

Iowa's Targeted Jobs Withholding Tax Credit Program

Tax Expenditure Committee November 27, 2017

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Outline

- ▶ Comparable programs in other states
- ▶ Summary statistics of awards and claims
- ▶ Case study on healthcare industry in Sioux City
- ▶ Impact of the program on wages

Comparable Programs in Other States

Selection conditions:

- ▶ Whether the tax credit program is refundable or otherwise not limited by the business's income tax liability
- ▶ Whether the tax credit program includes a jobs component
- ▶ Whether the tax credit is calculated as a percentage of the payroll of the associated jobs

Comparable Programs in Neighboring States

- ▶ 17 states have similar programs, including neighboring states Nebraska, Missouri, and Illinois (expired in 2017)
- ▶ Nebraska: 3%–6% of the gross wages of the qualified employees
- ▶ Missouri: 100% of the individual income tax withheld for qualified employees

Targeted Jobs Withholding Tax Credit Awards by Fiscal Year, 2007–2017

Fiscal Year	Number of Final	
	Awards	Total Final Awards
2007	2	\$845,700
2008	15	\$5,714,588
2009	9	\$8,014,000
2010	2	\$2,638,177
2011	8	\$15,718,014
2012	8	\$5,462,622
2013	4	\$3,787,529
2015	10	\$2,214,081
2016	5	\$1,205,900
2017	1	\$176,648
Total	64	\$45,777,259

Note: FY 2017 awards are preliminary

Targeted Jobs Withholding Tax Credit Awards by Pilot City, 2007–2017

Pilot City	Number of Final Awards	Total Final Awards	Distribution of Awards
Sioux City	43	\$19,163,939	41.9%
Fort Madison	5	\$9,452,928	20.6%
Council Bluffs	5	\$2,410,221	5.3%
Burlington	6	\$7,247,365	15.8%
Keokuk	5	\$7,502,806	16.4%
Total	64	\$45,777,259	100.0%

Note: FY 2017 awards are preliminary

Targeted Jobs Withholding Tax Credit Awards by Industry, 2007–2017

Industry	Number of Awards	Total Award Amount	Distribution of Award Amount
Manufacturing	19	\$25,508,208	55.7%
Healthcare	19	\$8,763,648	19.1%
Wholesale	10	\$4,388,639	9.6%
Construction	3	\$1,995,000	4.4%
Other Service	1	\$1,039,221	2.3%
Finance	2	\$1,022,914	2.2%
Professional Service	4	\$979,629	2.1%
Information	1	\$936,000	2.0%
Transportation	3	\$717,000	1.6%
Administrative Service	1	\$225,000	0.5%
Retail	1	\$202,000	0.4%
Total	64	\$45,777,259	100.0%

Note: FY 2017 awards are preliminary

Jobs and Investment Pledged by Participating Businesses by Pilot City, 2007–2017

Pilot City	Pledged Capital Investment	Share of Award to Investment	Pledged Created Jobs	Pleaded Retained Jobs	Total Pledged Jobs	Average Awarded Credits Per Job
Sioux City	\$113,911,469	16.8%	525	1,014	1,539	\$12,452
Fort Madison	\$93,933,375	10.1%	656	457	1,113	\$8,493
Council Bluffs	\$300,580,000	0.8%	88	56	144	\$16,738
Burlington	\$79,748,261	9.1%	63	538	601	\$12,059
Keokuk	\$46,008,600	16.3%	93	558	651	\$11,525
Total	\$634,181,705	7.2%	1,425	2,623	4,048	\$11,309

Note: FY 2017 awards are preliminary

Targeted Jobs Withholding Tax Credit Claims by Award Year, 2007–2016

Award Fiscal Year	Total Claims	Total Awards	Ratio of Claim to Award
2007	\$1,013,874	\$845,700	119.9%
2008	\$3,963,408	\$5,714,588	69.4%
2009	\$7,607,086	\$8,014,000	94.9%
2010	\$1,882,964	\$2,638,177	71.4%
2011	\$7,502,748	\$15,718,014	47.7%
2012	\$1,788,060	\$5,462,622	32.7%
2013	\$2,827,704	\$3,787,529	74.7%
2015	\$671,444	\$2,214,081	30.3%
2016	\$220,113	\$1,205,900	18.3%
Total	\$27,477,401	\$45,600,611	60.3%

Note: Award amounts in 2007 did not cap tax credits that could be claimed; claims made in FY 2007–2017

Targeted Jobs Withholding Tax Credit Claims by Pilot City, FY 2007–2017

Pilot City	Number of Claims	Total Claims	Average Claims Per Year	Distribution of Claims	Shares of Claims to Awards
Sioux City	852	\$11,853,736	\$1,077,612	43.1%	61.9%
Fort Madison	121	\$5,996,476	\$545,134	21.8%	63.4%
Council Bluffs	51	\$730,875	\$66,443	2.7%	30.3%
Burlington	88	\$5,952,604	\$541,146	21.7%	82.1%
Keokuk	64	\$2,943,710	\$267,610	10.7%	39.2%
Total	1,176	\$27,477,401	\$2,497,946	100.0%	60.0%

