

New/Expanding Business Income Tax Exemption

An Economic and Fiscal Analysis in REMI Tax-PI

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Thursday, April 19, 2018

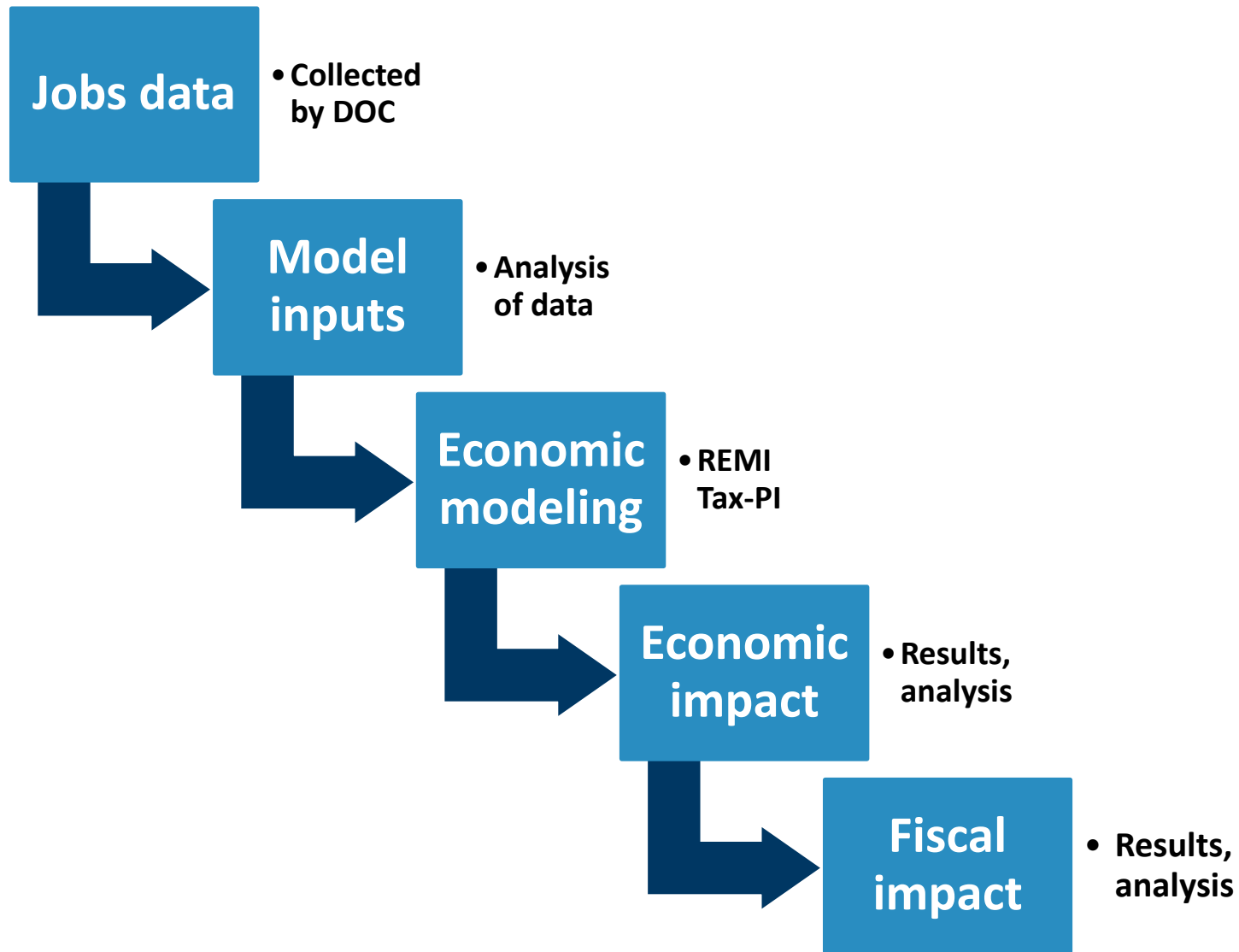
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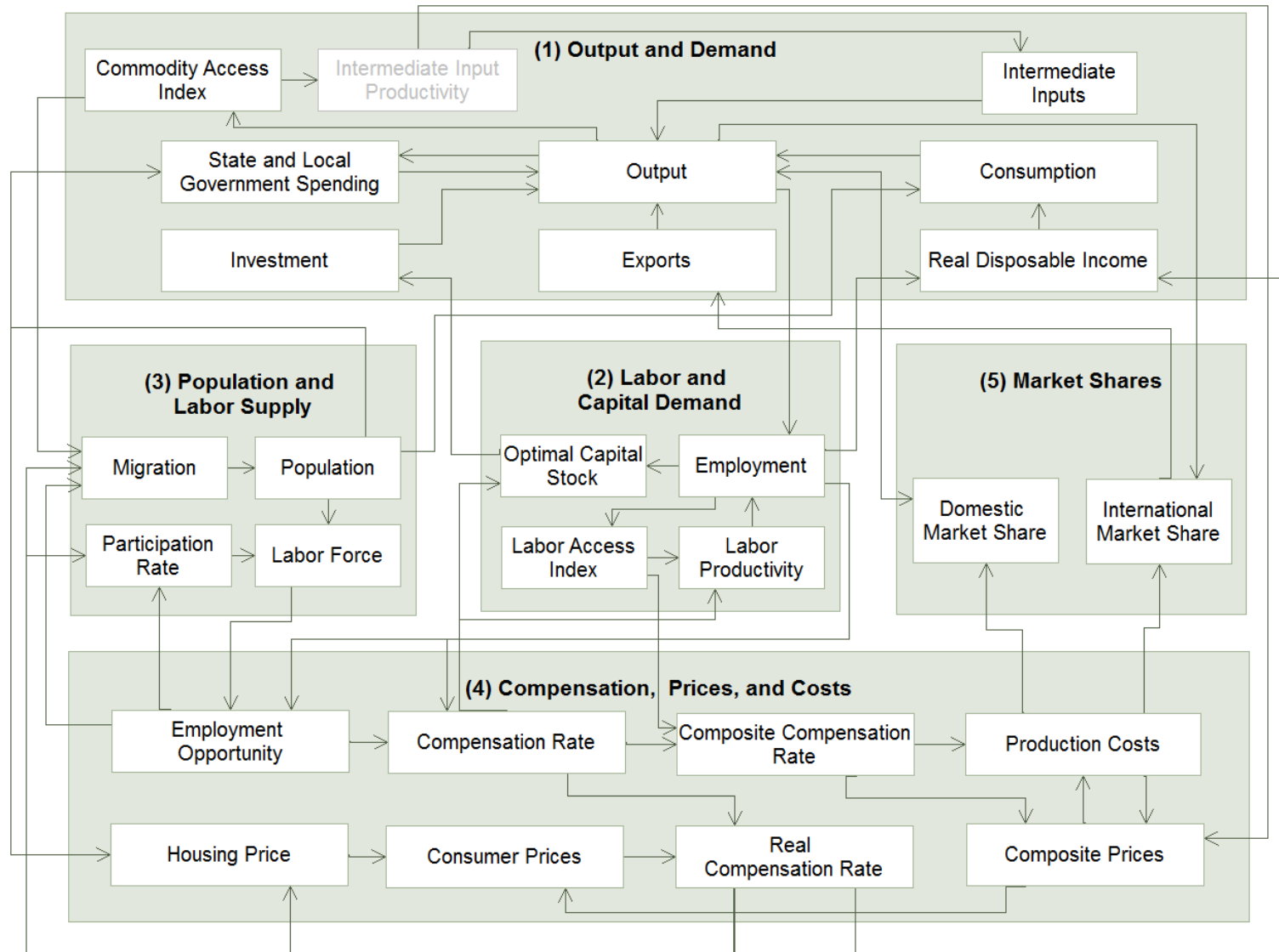
Table of contents

