

Incentives - Winning at the Rules of Economic Development

By Members of the Indiana Economic Development Association Board of Directors

Basketball may not have been invented in Indiana, but Hoosiers have learned how to play the game with the best. The same applies to economic development and the use of incentives: we didn't invent the game, but we intend to compete with the best players.

The use of economic development incentives is regularly misunderstood by the public and is sometimes maligned as 'corporate welfare.'

The truth is, in most cases, no money changes hands between a community and a business, but through economic development incentives the community is making an investment that it hopes will yield future return in the form of taxes, wages, and other financial outputs from a company. The key word here is "investment".

'Tax abatement' is a good example of a misunderstood mechanism for supporting business investment. A better way to understand tax abatement is to think of it as tax 'delay.' As a company relocates to a new community, or expands in its current home community, delays the payment of new taxes. A community is not giving away taxes it is already receiving but is delaying the payment of new taxes as a way of helping the company cover the costs of start-up or expansion. It's important to understand that current taxes are not eliminated.

Eventually, the company will begin paying taxes, but these are taxes that the community would not have received had the company not located or expanded in the community.

Hence, tax abatement is just an investment with a delayed payback.

Other incentives, such as workforce training grants, benefit the community and company directly and immediately, by improving the skills and earning potential of local workers to make them more employable and of immediate benefit to the company.

Incentives may have become the rules by which the economic development game is played, but when 'winning' means that more opportunity is created for workers to have a better life, when the tax burden is spread amongst more payers, and more dollars flow into and around the community, it should be easy to see why it's important to compete among the best.