in the Tax Code Subcommittee of the Maryland Business Tax Reform Commission. I am privileged to be part of a very experienced panel of economic development professionals, all of whom are steadfastly dedicated to creating and retaining jobs in Maryland and in their respective jurisdictions. Job creation and retention is our motivation.

In the midst of a global recession, with private sources of capital dramatically restricted, and significantly fewer resources available from the Maryland Department of Business and Economic Development (DBED) for discretionary incentives (loans and grants), tax credits and incentives are more important to economic development than in the past.

My definition, and the definition most economic development practitioners have of tax incentives is this: tax credit and offset programs aimed at inducing a targeted economic activity that might not or would not occur otherwise. We sometimes refer to this as the "but for" test.

Tax incentives help to overcome an obstacle or disincentive to act. Secretary Johansson has described these incentives as addressing four broad public policy priorities, and I agree with his analysis: job creation, revitalization, targeted industry activity, and capital investment. At the end of the day, economic development is all about creating or retaining jobs in Maryland and in our local jurisdictions. This translates to increasing the tax base of the State and counties so that additional revenues are available to enable government to meet the needs of its citizens. I am unapologetic for being a strong advocate for creating jobs for Maryland citizens.

Examples of inducing economic activity that might not otherwise occur include the following:

- overcoming the expense and risk of renovating an older, historic property when it is likely cheaper to do a project on a greenfield or to do a demolition.
- convincing a company to expand in a blighted area when it is less risky to invest elsewhere.

- convincing a company to build on a polluted site when it is always cheaper and less risky to build on a greenfield.
- inducing an individual to invest in a start-up technology company or a biotechnology company when such investments are fraught with great risk, and a history of negative returns or too long term an investment window.
- now more timely than ever, convincing an employer to hire new employees when they are uncertain about the economic recovery and are trying to reduce expenses, or where the cost of labor is higher than other states. (Speaking here of the Job Creation Tax Credit (JCTC), one can argue that even greater incentives are necessary to induce employers to begin hiring now, and that the existing level of JCTC is simply too low.)

Sometimes tax incentives are needed to mitigate a tax structure that some believe actually inhibits business expansion and capital investment in Maryland. This is true whether we are speaking of perceived or real issues regarding the tax system.

Maryland's reputation is of a modest player in the tax incentive arena, the same as our reputation regarding discretionary incentives. In a perfect world, companies would base decisions on factors favoring our State, such as:

- availability of an educated and skilled workforce;
- transportation and other key infrastructure;
- proximity to strategic facilities and institutions, such as federal and higher education;
- even quality of life.

But that is not the case:

- **competition among the states is fierce**.

Maryland may be the 7th best state in terms of job growth, but that just means there are 43 states that want what we have. They offer a rich assortment of incentives. The Wall Street Journal recently reported that many states are actually increasing their business incentives - in the midst of the recession - in order to be more competitive. And you can't just look at national averages when comparing tax incentives, you must in particular look at neighboring states and states with whom we compete for targeted industries. For example, while for years Maryland corporate income tax rate of 7% was lower than the national average corporate tax rate, we were next door to Virginia, which had an even lower rate. That was true before Maryland raised its rate two years ago to 8.25%.

- companies are under a fiduciary responsibility to their shareholders to maximize their own Return on Investment (ROI), and reduce their own risks. They are expected to maximize their own funds and minimize their expenses.

Tax incentives are critical to this internal evaluation.

I personally hope that a company never bases a location or expansion decision solely on the tax incentives, or even discretionary incentives, that are offered. But I see tax incentives as critical to breaking a tie and tipping and inducing a decision at the margin in favor of Maryland. I know that the reality is that due diligence and fiduciary responsibility require corporate officers to maximize these benefits.

In economic development competition, our State has much in its favor, but we must overcome several critical "obstacles". These are:

- perceived high taxes;
- a higher cost of operating in the state, based on labor, energy, and other factors;
- from a business perspective, a heavy regulatory climate.

Tax incentives ultimately benefit the State's tax base. Offering incentives for business expansions does not cost the state tax revenue, because these are tax revenues that the State would have never collected "but for" the tax incentive inducing the economic development decision. And by most measures, the State still comes out ahead on its ROI at the end of the day from the full range of taxes that are collected, whether direct, indirect, or induced.

I offer the following specific projects as examples of where tax incentives played a critical if not decisive role:

- GM Powertrain/Allison Transmission in White Marsh, utilizing a Brownfields tax credit
- Morgan Stanley's initial decision to locate in Baltimore City, in an Enterprize Zone
- Bethlehem Steel's decision to locate a new Cold Roll Mill in Baltimore County's Southeast Enterprise Zone
- virtually all historic renovations utilizing historic tax credit, including the Can Company on Boston Street
- Project Aardvark (Novartis), an example of where tax incentives where critical to keeping Maryland and Baltimore County in a strong position in an international site location decision, and allowed us to be close (#3) despite higher cost of operation issues.

In conclusion, in the midst of a recession, with DBED having fewer discretionary incentives, and with private capital markets heavily restricted, it is critical that Maryland retain, refine, and in even improve is array of business tax incentive programs so that we can work together to create and retain jobs in Maryland for Maryland citizens.

Thank you.