

# **THE CASE AGAINST SINGLE SALES FACTOR**

## **PRESENTATION TO THE TAX REVIEW COMMISSION**

**MATTHEW WEINSTEIN  
FISCAL POLICY DIRECTOR  
VOICES FOR UTAH CHILDREN  
MAY 26, 2016**

Voices for Utah Children • 747 E. South Temple, Suite 100 • 801-364-1182 • [www.utahchildren.org](http://www.utahchildren.org)



# ABOUT VOICES FOR UTAH CHILDREN

Since 1985, Voices for Utah Children has worked to make Utah a place where all children thrive. We start with one basic question: "Is it good for kids?" At Voices for Utah Children, we believe that every child deserves the opportunity to reach his or her full potential.

Our fiscal policy program focuses on two priorities:

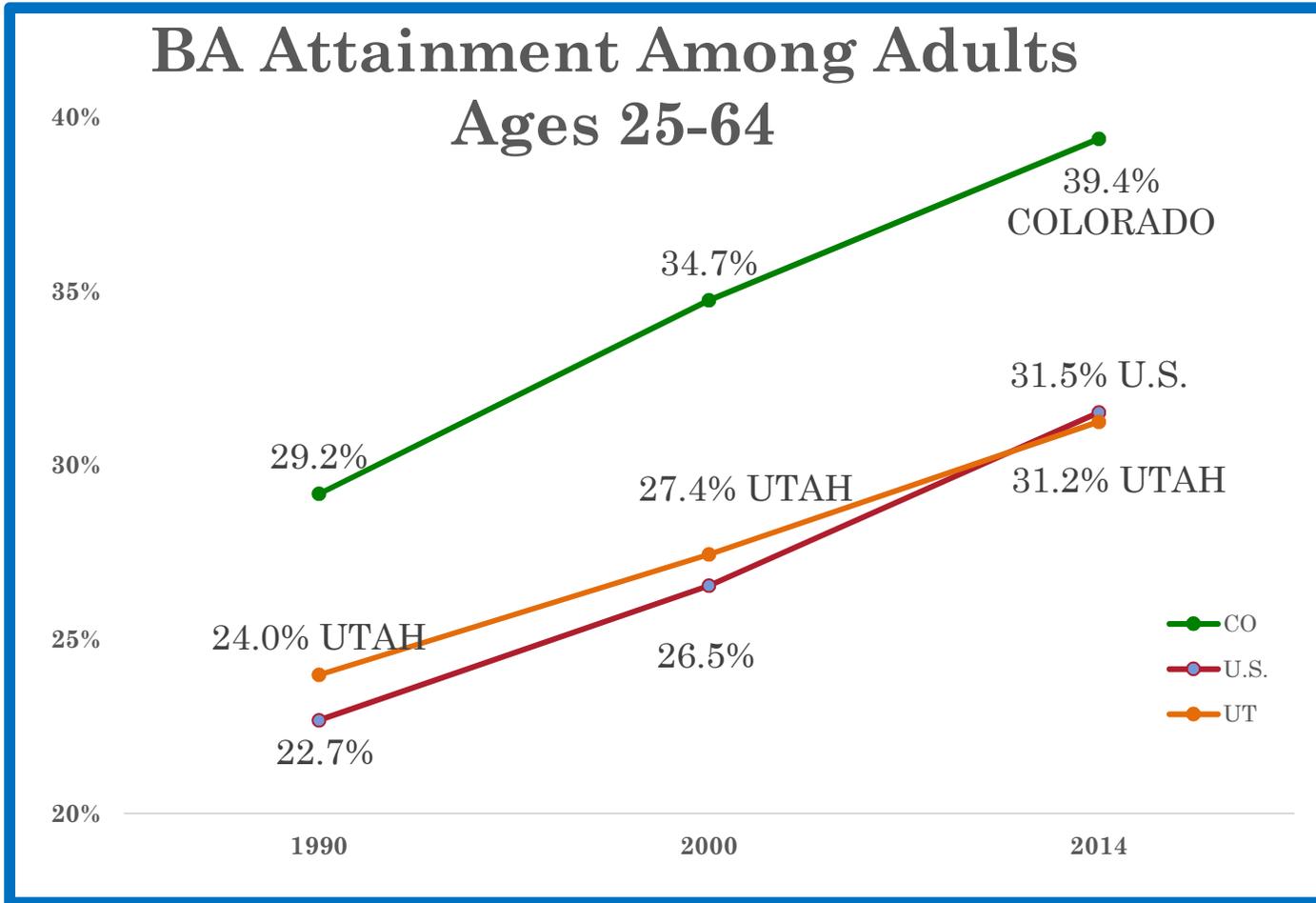
- 1) Are public revenues sufficient to sustain the necessary investments in the next generation, the foundation of our future prosperity?
- 2) Is our system of generating public revenues structured fairly, such that no one is taxed into poverty as the price of educating their children?



## WHY IS VOICES FOR UTAH CHILDREN CONCERNED ABOUT SINGLE SALES FACTOR?

- 1) Whether mandatory or electable, SSF means potentially enormous loss of public revenues.
- 2) Utah's public revenues are already at a multi-decade low, according to the Utah Foundation.
- 3) We are last in the nation in per-pupil K-12 education investment and remain unable to make critical investments in pre-K and other areas.
- 4) In 2014, for the first time on record, we fell behind the nation in college degrees, continuing a long-term relative decline.





***Bachelor's degree attainment 1990, 2000, 2014—UT, CO, & U.S.***

*(Source: Census Bureau for 1990 and 2000, 2014 from Lumina Foundation analysis of U.S. Census Bureau ACS data)*



# OUTLINE OF TESTIMONY

- I. Recent research on SSF indicates little or no benefit for states that adopt it.
- II. >80% of SSF states have made SSF mandatory rather than optional to reduce abusive tax avoidance.
- III. Single Sales Factor likely means large revenue losses for state government.
- IV. Concerns about the HB61 (2016) dynamic fiscal note.



