Nevada Governor's Office of
ECONOMIC DEVELOPMENT

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Tax Abatements for Economic Development

Economic and Fiscal Analysis (FY 2014- 2019)

Introduction:

State and local governments across the United States use several types of tax incentives to encourage private sector firms to create jobs, invest in communities, and strengthen local industries.

The Governor's office of Economic Development has provided the following fiscal and economic analysis of tax abatements approved for businesses relocating or expanding in Nevada from 2014 through 2019.

What are Tax Abatements?

Tax abatements are a reduction of taxes granted by a government entity to a company for a specific period of time to encourage economic development.

A company receiving a tax abatement enters into an agreement (**a contract**) with the state. Each contract allows a company to receive a predetermined **reduction in its tax obligations** (reduced tax payments) for a certain period of time. In return, the company receiving the abatement is obligated to invest a significant amount of capital into the economy, invest in people and training by creating new jobs and paying wages and benefits to those workers.

Companies that receive abatements are regularly audited by the Department of Taxation to ensure they meet the abatement requirements. When the abatement period is over, businesses **are obligated to continue paying the full amount of taxes**.

Important is to Know:

- Tax abatements are granted to companies that would not otherwise relocate to Nevada.
- Tax abatements are granted to companies to promote growth by prioritizing firms in advanced industries and targeted sectors that drive the competitive advantage, innovation, productivity, and wage gains.
- Tax abatements are discounts, not an exemption for paying taxes. Businesses that receive tax abatements still pay taxes but at a discounted rate.

To approve tax abatements for applying companies, the Governor's Office of Economic Development (GOED) performed the following:

- A fiscal impact analysis.
- An economic impact analysis.

Both analysis focus on specific information including:

- **Geographic Location** – where in Nevada a company plans to locate (County and/or City) to determine different tax rates.
- **Industry** – categorize industry to determine supply chain linkages and how the company will strengthen local markets.
- The **number of jobs, average wage and capital investment** associated with the application.

Tax Abatement Analysis:

Tax abatement analysis, fiscal and economic, are complex and rely on existing relationships to measure change.

FISCAL IMPACT ANALYSIS	ECONOMIC IMPACT ANALYSIS
Definition: Evaluates how abating a company affects public revenue tax streams. • Fiscal analysis tends to be easier because we are dealing with known tax rates; known collected revenues, as well as public cost for education, infrastructure, public safety, end other budgetary variables.	**Definition:** Approximates the expected effect the expansion or relocation will have on the economy. • Economic Analysis is based on modeling; looking into known relationships between same industry companies in the region and their suppliers and markets. By applying those relationships to new job/wage/investment parameters that company receiving abatements will create, we can make reasonable assumptions on how their operation will contribute to the region's economic growth.

When discussing impact analysis (both fiscal and economic) it is important to understand terms like direct, indirect and induced impact:

- Direct impacts refer to the direct contributions a company applying for abatements will make on the economy,
- Indirect impacts refer to inter-industry supply chain impacts – such as a manufacturing company buying supplies for their operations,
- Induced impacts occur as employees of that company spend their paychecks, businesses invest to grow their operations, and government spends more to support the changes. In short, this is referred to as the multiplier or spinoff effect.

Fiscal Analysis of Approved Tax Abatements, FY14 - FY19:

In the FY2014 to FY2019 period there were 251 companies approved for tax abatements as outlined in Table 1.

Table 1: Fiscal Benefit of Abated Companies, FY14 – FY19 (Standard Abatements, *NRS 360.750*)

Fiscal Year	Companies	Capital Investment	Total Tax Revenues without Abatements	Total Tax Abatements Approved	Net New Taxes	Direct Net New Taxes	Indirect New Taxes	Net New Taxes / Abatements
FY14	46	$391,496,881	$266,458,939	$36,109,284	$230,349,655	$101,307,862	$129,041,793	$6.38
FY15	38	$11,828,029,891	$3,316,882,033	$1,156,956,038	$2,159,925,995	$555,975,149	$1,603,950,846	$1.87
FY16	46	$6,516,358,293	$1,982,238,001	$579,554,822	$1,402,683,179	$541,459,144	$861,224,035	$2.42
FY17	36	$631,289,704	$428,173,675	$55,338,228	$372,835,447	$88,294,491	$284,540,956	$6.74
FY18	45	$898,316,100	$637,011,549	$78,320,719	$558,690,830	$159,020,295	$399,670,535	$7.13
FY19	40	$7,450,875,556	$850,493,480	$239,776,980	$610,716,500	$263,805,375	$346,911,125	$2.55
Grand Total	**251**	**$27,716,366,425**	**$7,481,257,678**	**$2,146,056,071**	**$5,335,201,607**	**$1,709,862,316**	**$3,625,339,291**	**$2.49**

As was mentioned, tax abatements are approved for companies that would in all likelihood have located somewhere else if there were no tax abatements*. This being the case, the jobs and new revenue associated with the project would also have been lost to the state.