- Evaluation methodology
- Economic modeling methodology
 - REMI economic/demographic model
 - Tax-PI module
- New/Expanding Business Income Tax Exemption (“NEBITE”)
- Data sources and assumptions
 - North Dakota Department of Commerce (“DOC”)
- Economic/Demographic Impact Results
 - Impact over time
 - Industry distribution
- Fiscal impact results
 - Revenue impact
 - Expenditure impact
 - Benefit-Cost Analysis (“BCA”)
 - Benefit-Cost Ratio (“BCR”)
- Main takeaways

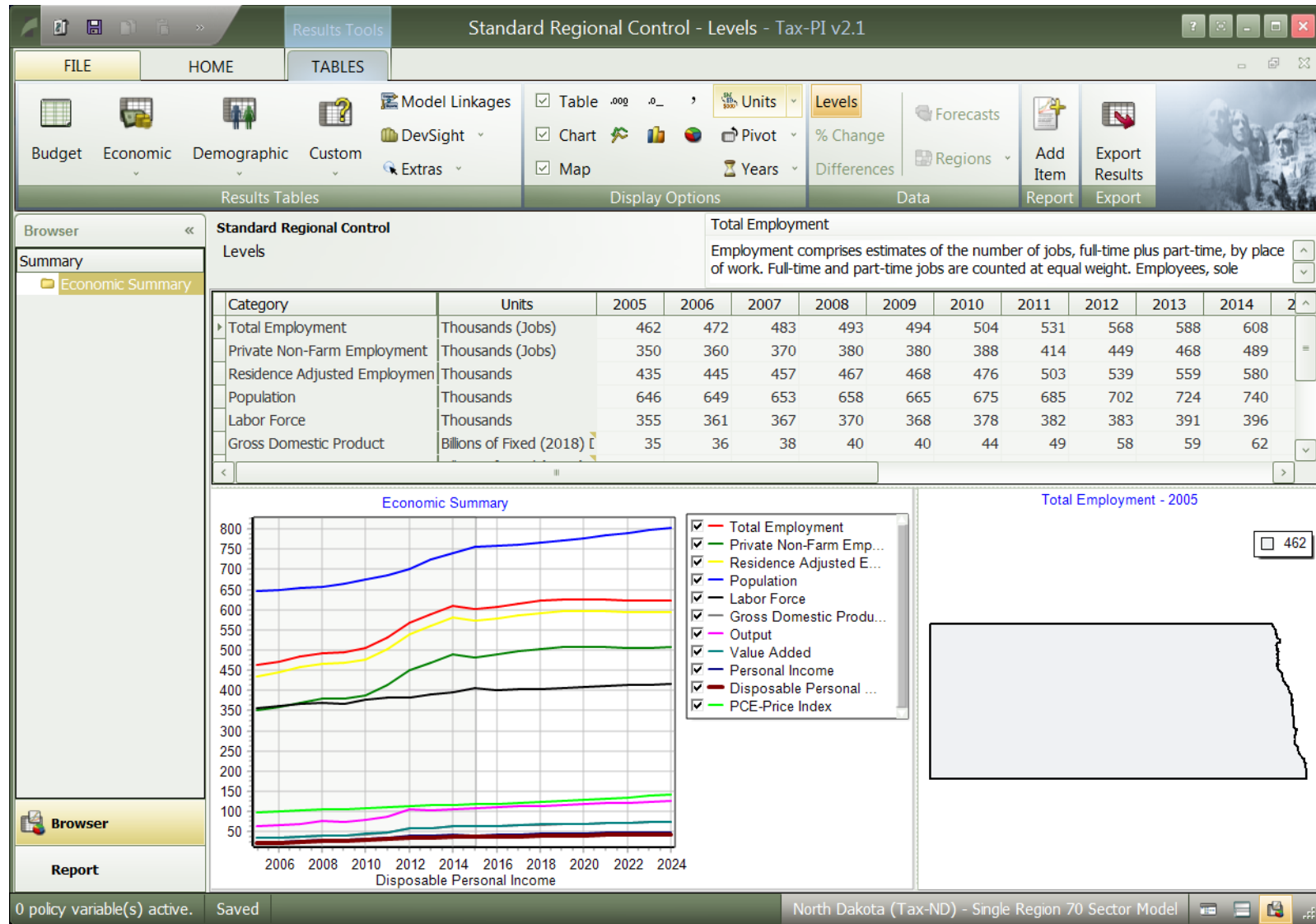
Evaluation methodology