# I. RESEARCH ON SSF: GOOLSBEE & MAYDEW

Research in the 1990s seemed to show benefits for states that added weight to the sales factor...

***Coveting Thy Neighbor's Manufacturing:  
The Dilemma of State Income Apportionment***

Austan Goolsbee  
University of Chicago, GSB,  
American Bar Foundation,  
and N.B.E.R.

Edward L. Maydew  
University of Chicago, GSB

Original: May 21, 1998  
Revised: February, 1999

**ABSTRACT**

This paper investigates the economic impact of the apportionment formulae used to divide corporate income taxes among the states. Most apportionment formulae, by including payroll, turn the state corporate income tax at least partially into a payroll tax. Using panel data from 1978-1994, the results show that this distortion has an important effect on state-level employment. For the average state, reducing the payroll weight from one-third to one-quarter increases manufacturing employment around 1.1%, concentrated in manufacturing and with larger effects in the long-run. The results also suggest that apportionment changes have important negative externalities on other states. On average, the aggregate effects of apportionment formula changes are close to zero.



# I. RECENT RESEARCH ON SSF: LIGHTNER

...but more recent research has found otherwise.

Lightner, “The Effect of the Formulary Apportionment System on State-Level Economic Development and Multijurisdictional Tax Planning,” Journal of the American Taxation Association, Vol. 21, Supplement, 1999, pp. 42-57

**ABSTRACT: “... the findings do not support ... the recent trend to overweight the sales factor in attracting economic development to a state.”**

Page 55: “The results of this study are inconsistent with the findings of Goolsbee and Maydew (1998). However, their paper looked at the effect of reducing the weight on the payroll factor (increasing the weight on the sales factor) over the period 1978-1994 [vs 1994-95 in this paper]. In the early years of their study when overweighting was new, the impact on employment may have been substantial. By the date of this study, 25 states overweighted sales in their formulae and another four states offered favorable formulae with no corporate income tax. With 29 states offering favorable formulae, corporations may be less sensitive to a change to an overweighted formula.... **The effects of moving to more favorable formulae may be decreasing as more states jump on the bandwagon to overweight the sales factor.**”



# I. RECENT RESEARCH ON SSF: MERRIMAN

## **A Replication of “Coveting Thy Neighbor’s Manufacturing: The Dilemma of State Income Apportionment” (*Journal of Public Economics* 2000)**

**David Merriman<sup>1</sup>**

<sup>1</sup> University of Illinois, Chicago, IL

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# I. RECENT RESEARCH ON SSF: MERRIMAN

## **Merriman 2015 Abstract**

“Goolsbee and Maydew (G&M) reported that lowering the weight on payroll in states’ corporate income tax apportionment formulae had the potential to raise manufacturing employment. Their analyses continue to be cited in academic articles and are still influential in the policy debate. I gather data and ...replicate the most widely cited result in the original article. ...I show that G&M’s results are sensitive to relatively arbitrary choices about the sample that is used... [W]hen the most preferred econometric specification is used G&M’s original article found no statistically significant evidence that lowering the apportionment weight on payroll raises employment. Similarly, when I use this specification with data covering the period G&M studied (1978–1994), I find **no statistically significant evidence for this hypothesis**. ...When standard errors are clustered by state, as is now common econometric practice, lowering the weight on payroll in states’ corporate income tax apportionment formulae has **no statistically significant impact on manufacturing employment**. I do a similar analysis **using more recent data and obtain similar results**. In summary, econometric evidence to support the hypothesis that changes in the payroll weight affected the distribution of manufacturing employment among US states in the 1978 to 1994 period appears less strong than G&M asserted even when using G&M’s data and methods. More recent data also provide only **weak econometric evidence in support** of G&M’s main hypothesis.”

Comparing the performance of states with and without single sales factor (SSF) apportionment.

In this chart and the ones that follow, states with CIT are ranked by percentage change in manufacturing employment.

If greater weighting of the sales factor encouraged manufacturing job growth/retention, SSF states would be clustered toward the top, and 3-factor states would be clustered toward the bottom.

