ECONOMIC DEVELOPMENT

State Business Incentives: Trends

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"Business incentives" can be broadly defined as public subsidies, including, but not limited to, tax abatement and financial assistance programs. They are designed to create, retain or lure businesses for job creation. The term can be used interchangeably as "industrial" or "development incentives." "Tax incentives" broadly refers to any credits or abatements of corporate income, personal income, sales-and-use, property or other taxes to create, retain or lure business. 'Financial incentives" broadly refers to any type of direct loan, loan guarantee grant, infrastructure development, or job training assistance offered to help create, retain or lure businesses.

During the past two decades, states have offered various business incentive programs to create, retain or expand jobs. In addition to tax and financial incentives, some states have used customized, company-specific incentives to engage in bidding wars with other states. Others have offered incentives to recruit business from abroad.

Since the 1970s, the number of states providing tax incentives to businesses has steadily increased. For example, by 1998, more than 40 states offered tax concessions or credits to businesses for equipment and machinery, goods in transition, manufacturers' inventories, raw materials in manufacturing and job creation. Other tax exemption programs that are becoming increasingly popular in the states are linked to corporate income, personal income, and research and development.

Similarly, the number of states with financial-incentive programs also increased over the past two decades. By 1998, more than 40 states offered special low-interest loans for building construction, equipment, machinery, plant expansion and establishment of industrial plants in areas of high unemployment.

In recent years, most state legislatures have enacted laws to strengthen their business incentive programs. Legislative actions have centered on tax and financial incentives, new economic development organizations, economic zones and worker's compensation. In the next five years, a majority of the states are likely to maintain or increase their incentive activities at current levels.

However, as interstate competition for industries and businesses intensifies, state and local government officials and observers of business incentive practices are questioning the effectiveness of business incentives. Proponents maintain that business incentives have a positive effect on business-location decisions, finance, job creation, are cost-effective, help foster competitiveness and are politically popular. Opponents say that tax and financial incentives are not the most important factor considered in business-location decisions. They suggest that business incentives are ineffective in creating jobs; raise questions about equity in the treatment of existing businesses; pull dollars away from the improvement of public services, such as education and infrastructure; and create a self-defeating zero-sum game between states.

Right or wrong, business incentives are not going away in the near future.

The attached tables summarize state financial incentives for business, state tax incentives for businesses, state job training programs, state enterprise zones, and selected public/private economic development partnership programs, through 1998. They are part of *State Business Incentives: Trends and Options for the Future, Second Edition - 2000.* Readers can contact CSG at 1-800-800-1910 to order a copy or visit www.csg.org/store/.