REMI Tax-PI model structure

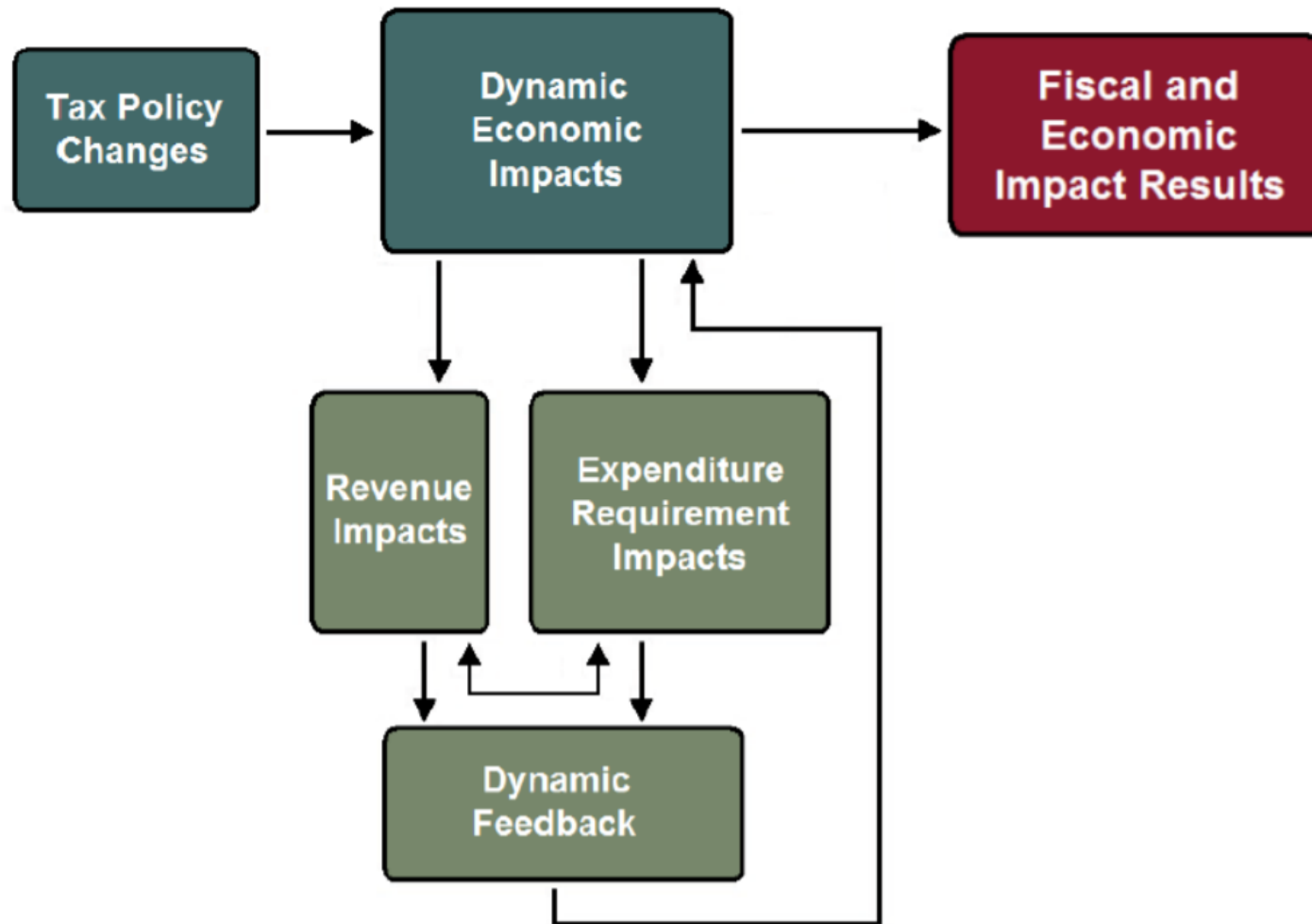


North Dakota economy and demographics in REMI program



Tax-PI builds a module on top of the REMI model to estimate state revenues/expenditures from economic changes

Tax-PI Model Structure Overview



North Dakota state budget in REMI Tax-PI module

Budget Calibration - BND (2017 final)

Options

Start of Fiscal Year: Units:

Expenditures Determined By: ☐ Revenues ☒ Demand

Start of Fiscal Year: Select the month that starts the fiscal year.