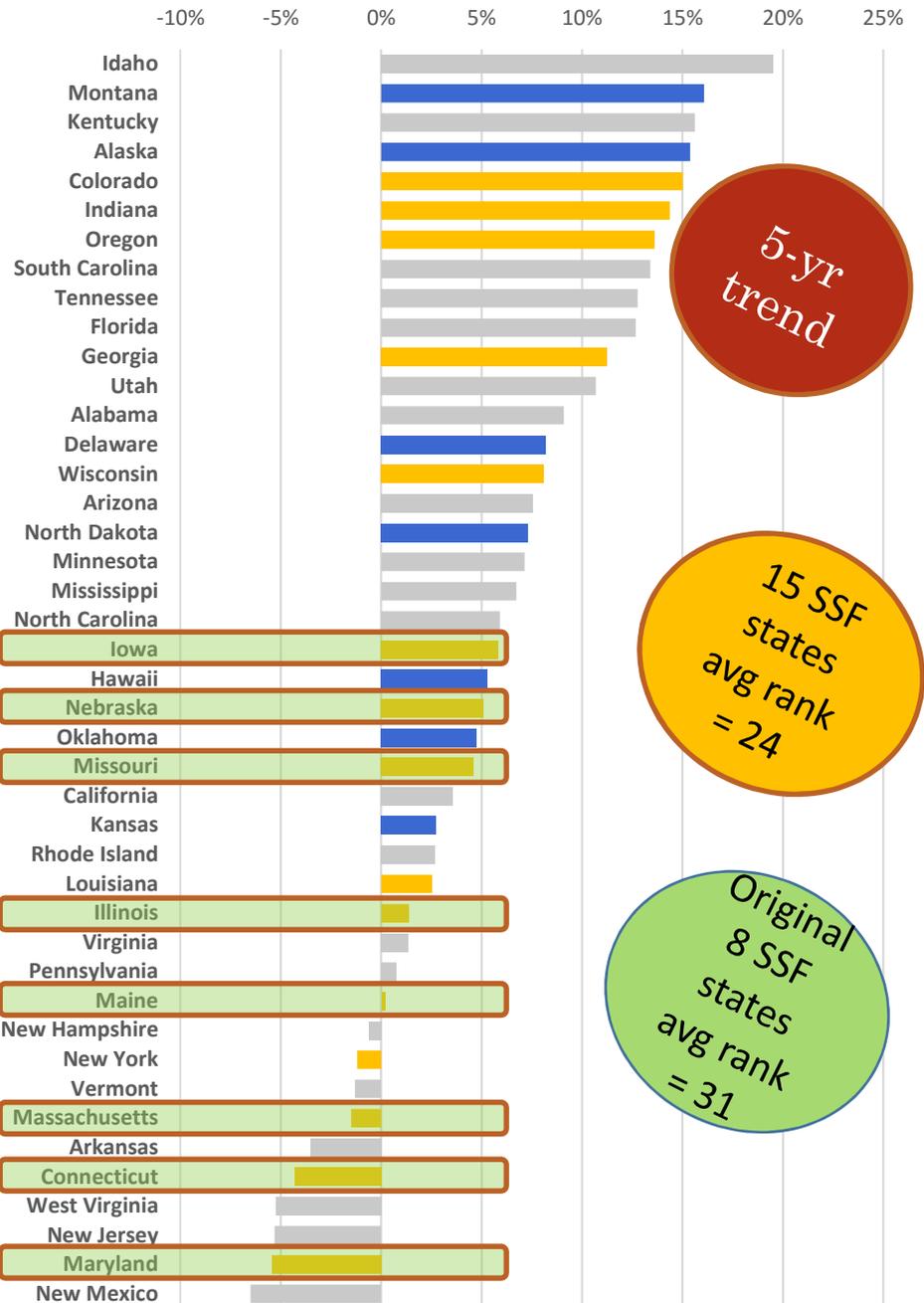


# States Ranked by Mfg Job Growth 2005-2015



# States Ranked by Mfg Job Growth 2010-2015

■ SSF states  
■ 3-factor states



5-yr trend

15 SSF states avg rank = 24

Original 8 SSF states avg rank = 31

Indicates the original 8 SSF states from 2000



# I. RECENT RESEARCH

## **Conclusion:**

Recent research and performance data seem to indicate little if any positive benefit to states that adopt single sales factor apportionment.



## II. OPTIONAL VS. MANDATORY

### 27 states have enacted SSF:

(States with single sales factor phasing in or not yet in effect shown in italic)

<i>Arizona</i>	Indiana	Minnesota	<i>North Dakota</i>
California	Iowa	<b>Missouri</b>	Oregon
Colorado	Louisiana	Nebraska	Pennsylvania
Connecticut	Maine	New Jersey	South Carolina
<i>Delaware</i>	Maryland	<i>New Mexico</i>	<i>Virginia</i> (mfg only)
Georgia	Massachusetts	New York	Wisconsin
Illinois	Michigan	<i>North Carolina</i>	

Five in red are an electable option for the taxpayer.



## II. OPTIONAL VS. MANDATORY

“It is less important what apportionment formula a state uses than it is that the formula be mandatory in all cases. If not, tax avoidance is the inevitable result.”



# III. REVENUE LOSSES FROM SSF

## Changes in State Corporate Income Tax Apportionment Formulas and Changes in State Corporate Income Tax Bases<sup>1</sup>

*Elliott Dubin, Director of Policy Research  
Multistate Tax Commission*

### **Abstract**

*This paper examines the impact of changes in the income apportionment formula on changes in apportioned state corporate income tax base levels. The paper employs a state-level panel comprising all states plus the District of Columbia and spans 2001 to 2008 to estimate the effect of changes in the apportionment weights. The estimates suggest that increases in the sales factor weight are generally associated with lower apportioned corporate income tax base; but this is not always the case.*

*Corporate income tax capacity is defined in this article, as the standardized corporate income tax base that would result from apportioning corporate profits before taxes for each of 14 major industrial sectors, measured on the National Income and Products Accounts basis, to each of the fifty states and the District of Columbia using two of the apportionment factors used by states – sales within the state relative to total sales and wages and salaries within the state relative to all wages and salaries. Corporate income tax capacity is the sum of the apportioned net income of the 14 industrial sectors. The use of a uniform standardized base to measure revenue capacity allows comparison of states' abilities to raise revenues independent of the policies actually implemented in each state.*

### III. REVENUE LOSSES FROM SSF

Gupta, Moore, Gramlich, and Hofman, “Empirical Evidence on the Revenue Effects of State Corporate Income Tax Policies”, **National Tax Journal** Vol. LXII, No. 2, June 2009

Page 237: “SCIT revenues declined by about 50 percent over the 21–year period, 1982–2002...”

Page 238: “In this study we focus on this development and examine the role of tax policies used by states to measure, allocate/apportion and tax corporate income in explaining the pattern of SCIT collections over the two decades from 1982–2002.”

Page 259: “...a **higher weight on the sales factor is actually associated with lower SCIT revenues**, consistent with anecdotal evidence (Schiller, 2002; McCourt et al., 2003; St. George and McLynch, 2003; Hassell and Sanders, 2005) and evidence based on Georgia tax returns (Edmiston and Arze, 2006).”

Page 263: “We find that states with a double–weighted (50 percent) sales factor experience on average **16–18 percent lower SCIT revenues** than do states with an equally–weighted (one–third) sales factor...”

