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## Study says effectiveness of Michigan tax incentives varies

By [Amy Lane](#)

A new study released Thursday cites wide variation in the effectiveness of Michigan's tax incentive programs.

The study by **Anderson Economic Group L.L.C.**, commissioned by the **Michigan Education Association**, also estimates the nominal tax expenditure for eight key incentives — the theoretical amount of tax that would have been collected if the abatement did not exist — was \$800 million to \$911 million in 2008.

Some incentive programs “have a clearly identified purpose and largely achieve that purpose” for at least the targeted recipients, the study said.

Others “have little apparent effectiveness for reasons that begin with the fact that no specific criteria or measurement of outcomes exist that would allow an analyst to observe actual success.”

For example, industrial property tax abatements authorized under Public Act 98 and used to address cost disadvantages for manufacturers, are widely used and ranked as highly effective in encouraging job growth.

The study suggested Michigan policymakers should instead consider changes in tax policy overall, and “whether widely-abated taxes should be lowered across the entire state, rather than abated on a piecemeal, but widespread, basis.”

“In such cases, a lower rate uniformly levied could bring in as much tax revenue and encourage more jobs,” it said.

Also receiving a high rating, in terms of encouraging jobs, were abatements for new personal property.

Michigan's tax-free renaissance zones received a medium rating, with the report citing widely disparate results.

The **Michigan Economic Growth Authority** program, under which the state grants Michigan Business Tax credits to companies for which it is competing with other states, also got a medium rating.

The report noted some MEGA awards are very effective, but the program also lacks auditing or verification of companies' job-creation claims.

The report found brownfield redevelopment tax incentives “highly effective in encouraging development” and accompanied by “good accountability.” But it's also likely that much of the development that occurs shifted from other areas of Michigan, the report said.

Michigan's new incentives to attract the film industry ranked low on the study's scale of effectiveness in encouraging Michigan jobs. The report cited “very large expenditures” and said “self-reported data and self-interested approval process limit ability to evaluate effectiveness.”

The study also examined the per-job cost of various incentives, or the lost tax revenue divided by the number of actual new jobs.

The report cites an estimated MEGA program cost to the state of about \$5,000 in foregone tax revenue per new job per year, compared with film credits' cost of some \$50,000 per new job, per year, in foregone tax revenue.

“This \$5,000 to \$50,000 range is an enormous swing,” the study said. “In terms of being in the long-run interests of the

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state, an incentive actually costing the state \$5,000 per year is probably worth attracting an actual, permanent, full-time job.

"On the other hand, again using only a rough calculus, a credit of \$50,000 means that the state is not just incentivizing activity — it is actually paying for the activity."

In a news release, MEA President Iris Salters said that the association isn't against the use of tax incentives to build Michigan's economy.

But "we want to make sure these incentives work as effectively as possible, especially when our schools are struggling with budget cuts," she said.

"Business owners repeatedly say that workforce quality is more important than tax breaks in choosing where they locate. Public schools prepare that workforce, which is why investing in public education is the best investment we can make for our economic recovery."

Charlie Owens, president of the **National Federation of Independent Business-Michigan**, said in a statement that with the exception of PA 198 abatements, "most of these hand-out programs are nothing more than a photo and press conference opportunity for politicians and economic development bureaucrats."

He said that as tax breaks are handed out, "there is less money available to improve the overall state business and tax climate so that all businesses have an even playing field to compete and create jobs."

A second phase of Anderson's tax incentive study will do more analysis of tax incentives' effectiveness, resulting in recommendations for improvements.

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