Revenues

Display Years: to

Revenues Expenditures

Revenue Name	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
Sales and use tax (hoi	948.191	948.191	1069.584	1069.584	741.413	741.41
Sales and use tax (bu	150.298	150.298	169.54	169.54	117.521	117.52
Motor vehicle excise t	60.782	60.782	66.657	66.657	53.34	53.3
Motor vehicle excise t	65.581	65.581	71.92	71.92	57.552	57.55
Individual income tax	523.081	523.081	525.031	525.031	333.33	333.3
Corporate income tax	192.907	192.907	217.622	217.622	83.403	83.40
Insurance premium ta	41.429	41.429	46.263	46.263	55.363	55.36
Financial institutions ta	5.618	5.618	-2.493	-2.493	0.655	0.65
Oil and gas production	66.917	66.917	73.036	73.036	63.582	63.58
Oil and gas extraction	83.083	83.083	76.964	76.964	86.418	86.41
Gaming tax	5.568	5.568	3.598	3.598	3.361	3.36
Lottery	7.15	7.15	6.65	6.65	7.89	7.8
Cigarette and tobacco	26.862	26.862	30.131	30.131	28.199	28.19
Wholesale liquor tax	8.809	8.809	9.352	9.352	8.949	8.94
Coal conversion tax	19.2	19.2	20.384	20.384	21.835	21.83
Mineral leasing fees	21.526	21.526	20.674	20.674	14.52	14.5
Departmental collectio	38.497	38.497	41.635	41.635	41.588	41.58
Interest income	6.836	6.836	19.052	19.052	7.774	7.77

Revenue Details

Sales and use tax (households) (86.3%)

Economic Indicator:

☐ Time Series

Details	Units	All Years
New motor vehicles	Percent	0
Net purchases of used motor vehicles	Percent	0
Motor vehicle parts and accessories	Percent	100
Furniture and furnishings	Percent	100
Household appliances	Percent	100
Glassware, tableware, and household uter	Percent	100
Tools and equipment for house and gard	Percent	100
Video, audio, photographic, and informati	Percent	80
Sporting equipment, supplies, guns, and i	Percent	100
Sports and recreational vehicles	Percent	100
Musical instruments	Percent	100
Jewelry and watches	Percent	100
Therapeutic appliances and equipment	Percent	0
Books, educational and recreational	Percent	50
Luggage and similar personal items	Percent	100
Telephone and facsimile equipment	Percent	50



New/Expanding Business Income Tax Exemption (“NEBITE”)

- NEBITE allows certain new or expanding businesses in North Dakota to receive an exemption to their income taxes for up to five years
 - Expanding businesses only receive exemptions on the income produced by the expansion, not on the income derived from their preexisting operations

- Several factors can disqualify a business from a NEBITE
 - Already receiving a property tax exemption under increment financing
 - Outstanding recorded lien for unpaid taxes against the business
 - NEBITE might foster unfair competition or endanger other businesses

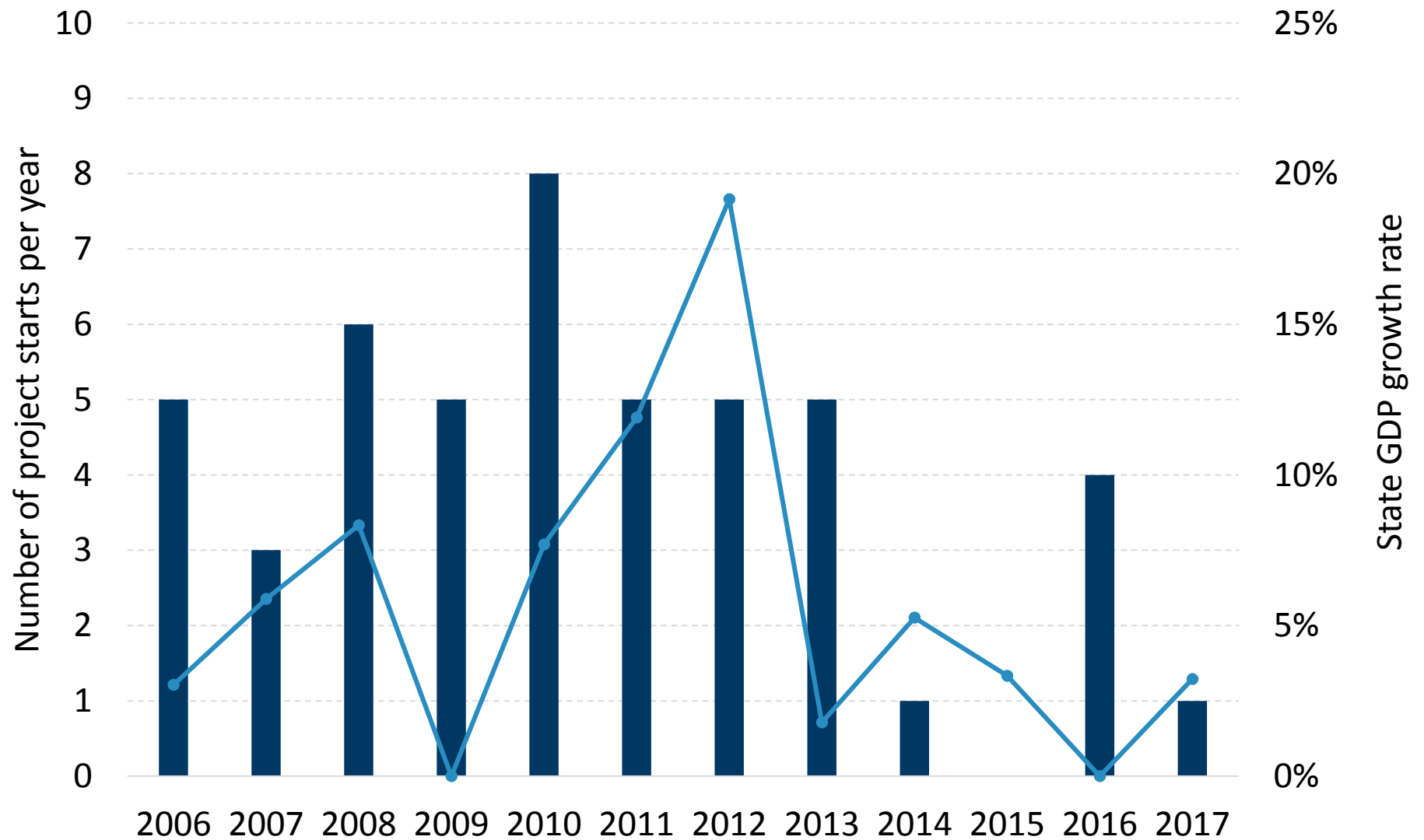
- To receive the exemption, the business must apply to the State Board of Equalization
 - DOC’s Division of Economic Development and Finance reviews the application
 - Must further state economic development or tourism development
 - Businesses must notify their competitors of their participation in the program
 - State Board considers the application and testimony
 - Grants or denies the exemption at a public meeting or hearing
 - These processes likely helps to minimize “displacement” and “but for” cases