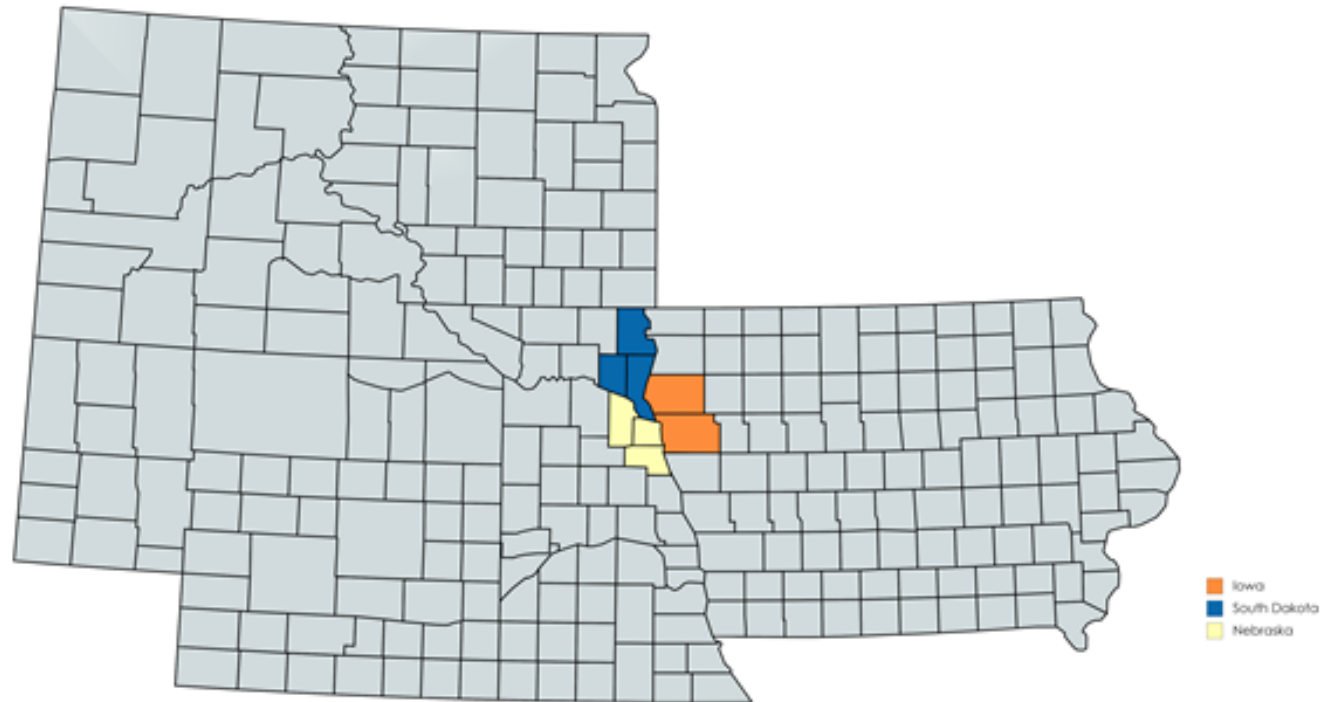
Does Targeted Jobs Withholding Tax Credit Program Help Iowa Compete?

- ▶ Although ideal policy question – analysis is not possible
 - Would need to know competing incentives offered by neighboring states to businesses considering locating in pilot cities over the decade
 - Competition is not limited to neighboring states for some industries
 - Number of projects in most cities is too small to measure impacts

Case Study: Healthcare Industry in Sioux City

- ▶ Competition for healthcare investment and jobs is mostly local
- ▶ Healthcare businesses in Sioux City and neighboring counties from South Dakota and Nebraska serve the same market
- ▶ Sioux City issued a significant portion of awards to healthcare businesses (\$8 million, 34.2 percent of awards)

Case Study: Studied Counties



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Case Study: Healthcare Industry Growth

- ▶ 522 net healthcare job gain in Woodbury County and Plymouth County between 2006 and 2015
- ▶ Healthcare providers with Targeted Jobs Withholding Tax Credit awards in Sioux City pledged 307 jobs between 2007 and 2015, 41.2 percent of the net job gain

