Tax Abatements: Past Practice and Current Policy Implications

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Overview

- Tax Abatements—Definition and Debate
- Past Practice in Michigan
- Policy Implications
- Best Practices

Public Act 198 of 1974

- Economic Development Tool
  - Not urban revitalization
  - No targeting
- Job Retention
  - Encourage capital investment
  - Reduction in property taxes
Evaluations of Tax Abatements

- Less growth than desired
- Negative secondary impacts
- Do not influence firm location decisions
- Positive effects are short lived
- Minimal “spill over” effects
- Insufficient to offset negative attributes

Criticisms of Tax Abatements

- Only effective at margin
- “Zero sum” game
- Corporate welfare
- Primarily used by fiscally healthy cities
- Not cost effective

PA 198 Tax Abatement Data Base

- Data from the Michigan Economic Development Corporation
- All abatements awarded from 1980-2001
- Number of abatements, projected real and personal property investment, and projected retained and created jobs
Users of PA 198

Abatement Equity Propositions

- Abatement activity will be higher in distressed communities
- Relative tax loss will be lower in distressed communities
- Tax abatements will promote economic growth

Health Index

Frequent Users

<table>
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<tr>
<th>Year</th>
<th>Standard Deviation</th>
<th>Mean</th>
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<tbody>
<tr>
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<td>.48</td>
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<td>1990</td>
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<td>2000</td>
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**Intra-Metropolitan Equity**

- **Detroit**
  - Wayne, Oakland, Macomb Counties
- **Grand Rapids**
  - Kent County
- **Central city, Suburbs, Exurbs**
- **Most abatement activity 1980-2001**

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**Certificates**

- **Total**
- **Per capita**

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**Investment**

- **Total Investment**
- **Real Investment**
- **Investment per capita**
- **Total per capita**
Abatements and Central Cities

- Abatements attract little new business to distressed cities
- Investment in central cities is high, but job creation is low
- Distressed central cities are highly dependent on abatements for jobs

Abatements and Suburbs

- Abatements in exurbs are associated with real property and new jobs
- Abatements by exurban communities contribute to sprawl
- Per capita abatements are higher in exurbs

Abatements and Tax Loss

- Tax losses on abated investment highest in central cities
- Exurbs have a higher tax loss than older suburbs
- The “cost” per job in Grand Rapids is significantly less than in Detroit
Abatements and Economic Growth

- Frequent use associated with declining economic health
- Occasional use associated with stable economic health
- Some distressed communities improved but remain highly distressed

Policy Recommendations: State

- Limit to distressed communities
- Limit number of abatements
- Limit dollar value of investment that can be abated
- Favor abatements for new jobs and real property investment
- Increase education efforts
- Require cost-benefit assessments

Policy Recommendations: Local

- Revise local policy process
- Limit number of abatements
- Limit dollar value of investment that can be abated
- Favor abatements for new jobs and real property investment
- Require cost-benefit assessments
- Monitor investment made/jobs created
- Increase public education efforts
What Do You Think?

- How open will local elected officials be to these recommendations?
- What more can be done to communicate the issues and encourage policy change?
- What next steps would you recommend?