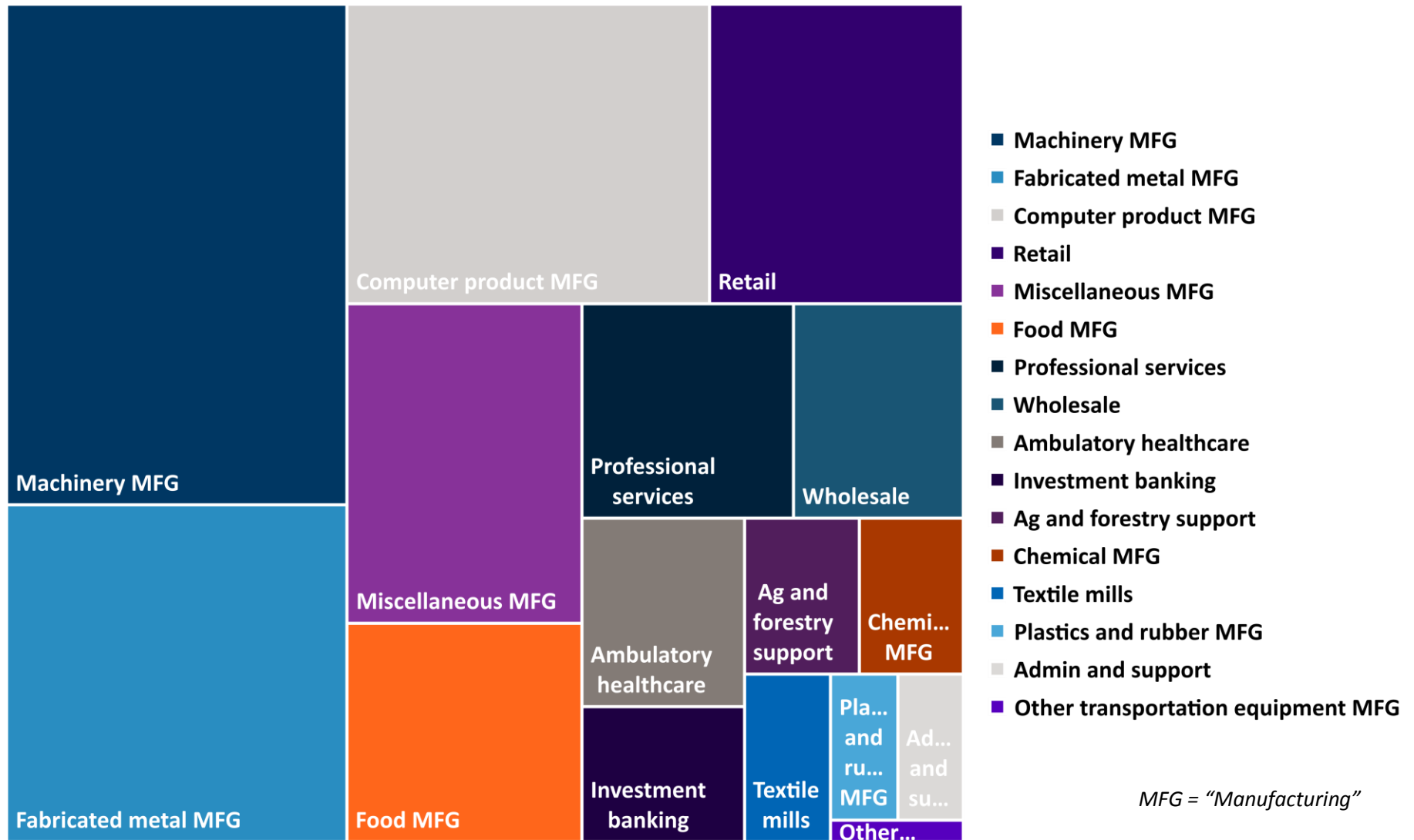
Job creation and wage data

- All data provided by DOC in report entitled, “Department of Commerce Annual Report on Business Incentives, Taxation Committee, December 14, 2017”
 - Under the Business Incentive Accountability Law (*NDCC Chapter 54-60.1*)
 - This report contains information on several types of tax incentives
 - DOC allowed access to the data in a more analytical format (e.g., Microsoft Excel)
- Contained data on 48 projects receiving NEBITE between 2006 and 2017
 - Contained such data relevant to this analysis such as project start date, fiscal cost of the incentive, industry, jobs created, and their average compensation
 - Data reported on these projects for roughly five (5) years after inception
 - Four (4) of the projects had no data reported – they were deleted, leaving 43 projects
 - Of the remainder, five (5) showed a zero or negative impact
- Converted these into variables for REMI Tax-PI
 - Jobs by year and their associated wages
 - Assumed the jobs from the projects lasted only five years
 - No sample data was collected after that, so it is impossible to know what happened
 - Difficult to associate economic activities with NEBITE so many years later