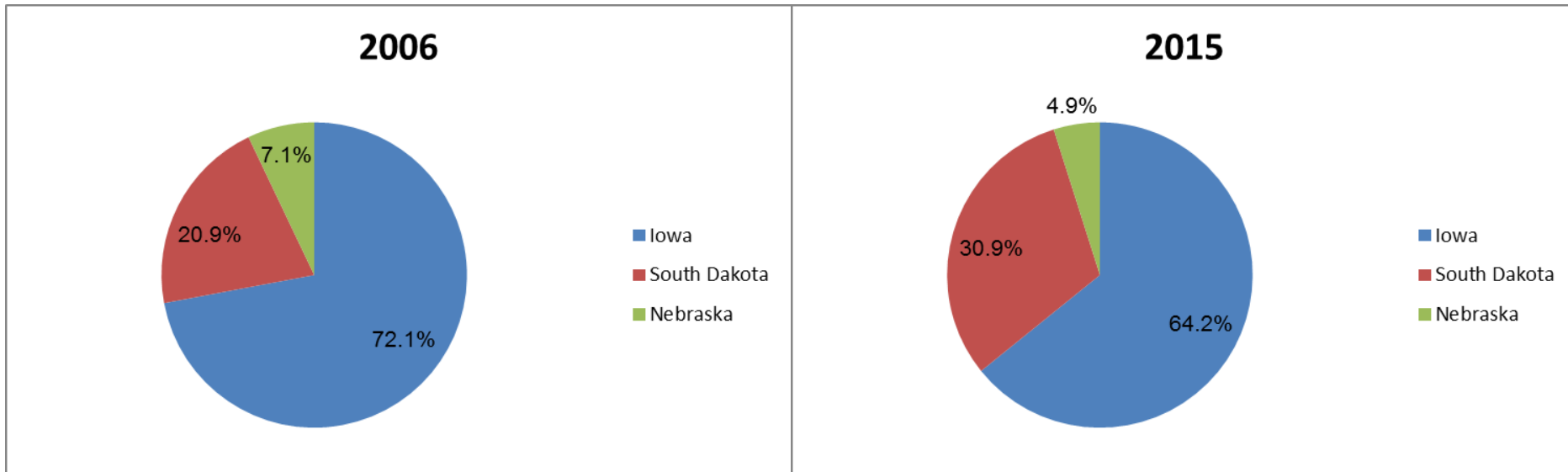
Case Study: Healthcare Industry in Iowa vs South Dakota

- ▶ Iowa (Woodbury County and Plymouth County) vs South Dakota (Union County, Clay County, and Lincoln County), between 2006 and 2015 (Source: Census Bureau)

	Iowa	South Dakota
Increase in Number of Establishments	8	95
Growth Rate of Establishments	2.0%	64.6%
Increase in Number of Jobs	522	2,093
Growth Rate of Jobs	5.4%	75.4%
Average Wage Level in 2006	\$30,432	\$32,394
Growth Rate of Wage	39.3%	39.6%

Case Study: Take Away

- ▶ Targeted Jobs Withholding Tax Credit program made significant contribution in job creation and retention in pilot cities
- ▶ But not enough to offset the advantage of other states with faster growth as seen in this comparison of the distribution of healthcare jobs in 2006 and 2015



Incidence of Targeted Jobs Withholding Tax Credit Incentives

- ▶ Tax incentive incidence: who receive the tax savings
- ▶ Code requires the Targeted Jobs Withholding Tax Credit revenues to be used to fund businesses' capital investment
- ▶ Tax savings could be shared among business owners, employees, customers, and landlords

Incidence of Targeted Jobs Withholding Tax Credit Program

- ▶ What is the Iowa employees' share of the tax benefit?
 - Treatment group vs control group
 - Estimate if any wage gains experienced by the treatment group can be attributed to Targeted Jobs Withholding Tax Credit incentives
 - Estimate the share of wage gain to the total tax benefit

Incidence Analysis

- ▶ Treatment group:
 - employees (not limited to covered employees) in businesses with awards

- ▶ Control group:
 - employees from non-participating businesses from the same cities and the same industries, then using statistical method to further select

Estimation Results

- ▶ Targeted Jobs Withholding Tax Credit raises the average wage per employee by 1.27 percentage points
- ▶ For example, the average wage for employees in businesses participating in the program was \$57,796 in 2015
- ▶ Participation was estimated to raise wages \$734 per employee in 2015

Estimated Tax Incidence (Preliminary)

- ▶ Estimated total wage contributed by the Targeted Jobs Withholding Tax Credit program for these businesses in the sample: \$1.01 million in 2015
- ▶ Total tax credit claim by these businesses: \$2.46 million in 2015
- ▶ 41% of their tax credit claims in 2015 were estimated to ultimately flow to employees

Caveat and Take Away

- ▶ Analysis only includes larger employers with more than 50 employees in the facilities
 - Limited by availability of W2 data
- ▶ Analysis suggests that a large portion of tax benefits of the Targeted Jobs Withholding Tax Credit program stays in Iowa through higher wages

Questions?