SCIT= state corporate income tax



# III. REVENUE LOSSES

Journal of Multistate Taxation and Incentives  
 (Thomson Reuters/Tax & Accounting)  
 Volume 25, Number 1, March/April 2015

## State Taxes on Corporate Profits as Percent of All State Taxes, Selected Fiscal Years 1983 to 2013

All States 2013 = 5.89%

Utah 2013 = 5.22%

Utah rank = 23rd

State	1983	1988	1993	1998	2003	2008	2013
U.S.	8.01%	8.54%	7.18%	7.00%	5.56%	6.97%	5.89%
Alabama	5.71	5.27	4.08	4.25	3.78	5.79	4.12
Alaska	13.02	14.50	39.16	23.25	18.49	14.86	12.29
Arizona	7.79	3.98	4.64	7.60	4.48	5.96	4.91
Arkansas	6.50	5.75	5.23	6.23	3.44	4.55	4.69
California	11.47	13.26	9.57	8.25	8.59	10.10	5.60
Colorado	3.21	5.38	3.64	4.60	3.01	5.28	5.80
Connecticut	14.08	13.75	10.69	5.69	3.62	4.33	3.55
Delaware	4.66	11.98	8.49	10.36	9.84	10.53	9.25
Florida	5.97	5.43	4.61	5.65	4.55	6.14	5.99
Georgia	6.82	8.28	5.78	6.38	3.61	5.22	4.48
Hawaii	1.91	3.83	1.93	1.94	0.86	2.05	2.03
Idaho	5.02	6.77	4.91	5.72	3.99	5.21	5.60
Illinois	8.14	8.79	7.57	9.92	5.82	6.22	11.53
Indiana	4.38	4.92	9.49	10.18	6.50	6.02	4.62
Iowa	6.88	5.55	4.28	4.10	2.84	5.04	5.12
Kansas	9.03	8.00	6.63	6.56	2.49	7.37	5.05
Kentucky	6.62	6.98	4.78	4.69	4.44	5.31	5.98
Louisiana	10.61	5.82	5.62	5.91	2.67	6.39	2.74
Maine	4.24	5.63	4.25	4.52	3.38	4.87	4.43
Maryland	4.28	5.37	3.63	4.12	3.45	4.67	5.25
Massachusetts	12.81	12.54	9.24	9.35	7.59	9.88	7.90
Michigan	14.30	17.65	14.33	11.48	8.10	7.18	3.59
Minnesota	5.88	6.65	6.26	6.55	4.27	5.68	6.48
Mississippi	4.47	4.52	5.73	5.76	5.78	5.70	5.62
Missouri	4.49	5.09	3.52	4.35	2.38	3.52	3.39
Montana	6.97	6.46	7.53	5.87	2.97	6.58	6.47
Nebraska	5.23	5.49	5.19	5.40	3.33	5.51	5.84
Nevada	0.00	0.00	0.00	0.00	0.00	0.00	0.00
New Hampshire	22.45	24.98	12.70	23.42	20.22	27.31	23.34
New Jersey	10.84	12.11	7.27	7.55	12.02	9.21	7.85
New Mexico	5.30	2.76	3.64	5.04	2.82	7.74	5.14
New York	8.28	8.30	8.43	8.65	4.94	7.72	6.68
North Carolina	7.61	9.25	7.29	7.21	5.67	5.29	5.41
North Dakota	5.82	6.29	6.48	7.65	4.75	7.00	4.26
Ohio	6.16	5.83	5.30	4.34	3.85	2.89	0.96
Oklahoma	3.94	2.66	3.47	4.20	1.77	4.32	6.58
Oregon	7.01	7.91	5.60	5.58	3.95	6.37	5.02
Pennsylvania	9.85	8.85	8.82	7.58	5.13	6.82	6.50
Rhode Island	5.84	7.05	4.87	3.83	2.97	5.28	4.91
South Carolina	6.07	5.93	4.11	3.76	2.74	3.71	4.43
South Dakota	0.79	5.53	4.78	4.59	4.34	5.29	2.42
Tennessee	9.08	9.13	6.44	8.68	6.96	8.72	10.16
Texas	6.34	7.10	6.70	8.14	7.32	9.83	9.33
Utah	3.24	4.47	3.80	5.28	3.75	6.46	5.22
Vermont	7.09	7.25	4.11	4.79	2.67	3.33	3.67
Virginia	5.16	5.45	4.83	4.23	2.53	4.30	4.02
Washington	0.00	0.00	0.00	0.00	0.00	0.00	0.00
West Virginia	3.07	10.13	7.23	7.35	5.07	11.04	4.51
Wisconsin	7.91	7.68	6.18	6.10	4.35	5.79	5.78
Wyoming	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Median: All States	6.12	6.37	5.45	5.74	3.90	5.74	5.13
Unweighted mean: All States	6.73	7.33	6.46	6.53	4.84	6.37	5.57
Median: (excluding NV, WA, and WY)	6.16	6.46	5.60	5.76	3.95	5.79	5.14
Unweighted mean (excluding NV, WA, and WY)	6.86	7.48	6.59	6.67	4.94	6.50	5.68

Source: U.S. Bureau of the Census

# III. REVENUE LOSSES

Journal of Multistate Taxation and Incentives  
(Thomson Reuters/Tax & Accounting)  
Volume 25, Number 1, March/April 2015