We start this analytical review with the following:

- Hypothetically, if the **251** new companies did **NOT receive tax abatements** (discount on taxes), but still expanded or relocated in Nevada, the total tax revenue collected in this period would be **$7.5 billion** ($7,481,257,678).

However, we know from the abatement applications that most of the companies that received tax abatements made their decision to expand or ***relocate due to receiving tax abatements*** and the **estimated approved tax abatements was $2.2 billion** ($2,146,056,071).

But, because the granted tax abatements are **"partial"** during the abatement period the state still **collected significant revenues in the amount of $5.3 billion** from these 251 companies ($7.5 billion minus $2.2 billion):

- $1.7 billion directly from business operations and
- $3.6 billion in indirect spending from their suppliers.

**Note: We are in the process of analyzing data from our application survey to determine exact number of companies that are listing tax abatements as the most important criteria in choosing Nevada to open or expand their operations, and also analyzing how many of the companies that were approved for tax abatement did not use their abatements.*

We calculated the Return on Investment (ROI) of these abatements to be $2.49, meaning that for every $1 abated Nevada would receive $2.49 back in tax revenues (see Table 2).

Table 2: Fiscal Return on Investment of Abated Companies, FY14 – FY19

Period	No of Companies	Revenues collected if NO abatements are approved	Tax revenues NOT collected due to abatements	Tax revenues collected with approved abatements	ROI
FY14 -FY19	251	$7.5 billion	$2.2 billion	$5.3 billion	**$2.49**

Additionally, it is critically important to keep in mind that once the abatement contract expires, state and local government will continue to receive full tax revenues from these companies. This full impact on budgets in perpetuity would be lost if abatements were not granted because companies chose to expand or relocate elsewhere.

Economic Analysis of Approved Tax Abatements, FY14 - FY19:

To arrive at the estimated economic impact of the companies granted abatements in the FY2014 to FY2019 period, GOED utilizes the Regional Project Assessment System (RPAS) model developed by Applied Economics. This model assesses projects using the industry recognized Economic Impact Analysis for Planning (IMPLAN) multipliers.

Using the RPAS model, it is estimated that the economic impact of the 251 companies that received abatements between FY2014 and FY2019 was $276.8 billion (see Table 3).

Table 3: Economic Benefit of Abated Companies, FY14 – FY19

Fiscal Year	Companies	Initial Jobs	Build-out Jobs	Average Wage	Capital Investment	Economic Impact	Economic Impact Per Total Abatements
FY14	46	3,541	7,846	$17.49	$391,496,881	$6,954,630,422	$193
FY15	38	5,100	13,534	$25.80	$11,828,029,891	$102,878,905,808	$89
FY16	46	1,997	8,265	$23.90	$6,516,358,293	$104,358,778,035	$180
FY17	36	4,196	6,823	$19.34	$631,289,704	$15,044,619,641	$272
FY18	45	3,493	7,760	$25.48	$898,316,100	$25,032,879,485	$320
FY19	40	2,046	4,653	$31.26	$7,450,875,556	$22,508,174,647	$94
Grand Total	**251**	**20,373**	**48,881**	**$23.33**	**$27,716,366,425**	**$276,777,988,038**	**$128.97**

This is the estimated value of all the economic activities generated by these abated companies including the direct, indirect, and induced impacts. In other words, it considers the additional economic value derived from relationships between the abated companies and their suppliers (including construction and property investments), the direct and buildout jobs created, the inter-industry supply chain effects, and the subsequent induced spinoff effects. It is a holistic measure of the economic gain these companies brought to Nevada.

Considering this $276.8 billion-dollar economic benefit, the estimated ROI per abated dollar can be calculated which, in this case is $128.97.

Although this economic impact ROI is a bit of an "apples and oranges" metric, it is still helpful because it estimates dollar value of all economic activity generated for every tax dollar discounted through the abatement process.

Summary of Tax Abatement Benefits for State and Local Economies:

While tax abatements are short-lived, they can have a significant long-term impact. There are three ways tax abatements can have a positive impact on the local economy:

- They reduce unemployment. A new business creates jobs and the people employed use their income to build homes and buy goods and services, cars, and other personal necessities.
- They strengthen other businesses. Established businesses benefit when a new business opens. The increase in patrons allows other businesses to grow by investing in capital improvements and hiring new employees.
- They increase tax revenue. When a partial abatement is offered, a city still benefits from increased tax revenues. Additionally, new employees spend their earnings at local stores (which boosts sales tax receipts) and often build new homes (which increases property tax receipts).

Tax receipts continue to grow long after the abatement contract expire. Once a business become s established all the added facilities and improvements ass to the tax base of the local community. The tax rate and revenue is now higher because the property is developed and therefore creates a stronger, long term local tax revenue resources.