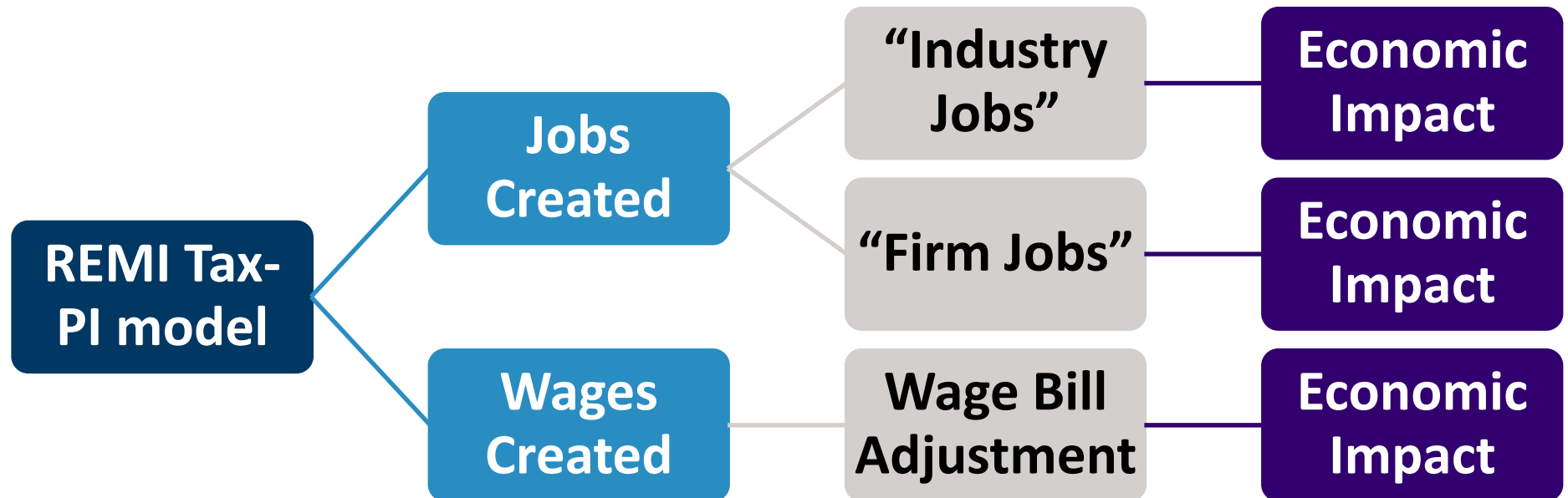
Project origins by year versus state GDP growth



Distribution of NEBITE jobs by industry



The economic impact of NEBITE includes the jobs (and their associated wages) for the five-year period



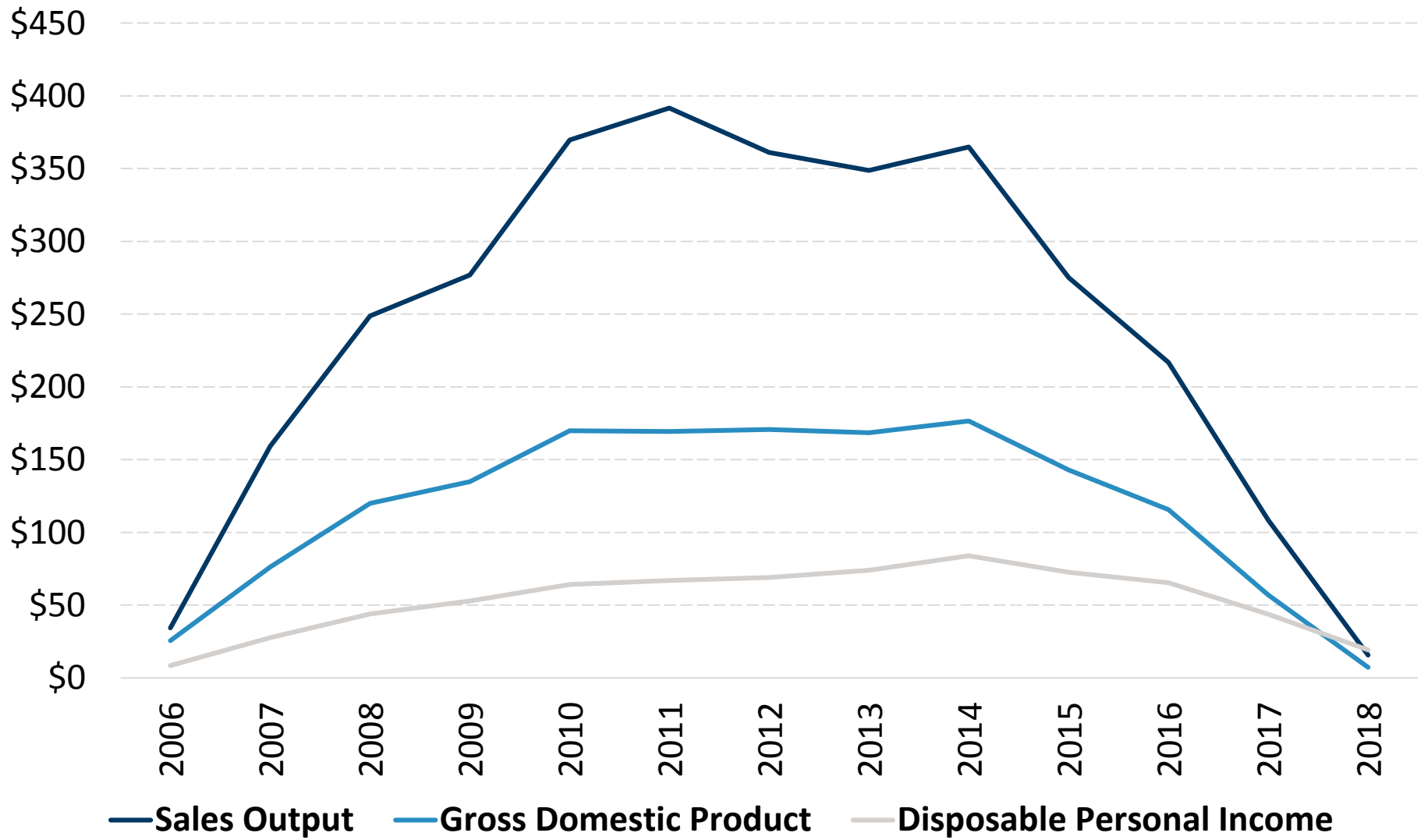
“Industry” employment does not displace other employment in North Dakota. “Firm” employment displaces other jobs in North Dakota to a degree determined by the REMI model. NEBITE mostly generates “industry” jobs in such industries as manufacturing or professional services.