## State Taxes on Corporate Income as Percent of Corporate Profits

All States 2011-2013 = 3.4%

Utah 2011-2013 = 2.38%

Utah rank = 34th

	Average of Fiscal Years				
	1999-01	2002-04	2005-07	2008-10	2011-13
United States <sup>1</sup>	6.12%	5.44%	4.34%	4.91%	3.56%
United States (all States)	5.96%	5.29%	4.21%	4.75%	3.44%
Alabama	3.01	4.30	3.21	3.37	2.14
Alaska	27.51	19.50	21.12	26.61	17.99
Arizona	6.03	4.64	4.54	3.07	2.65
Arkansas	4.88	4.83	3.76	4.19	3.59
California	9.19	9.31	6.59	6.78	4.42
Colorado	3.53	2.24	1.97	1.99	2.10
Connecticut	4.19	2.63	3.13	2.79	2.79
Delaware	3.89	3.02	2.36	5.49	6.25
District of Columbia	16.43	9.91	9.44	6.62	5.71
Florida	5.32	4.76	4.04	3.49	3.02
Georgia	4.18	3.09	2.35	2.41	1.73
Hawaii	3.86	2.73	3.61	2.23	1.96
Idaho	5.98	4.68	4.28	3.39	3.61
Illinois	7.33	4.62	4.09	3.92	5.61
Indiana	6.73	6.22	3.58	3.42	2.37
Iowa	2.54	1.26	1.58	2.29	2.44
Kansas	4.66	2.79	3.28	4.14	2.42
Kentucky	4.32	5.40	5.80	4.27	3.72
Louisiana	3.24	3.00	2.59	3.47	1.16
Maine	6.58	4.93	4.16	4.31	4.22
Maryland	4.58	4.22	3.83	3.76	2.87
Massachusetts	7.67	6.42	4.83	6.37	4.70
Michigan	10.11	9.16	4.04	3.38	2.03
Minnesota	5.90	4.40	3.84	4.01	4.05
Mississippi	5.81	7.39	4.25	4.62	4.41
Missouri	2.12	2.08	1.35	1.76	1.41
Montana	8.67	5.25	5.76	5.52	4.44
Nebraska	3.81	3.83	2.98	2.90	2.31
Nevada	0.00	0.00	0.00	0.00	0.00
New Hampshire	11.68	15.83	10.11	10.86	8.56
New Jersey	5.97	7.61	5.31	6.64	4.47
New Mexico	7.33	4.74	6.29	4.24	4.14
New York	9.30	6.35	7.52	12.05	5.97
North Carolina	5.76	5.31	4.13	3.59	2.90
North Dakota	7.32	5.04	4.74	5.55	5.22
Ohio	2.68	3.80	2.40	1.47	0.46
Oklahoma	3.34	2.51	2.77	2.61	3.21
Oregon	5.47	4.17	3.50	2.84	2.16
Pennsylvania	5.76	5.00	3.61	4.81	3.61
Rhode Island	3.86	2.86	3.90	3.57	3.08
South Carolina	3.13	2.87	2.02	1.82	1.72
South Dakota	3.76	3.52	2.38	1.97	1.05
Tennessee	5.60	6.06	4.22	4.58	4.41
Texas	4.23	3.93	2.42	4.37	3.41
Utah	4.41	3.63	3.68	3.39	2.38
Vermont	3.97	4.63	3.50	4.31	4.05
Virginia	3.32	2.66	2.63	2.54	2.15
Washington	0.00	0.00	0.00	0.00	0.00
West Virginia	9.55	8.49	9.05	8.05	4.11
Wisconsin	4.54	4.78	3.27	3.83	3.45
Wyoming	0.00	0.00	0.00	0.00	0.00
MEDIAN: All States	4.66	4.62	3.68	3.59	3.08
MEDIAN <sup>1</sup>	5.32	4.64	3.83	3.83	3.41

1. Excludes Nevada, Washington, and Wyoming.

# IV. HB 61 DYNAMIC FISCAL NOTE

Referenced last week at a conference  
in a presentation by the sponsor:

Slide from  
sponsor's  
presentation  
last week about  
HB 61

## **H.B. 61**

### **CORPORATE FRANCHISE AND INCOME TAX CHANGES**

- Initial approach: All tax filers = \$138M immediate impact to education budget
- Substitute
  - Add an additional industry classification to the existing SSF code
  - Approximately 300 companies could qualify
  - Electable
- **Dynamic Fiscal Impact**
  - Roughly 2 years, +\$24M to Education Fund, +\$16M to General Fund, \$1-\$4 Billion in capital investment into our economy
- **Industry Classification**
  - High Tech Manufacturing
  - High Paying Jobs
  - Immediate impacts to our state and local economy
- Proven success



