Tax Abatements in New York State:
GASB-77 and Making the Case for the Database of Deals

Mark Cassidy, May 2018

Governments often use tax abatements, or credits, as a tool to attract businesses. The literature on their effectiveness is mixed at best. Transparency is needed in order to determine their true effectiveness. Efforts to accurately track tax abatements have not gained traction until recently, as GAAP standards now require their reporting. This report analyzes the inaugural dataset, finds that **New York State (NYS) and New York City (NYC) abate far more taxes than other states or cities**. A new, more comprehensive dataset would help analysts and policy makers evaluate tax abatement effectiveness.

Why Implement Tax Abatements?

Tax Foundation's state business climate report consistently ranks NYS 49th of 50 due to high tax rates[1]. This has led to the argument that the State's tax rates are bad for business and the economy. Tax abatements have been heralded as a way to "seed" industries that may not otherwise be present in a local economy, to target distressed areas, or to develop an infant industry cluster[2]. However, **tax rates are rarely a significant determinant of a company's location decision**. Other factors such as availability and price of land, cost and quality of labor, quality of public services and infrastructure, and proximity to markets are more likely to affect where a company decides to locate[3].

GASB- 77 Data

Integrated as part of GAAP, **GASB-77 is the first reporting system on tax breaks**. Most state and local governments adhere to GAAP, but they are not legally required to do so. This disparity is the first shortfall in transparency regarding government tax abatements. This lack of reporting leads to congruency issues in the data, for example local totals do not add up to state totals, and individual program amounts do not equal total abatement figures. Further, GASB does not tie specific dollar amounts to jobs created. Improvement of these deficiencies would significantly improve the ability to conduct a benefit/cost analysis of these programs.

A look at the first round of data (2017):

State	Per Capita	% Total
New York State	**$ 207**	**42%**
Nebraska	$ 188	4%
Louisiana	$ 106	5%
Vermont	$ 87	1%
Michigan	$ 82	8%
Missouri	$ 80	5%
Connecticut	$ 47	2%
Washington	$ 44	3%
Iowa	$ 44	1%
Oklahoma	$ 44	2%
Total	**$ 30**	**$9.8 billion**

MSA	Per Capita	% Total
Reno	$ 202	2%
New York City	**$ 167**	**83%**
Kansas City	$ 43	2%
San Jose	$ 25	1%
Las Vegas	$ 20	1%
Houston	$ 20	3%
Chicago	$ 5	1%
Los Angeles	$ 3	1%

Source: Good Jobs First, "Subsidy Tracker 2"

The table on the left is a state-to-state comparison of the highest per-capita spenders on tax abatements. NYS leads the nation with $207 per-capita in commercial tax incentives to businesses that probably would have located there anyway. Compare this to the national average of $30 per-capita. NYS accounts for 42% of $9.8 billion in nation-wide tax abatements. No other state comes close, with Michigan following with 8%. It is important to note that states such as California, Texas, and Illinois, and others are not yet reporting.

