

Virginia dodges reporting responsibilities with business tax credits

By Kathryn Watson

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ALEXANDRIA, Va. — Virginia’s failure to report how much it doles out in tax credits to each company through the [Major Business Facility Job Tax Credit](#)^[2] [is dragging down the state’s overall spending transparency score](#)^[3].

That isn’t likely to change anytime soon though.

Tax credits aren’t technically spending, per se — even though that tax revenue has to be made up somewhere, either through more taxes or spending cuts.

So, while a grant to a company would have to be reported, tax credits become easy political tools for state officials to favor particular industries, businesses or goals with virtually no transparency, said Matt Mitchell, a senior research fellow with George Mason University’s [Mercatus Center](#)^[4].

“This is an example where the government could just achieve this exact goal by just granting, handing out cash to these companies,” Mitchell said. “Why don’t they do that? They do that for the very reason that it’s too transparent.”

Tax credits and expenditures through, say, a grant aren’t exactly the same thing, but generally have indistinguishable effects, Mitchell said. So, they should be on display for the public to see.

“One of the things that seems pretty clear when you look at the data is that governments over time tend to gravitate towards the less transparent ways of privileging firms,” Mitchell added. “That’s why they used to give out subsidies to farmers and cash payments, and over time, they’ve gravitated towards less transparent things like price controls, and other things that still cost, from an economic perspective, consumers and or taxpayers, but they end up being much less transparent.”

Because tax credits aren’t technically expenditures, they aren’t included in the [Commonwealth Data Point](#)^[5], the state’s spending transparency website run by the [Auditor of Public Accounts](#)^[6]. That’s why the Major Business Facility Job Tax Credit, given to qualified companies that transfer or create a threshold of at least 50 jobs in the state, was nowhere to be found by

researchers at the [U.S. PIRG when they released their state spending transparency report](#) ^[7] this week.

“The Major Business Facility Job Tax Credit is not a payment, but a credit taken when taxes are filed, and therefore not required to be included in Commonwealth Data Point,” said April Cassada, an auditor with the Auditor of Public Accounts.

There are more brick walls for taxpayers, though.

Not only does the state not report how much is given through the credit, other than an aggregate total deep in the recesses of the Internet, but Virginia law prohibits the Department of Taxation from releasing information about how much it gives in credits to specific businesses, even in response to a request under the [Virginia Freedom of Information Act](#) ^[8].

“We couldn’t divulge anything associated with your tax return,” said Joel Davison, communications director for the Department of Taxation. “We can divulge general information about credits, but not specific information as it relates to an individual or a business. Basically, it’s against the law in Virginia.”

The average Virginian should care because, one way or another, someone has to make up for those tax credits, Mitchell said.

“Every time the government chooses to privilege a particular firm, that means either somebody else’s services are cut or their taxes go up,” Mitchell said. “That’s not obvious to the politicians. It’s not a conspicuous cost. All they see is ‘oh, we’ve created 12 jobs in this area.’ Well, those jobs came at the expense of the taxpayers and other companies elsewhere, which is why the data shows these targeted incentives don’t work.”

It’s not just the transparency of the tax credit people should be concerned about, said Nicole Kaeding, budget analyst with the libertarian-leaning [Cato Institute](#) ^[9] in Washington, D.C.

“The more important issue in this situation is not whether the state should disclose the recipients of the ... tax credit, but why does that tax credit even exist?” Kaeding told Watchdog.org. “Economic development, including programs operated through the tax code, harms economic growth. If Virginia truly wanted to expand job creation, it would be much better off by reforming its tax code.”

In 2008, [Virginia gave roughly \\$12.5 billion worth of tax preferences, while raking in just \\$14 billion in revenue](#) ^[10], according to a study by the watchdog arm of the General Assembly. In other words, it gave up nearly as much in all forms of tax preferences as it received in tax revenue.

A new legislative commission is working, however slowly, on re-evaluating the state’s entire swath of tax preferences. The incentive for reform isn’t great, though.

“This is a case where it’s unfortunately sort of bipartisan, because Democrats or progressives or liberals like it because it’s a way to allow the government to allocate capital and craft an economy, but Republicans like it too because it seems like a tax cut, but it’s not a genuine tax cut,” Mitchell said.

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URLs in this post:

[2] Major Business Facility Job Tax Credit:

<http://www.tax.virginia.gov/site.cfm?alias=TaxCredit>

[3] is dragging down the state’s overall spending transparency score:

<http://watchdog.org/137579/tax-break-transparency/>

[4] Mercatus Center: <http://mercatus.org>

[5] Commonwealth Data Point: <http://datapoint.apa.virginia.gov>

[6] Auditor of Public Accounts: <http://www.apa.virginia.gov>

[7] U.S. PIRG when they released their state spending transparency report:

<http://www.uspirg.org/news/usp/new-report-ranks-transparency-government-spending-50-states>

[8] Virginia Freedom of Information Act: <http://www.opengovva.org/foia/current-law>

[9] Cato Institute: <http://www.cato.org>

[10] Virginia gave roughly \$12.5 billion worth of tax preferences, while raking in just \$14 billion in revenue: <http://watchdog.org/58991/tax-preference-policy-to-haunt-legislature/>

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