# IV. HB 61

## DYNAMIC FISCAL NOTE

DYNAMIC FISCAL ANALYSIS							
HB61, 1st Substitute							
2016 General Session							
Corporate Franchise and Income Tax Changes							
by John Knotwell							
<b>STATIC IMPACT</b> (See fiscal note for details)							
General Fund <sup>1</sup>	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	...	FY 2026
Education Fund	-\$2,641,000	-\$2,773,000	-\$2,910,000	-\$3,060,000	-\$3,210,000		-\$4,100,000
<b>Total</b>	<b>-\$2,641,000</b>	<b>-\$2,773,000</b>	<b>-\$2,910,000</b>	<b>-\$3,060,000</b>	<b>-\$3,210,000</b>		<b>-\$4,100,000</b>
<b>SCENARIO 1: DO NOTHING</b>							
Do not make the tax policy change proposed by this bill. Do not spend proceeds on government programs, deposit money in reserve.							
<b>Dynamic Impact</b>	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	...	FY 2026
General Fund	\$47,900	\$77,000	\$88,600	\$93,200	\$97,700		\$118,900
Education Fund							
<b>Total</b>	<b>\$47,900</b>	<b>\$77,000</b>	<b>\$88,600</b>	<b>\$93,200</b>	<b>\$97,700</b>		<b>\$118,900</b>
<b>Diff From Static</b>	<b>\$2,688,900</b>	<b>\$2,850,000</b>	<b>\$2,998,600</b>	<b>\$3,153,200</b>	<b>\$3,307,700</b>		<b>\$4,218,900</b>
Jobs	0	0	0	0	0		0
Wages (millions)	\$0	\$0	\$0	\$0	\$0		\$0
Gross Domestic Product (GDP) (millions)	\$0	\$0	\$0	\$0	\$0		\$0
<b>SCENARIO 2: GOVERNMENT SPENDING</b>							
Do not make the tax policy change proposed by this bill but spend collections on government programs. The multiplier is 0.84. Commonly estimated government spending multipliers ( $\Delta GDP / \Delta \text{Government Spending}$ ) range from 0.7 to 1.3. The multiplier value depends upon economic conditions, interest rates, expected tax policy, geographic region, past and expected government spending policy, and various other assumptions. The multiplier is on the lower end currently because of higher expected interest rates and strong economic conditions (unemployment rate in Utah is 3.5%). The dynamic revenue stems from the revenue connected with state government spending.							
<b>Dynamic Impact</b>	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	...	FY 2026
General Fund	\$30,300	\$36,600	\$41,700	\$46,100	\$49,900		\$67,100
Education Fund	-\$2,690,300	-\$2,711,800	-\$2,842,200	-\$2,980,900	-\$3,127,600		-\$3,259,700
<b>Total</b>	<b>-\$2,660,000</b>	<b>-\$2,675,200</b>	<b>-\$2,800,500</b>	<b>-\$2,934,800</b>	<b>-\$3,077,700</b>		<b>-\$3,192,600</b>
<b>Diff From Static</b>	<b>\$81,000</b>	<b>\$97,800</b>	<b>\$109,600</b>	<b>\$126,200</b>	<b>\$132,300</b>		<b>\$907,400</b>
Jobs	30	32	34	36	36		37
Wages (millions)	\$1.6	\$2.0	\$2.3	\$2.6	\$2.7		\$3.6
Gross Domestic Product (GDP) (millions)	\$2.2	\$2.6	\$2.7	\$2.9	\$3.0		\$3.6
<b>SCENARIO 3: MARGINAL BUSINESS RESPONSE</b>							
Make tax policy change proposed by this bill. Do not spend on government programs. Computer and electronic manufacturers treat the tax reduction as a cost savings and reinvest the savings in production/output.							
<b>Dynamic Impact</b>	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	...	FY 2026
General Fund	\$74,100	\$111,100	\$166,600	\$222,200	\$277,700		\$462,800
Education Fund	-\$2,617,100	-\$2,687,100	-\$2,633,100	-\$2,686,200	-\$2,746,200		-\$2,897,300
<b>Total</b>	<b>-\$2,443,000</b>	<b>-\$2,476,000</b>	<b>-\$2,466,500</b>	<b>-\$2,464,000</b>	<b>-\$2,468,500</b>		<b>-\$2,134,500</b>
<b>Diff From Static</b>	<b>\$198,000</b>	<b>\$297,000</b>	<b>\$443,600</b>	<b>\$696,000</b>	<b>\$741,600</b>		<b>\$1,966,600</b>
Jobs	60	98	130	166	177		218
Wages (millions)	\$4.0	\$6.0	\$9.0	\$12.0	\$16.0		\$26.0
Gross Domestic Product (GDP) (millions)	\$7.0	\$13.0	\$19.0	\$24.0	\$29.0		\$47.0
<b>SCENARIO 4: STRONG BUSINESS RESPONSE</b>							
Make tax policy change proposed by this bill. Do not spend on government programs. Computer and electronic product manufacturers treat the tax reduction as a cost savings, plus savings induces outside investment. The presumed outside investment is \$1.5 billion by semiconductor manufacturers in 2017 and 2018. The computer and electronic product manufacturing industry are assumed to generate ongoing employment of up to 1,200 industry jobs by 2020.							
<b>Dynamic Impact</b>	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	...	FY 2026
General Fund	\$13,699,600	\$16,264,400	\$6,294,700	\$9,497,200	\$10,108,100		\$14,468,700
Education Fund	\$20,289,400	\$24,433,600	\$6,960,300	\$12,838,300	\$13,707,900		\$20,828,800
<b>Total</b>	<b>\$33,989,000</b>	<b>\$40,698,000</b>	<b>\$11,245,000</b>	<b>\$22,335,600</b>	<b>\$23,816,000</b>		<b>\$36,297,500</b>
<b>Diff From Static</b>	<b>\$36,630,000</b>	<b>\$43,461,000</b>	<b>\$14,166,000</b>	<b>\$26,396,000</b>	<b>\$27,026,000</b>		<b>\$39,387,600</b>
Jobs	11,628	12,641	2,801	6,326	6,379		6,072
Wages (millions)	\$740.0	\$878.0	\$286.0	\$613.0	\$646.0		\$781.0
Gross Domestic Product (GDP) (millions)	\$997.0	\$1,179.0	\$442.0	\$1,139.0	\$1,216.0		\$1,749.0

<sup>1</sup> Used throughout this note, General Fund includes sales tax earmarks

# IV. HB 61 DYNAMIC FISCAL NOTE

## SCENARIO 1: DO NOTHING

Do not make the tax policy change proposed by this bill, do not spend proceeds on government programs, deposit money in reserve.

Dynamic Impact	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	...	FY 2026
General Fund	\$47,900	\$77,000	\$88,600	\$93,200	\$97,700		\$118,900
Education Fund							
<b>Total</b>	<b>\$47,900</b>	<b>\$77,000</b>	<b>\$88,600</b>	<b>\$93,200</b>	<b>\$97,700</b>		<b>\$118,900</b>
<b>Diff From Static</b>	<b>\$2,688,900</b>	<b>\$2,850,000</b>	<b>\$2,998,600</b>	<b>\$3,153,200</b>	<b>\$3,307,700</b>		<b>\$4,218,900</b>
Jobs	0	0	0	0	0		0
Wages (millions)	\$0	\$0	\$0	\$0	\$0		\$0
Gross Domestic Product (GDP) (millions)	\$0	\$0	\$0	\$0	\$0		\$0

## SCENARIO 2: GOVERNMENT SPENDING

Do not make the tax policy change proposed by this bill but spend collections on government programs. The multiplier is 0.84. Commonly estimated government spending multipliers ( $\Delta\text{GDP}/(\Delta\text{Government Spending})$ ) range from 0.7 to 1.3. The multiplier value depends upon economic conditions, interest rates, expected tax policy, geographic region, past and expected government spending policy, and various other assumptions. The multiplier is on the lower end currently because of higher expected interest rates and strong economic conditions (unemployment rate in Utah is 3.5%). The dynamic revenue stems from the revenue connected with state government spending.