Economic and demographic impact

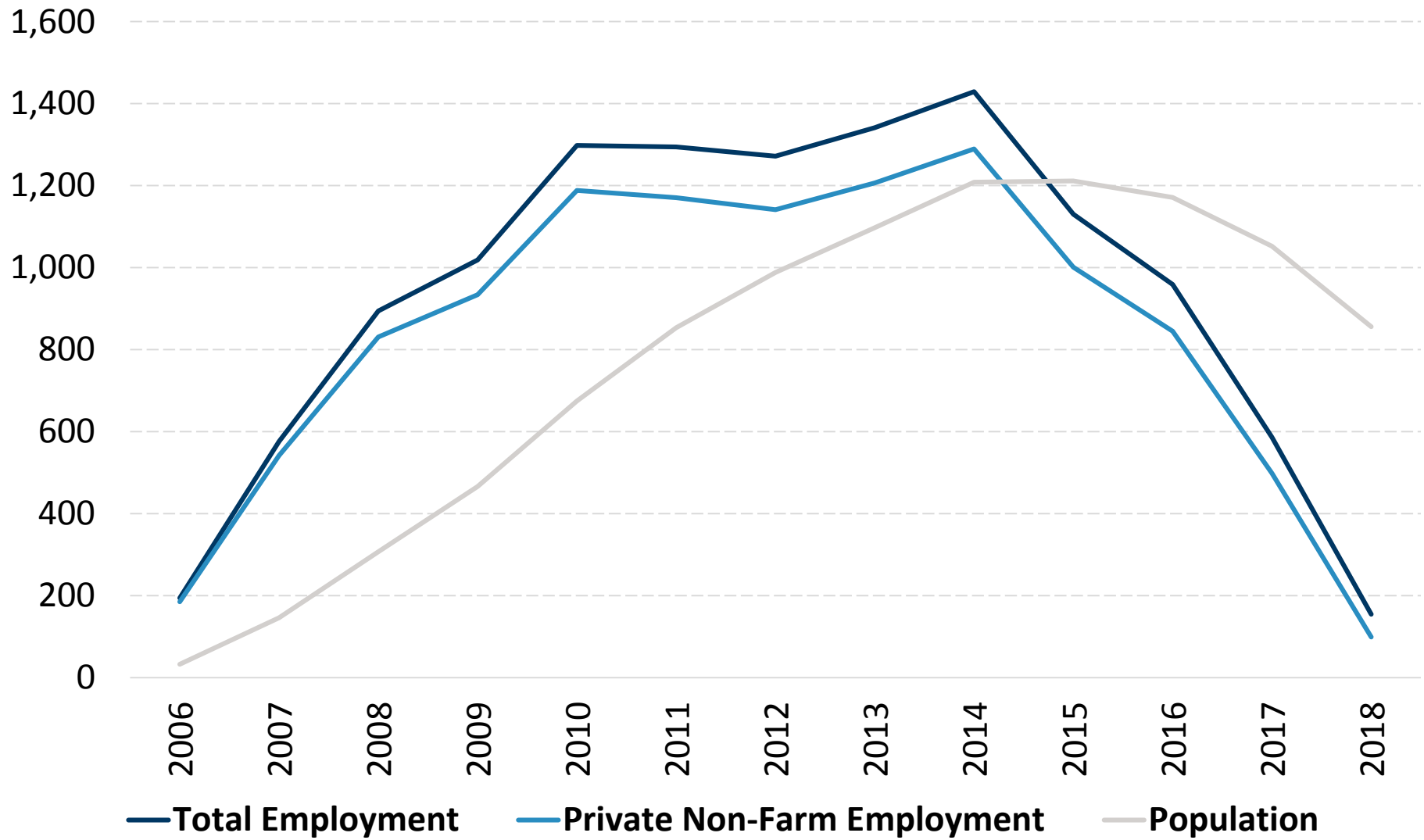
Category	Units	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Employment	Individuals (Jobs)	200	600	900	1,000	1,300	1,300	1,300	1,300	1,400	1,100	1,000	600	200
Private Non-Farm Employment	Individuals (Jobs)	200	500	800	900	1,200	1,200	1,100	1,200	1,300	1,000	800	500	100
Sales Output	Millions of Fixed Dollars (2016)	\$30	\$160	\$250	\$280	\$370	\$390	\$360	\$350	\$360	\$280	\$220	\$110	\$20
Gross Domestic Product	Millions of Fixed Dollars (2016)	\$30	\$80	\$120	\$130	\$170	\$170	\$170	\$170	\$180	\$140	\$120	\$60	\$10
Personal Income	Millions of Fixed Dollars (2016)	\$10	\$30	\$40	\$50	\$60	\$70	\$70	\$70	\$80	\$70	\$70	\$40	\$20
Population	Individuals	0	100	300	500	700	900	1,000	1,100	1,200	1,200	1,200	1,100	900