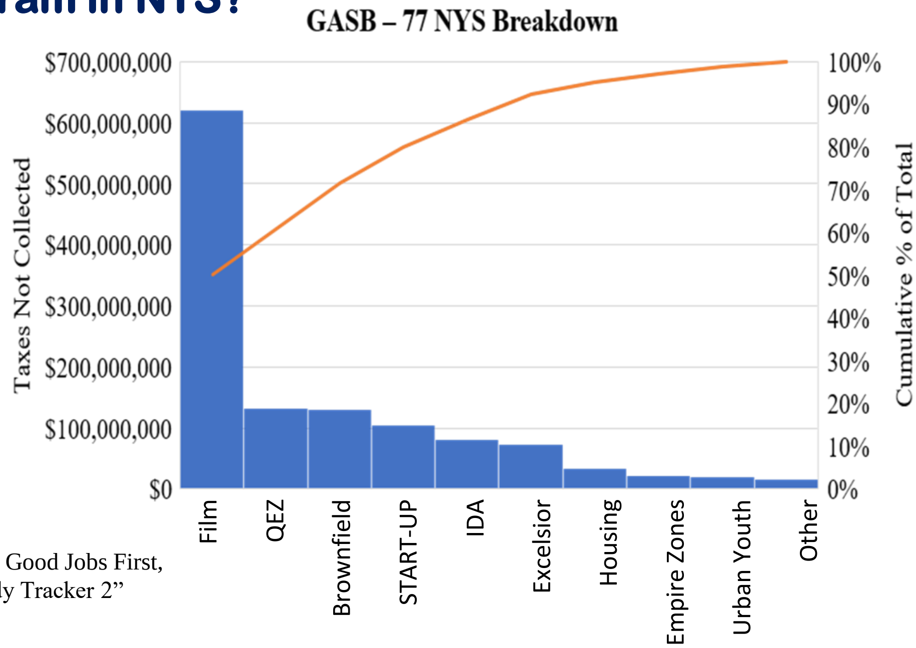
On the right is a nation-wide comparison of Metropolitan Areas (MSAs). Like states, all metros do not report. This table shows 95% of the reported MSA abatements, and any metro not shown accounts for less than 1%. While comparatively tiny Reno spent more per capita than NYC, these two are in a league of their own, with NYC spending $167 per-capita ($3.4 billion total). Also note that in comparing MSAs, NYC accounts for 83% of reported abatements. Compare these figures to Chicago and Los Angeles, which spend $5 and $3 per-capita (respectively) and account for 1% of the total. **NYS is significantly outspending other states, and this is largely due to NYC, which significantly outspends other cities.**

The Creative Responses to Fiscal Stress Project is directed by Mildred Warner of Cornell University's Department of City and Regional Planning with partial funding support from the USDA National Institute of Food and Agriculture, the Fiscal Policy Institute and Engaged Cornell. More information on the project can be found at: www.mildredwarner.org/restructuring/fiscal-stress

How much goes to each program in NYS?

According to the 2017 data, **55% of the abatements, ($621 million) went to film credits.** By comparison, no other program individually accounts for 15%. Other reported programs are Qualified Empire Zones (QEZ), Brownfields, START-UP NY, Industrial Development Agencies (IDA), Excelsior, Low Income Housing Credits, the old Empire Zones, Urban Youth Works, and other.

GASB-77 does not record all tax breaks. For example: arrangements which result in an asset of the government, Tax-Increment Financing, and others are not reported.



Source: Good Jobs First, “Subsidy Tracker 2”

Film Credits

Region	Film Credits
NYC	76%
NYC MSA	90%
NYS Total	N= 202

Source: Open Data NY (2004-2014)

The Film & Commercial Production Credit program offers a 30% credit of qualified production costs incurred in New York State. **Projects often take advantage of the program by doing the bare minimum to qualify and then take the remaining production elsewhere[4]**. Out of 202 reported projects, 76% of the abated projects are in NYC[5], which has had a long existing industry cluster. 90% of projects are located in the NYC MSA[5]. OpenData does not have individual dollar amounts or jobs created per project, nor does GASB-77. This is a clear reporting issue, that could be addressed.

START-UP NY (SUNY Tax-free Areas to Revitalize and Transform Upstate NY) aims to attract high-tech businesses to Upstate regions through tax exemptions and the benefits of partnering with research universities. Ironically, 75% of these locations are in NYC[6]. With 1,135 total jobs created through 2016[7], spending of $101 million in 2017 (the only available year) incentives and $54 million in 1st year advertising[8], minus the $31 million in firm spending in their new community[9], a generous and conservative estimate would be **$222,800 per job**. Different sources cite differing values, highlighting the need for data transparency.

Solutions

Considering New York State’s well-known deficiencies regarding infrastructure and housing, public dollars would be better spent in those areas instead of commercial tax abatements. At the very least, the huge difference between film credits and other programs should be addressed. In addition, strategies to get something in return from abated companies, such as payments in lieu of taxes or community benefit agreements, should be considered.

Transparency regarding tax abatements is needed to evaluating their cost-effectiveness. The push for **a “Database of Deals” has bi-partisan support**. This database should track taxes not collected and jobs created per each company, program, and geography. As of May 16, 2018, this and other government spending transparency bills have passed the Senate, and await passage by the Assembly and signage by the Governor[10]. Their adoption is a critical step towards government accountability.

References

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