Dynamic Impact	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	...	FY 2026
General Fund	\$30,300	\$36,600	\$41,700	\$46,100	\$49,900		\$67,100
Education Fund	-\$2,590,300	-\$2,711,800	-\$2,842,200	-\$2,980,900	-\$3,127,600		-\$3,259,700
<b>Total</b>	<b>-\$2,560,000</b>	<b>-\$2,675,200</b>	<b>-\$2,800,500</b>	<b>-\$2,934,800</b>	<b>-\$3,077,700</b>		<b>-\$3,192,600</b>
<b>Diff From Static</b>	<b>\$81,000</b>	<b>\$97,800</b>	<b>\$109,500</b>	<b>\$125,200</b>	<b>\$132,300</b>		<b>\$907,400</b>
Jobs	30	32	34	35	35		37
Wages (millions)	\$1.6	\$2.0	\$2.3	\$2.5	\$2.7		\$3.6
Gross Domestic Product (GDP) (millions)	\$2.2	\$2.5	\$2.7	\$2.9	\$3.0		\$3.6

# IV. HB 61 DYNAMIC FISCAL NOTE

## SCENARIO 3: MARGINAL BUSINESS RESPONSE

Make tax policy change proposed by this bill. Do not spend on government programs. Computer and electronic manufacturers treat the tax reduction as a cost savings and reinvest the savings in production/output.

Dynamic Impact	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	...	FY 2026
General Fund	\$74,100	\$111,100	\$166,600	\$222,200	\$277,700		\$462,800
Education Fund	-\$2,517,100	-\$2,587,100	-\$2,633,100	-\$2,686,200	-\$2,746,200		-\$2,597,300
Total	-\$2,443,000	-\$2,476,000	-\$2,466,500	-\$2,464,000	-\$2,468,500		-\$2,134,500
<b>Diff From Static</b>	<b>\$198,000</b>	<b>\$297,000</b>	<b>\$443,500</b>	<b>\$596,000</b>	<b>\$741,500</b>		<b>\$1,965,500</b>
Jobs	60	98	130	156	177		218
Wages (millions)	\$4.0	\$6.0	\$9.0	\$12.0	\$15.0		\$25.0
Gross Domestic Product (GDP) (millions)	\$7.0	\$13.0	\$19.0	\$24.0	\$29.0		\$47.0

## SCENARIO 4: STRONG BUSINESS RESPONSE

Make tax policy change proposed by this bill. Do not spend on government programs. Computer and electronic product manufacturers treat the tax reduction as a cost savings, plus savings induces outside investment. The presumed outside investment is \$1.5 billion by semiconductor manufacturers in 2017 and 2018. The computer and electronic product manufacturing industry are assumed to generate ongoing employment of up to 1,200 industry jobs by 2020.

Dynamic Impact	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	...	FY 2026
General Fund	\$13,699,600	\$16,254,400	\$5,294,700	\$9,497,200	\$10,108,100		\$14,458,700
Education Fund	\$20,289,400	\$24,433,600	\$5,950,300	\$12,838,300	\$13,707,900		\$20,828,800
Total	\$33,989,000	\$40,688,000	\$11,245,000	\$22,335,500	\$23,816,000		\$35,287,500
<b>Diff From Static</b>	<b>\$36,630,000</b>	<b>\$43,461,000</b>	<b>\$14,155,000</b>	<b>\$25,395,500</b>	<b>\$27,026,000</b>		<b>\$39,387,500</b>
Jobs	11,628	12,541	2,801	5,325	5,379		6,072
Wages (millions)	\$740.0	\$878.0	\$286.0	\$513.0	\$546.0		\$781.0
Gross Domestic Product (GDP) (millions)	\$997.0	\$1,179.0	\$442.0	\$1,139.0	\$1,215.0		\$1,749.0

<sup>1</sup> Used throughout this note, General Fund includes sales tax earmarks

# IV. HB 61 DYNAMIC FISCAL NOTE

## SCENARIO 4: STRONG BUSINESS RESPONSE

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## IV. HB 61 DYNAMIC FISCAL NOTE

### Scenario 4:

- Permanent tax cut totaling \$2.6m in FY17 and \$2.7m in FY18 induces \$1.5b semiconductor industry investment
- Creates 12,000 jobs immed and >5,000 ongoing
- Adds \$1-2b to annual state GDP
- Adds \$30-40m annually to state revenues

### Questions:

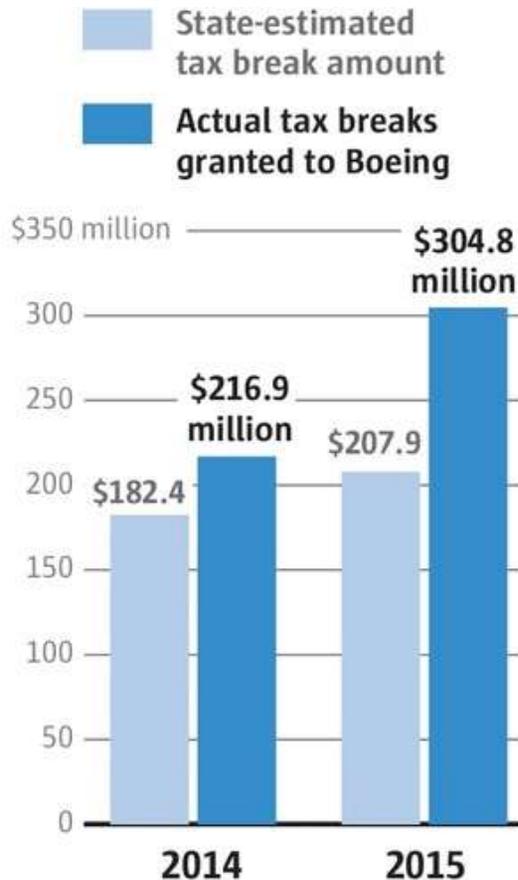
- Does Scenario 4 represent a realistic best-case scenario?
- Is Scenario 4 based on empirical evidence and historical precedent?



What did it take to induce this \$1b investment?

- WA has no corp. inc. tax
- Geekwire.com: “\$8.7b in state tax incentives thru 2040”
- Seattle Times:

### Boeing tax breaks



## Boeing Opens \$1 Billion Factory to Make Wings for New 777X Jetliner

by Reuters MAY 20, 2016, 11:20 AM EDT



The building spans the equivalent of 25 football fields

The Boeing 787 factory in Everett, Washington.  
Courtesy of Boeing





# Faraday Follows Tesla to Nevada for \$1 Billion Auto Factory

by Dana Hull James Nash  
[danahull](#) [jmnash](#)

December 9, 2015 – 5:23 PM MST Updated on December 10, 2015 – 12:06 PM MST



- ▶ Electric-vehicle startup picks North Las Vegas for plant
- ▶ Company backed by Chinese billionaire hasn't built a car yet



Faraday Future, the electric-vehicle startup backed by Chinese billionaire Jia Yueting, plans to manufacture its first car in 2017 at a \$1 billion factory near Las Vegas, company and Nevada officials said.

North Las Vegas prevailed over cities in California, Georgia and Louisiana as the site of California-based Faraday's first manufacturing operation, which may break ground as soon as January. Rival Tesla Motors Inc. is building the world's largest lithium-ion

What did it take to induce this \$1b investment?

- NV has no corp. inc. tax
- USA Today: The \$335 million deal to bring the proposed 3 million square-foot facility to Southern Nevada includes around \$215 million in tax incentives over 15 years and \$120 million in infrastructure spending.

Q: What has worked for Utah?

Company	Reported Utah Investment	Reported Tax Breaks
eBay	\$110m	\$38m
Adobe	\$1.6b	\$40m
Micron	\$3b	\$15m

A: Project-specific incentives far more expensive than SSF



# The Salt Lake Tribune

WWW.SLTRIB.COM    MAY 25, 2016

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## Lehi deal: 1,850 jobs for \$15M

By Lesley Mitchell  
The Salt Lake Tribune  
Published March 18, 2006 12:31 am

Deseret News
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### Adobe Systems plans new technology campus, may bring 1,000 jobs to Utah

By James Thalman, Deseret News  
Published: Thursday, Aug. 5, 2010 9:00 a.m. MDT    Print | Font [+][-] | 16 Comments

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Employees at Adobe Systems' Omnituro Business Unit relax in a break room Thursday at their office in Orem. Adobe acquired Omnituro this past October.  
Jeffrey D. Allred, Deseret News

**Summary**

SALT LAKE CITY — Adobe Systems Inc. announced Thursday that Utah is a big part of its future as the site of a new technology center amounting to about a \$1.6 billion deal — big enough that Gov. Gary Herbert held a news conference to announce it and big enough, he said, to be worth every penny of the \$40 million tax break the company will get when the project is completed.

SALT LAKE CITY — Adobe Systems Inc. announced Thursday that Utah is a big part of its future as the site of a new technology center amounting to about a \$1.6 billion deal — big enough that Gov. Gary Herbert held a news conference to announce it and big enough, he said, to be worth every penny of the \$40 million tax break the company will get when the project is completed.

"Mostly, it was the timing and the right combination of a lot of attractive options about Utah," Mark Garrett, Adobe's executive vice president and chief financial

## eBay Puts New Facility, 2,200 Jobs in Draper, UT

Published: 4 years ago

Online auction giant eBay is investing \$110 million in an expansion of its operations in Draper, UT. The project, which will receive a \$38.2-million tax credit from the state, will create 2,200 jobs.

Before the announcement, the Governor's Office of Economic Development board voted to grant the company a post-performance refundable tax credit of \$38.2 million over 20 years. The latest incentive combines with two previous job-based incentives — in May 2009 and October 2009 — to create a single comprehensive incentive package based on eBay expand

## III. HB 61 DYNAMIC FISCAL NOTE

# Budgetable Dynamic Fiscal Notes



Thomas Young, Ph.D.

[teyoung@le.utah.gov](mailto:teyoung@le.utah.gov)

801-647-4979

801-326-1672

(Found online at  
[www.taxadmin.org/assets/docs/Meetings/15rev\\_esr/young.pdf](http://www.taxadmin.org/assets/docs/Meetings/15rev_esr/young.pdf))



## Dynamic Tax Fiscal Notes

Static Fiscal Notes	Dynamic Fiscal Notes	Cost/Benefit Analyses
Taxable base x rate = static fiscal note	Taxable base x rate = static fiscal impact	Taxable base x rate = static fiscal impact
	Measure spending and competitive secondary impact on businesses/individuals	
	Convert behavioral responses to revenue = dynamic fiscal impact	
	More accurate	May or may not be more accurate
	More relevant	May or may not be more relevant
	Takes more time, resources	An expression of benefits
	Perhaps more risk	A measure of impact on society
		Intended to influence the passage of a bill

Slide from an LFA presentation on dynamic fiscal notes



# CONCLUSIONS

- 1) Recent research on SSF indicates little or no benefit for states that adopt it.
- 2) Most states have made SSF mandatory rather than optional to prevent abusive tax avoidance.
- 3) SSF leads to potentially enormous revenue losses.
- 4) This proposal raises significant questions about the reliability of the dynamic fiscal note process.





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## Voices for Utah Children Wins Grant for Early Learning

Voices for Utah Children Receives W.K. Kellogg Foundation Grant for Quality and Access Expansion in Early Learning Salt Lake City, UT – Over the last three years, with support from the W.K....

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