- The above shows the jobs, net new economic activity, and population attributable to the NEBITE through the life of the project (2006 through 2018)
 - Economic impacts in 2018 through 2018 based on projects from 2013 through 2017
 - Sales output, GDP, and disposable personal income (“DPI”) are cumulative over time
- This is a **retrospective analysis** of the impact of the projects and tax credits from the past, not a **prospective analysis** of any NEBITE claimed in the future by new projects
 - We are looking at the lifecycle of projects in the past to see if they “worked” for the state economy

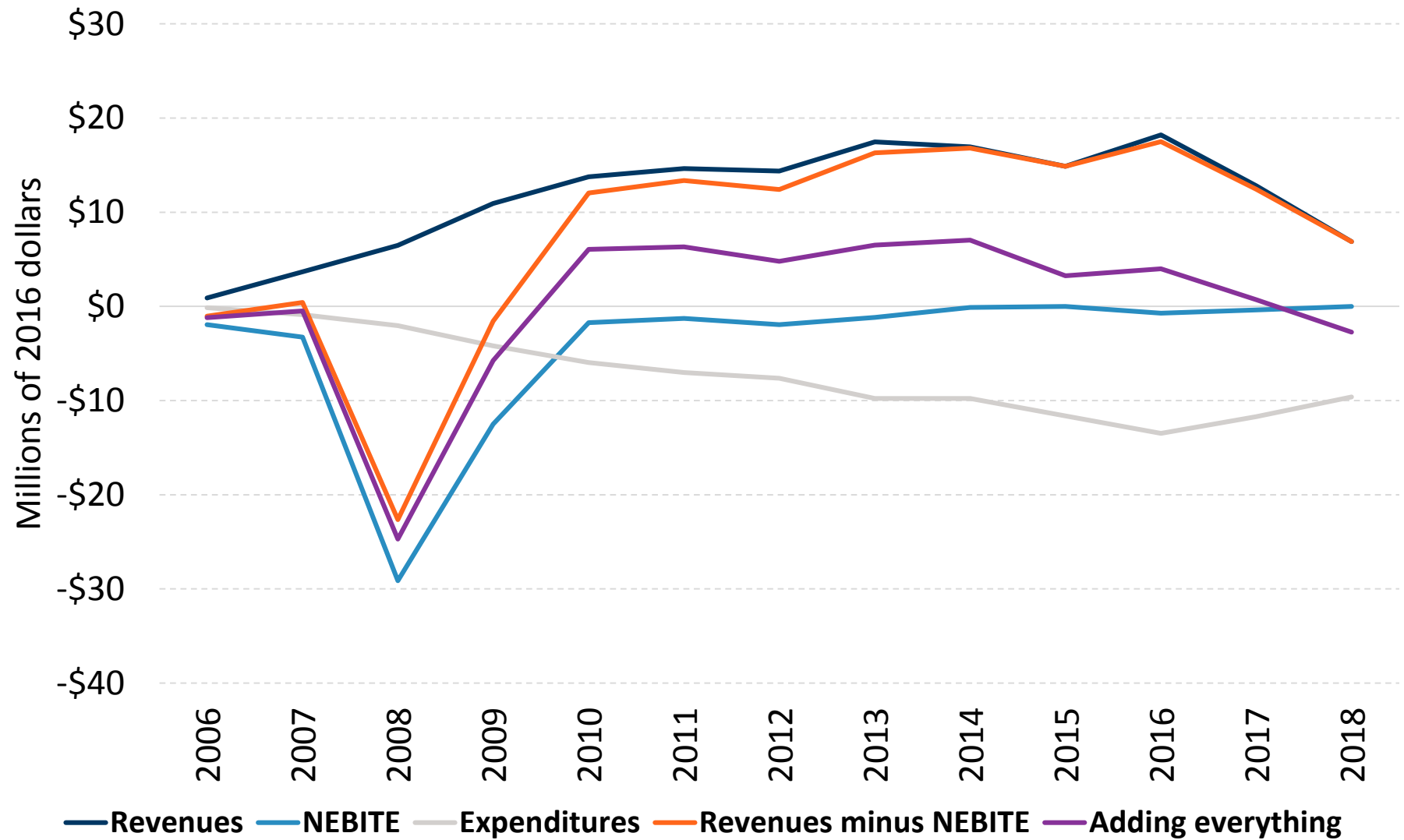
Economic impact of NEBITE (2006-2018, 2016 \$ millions)



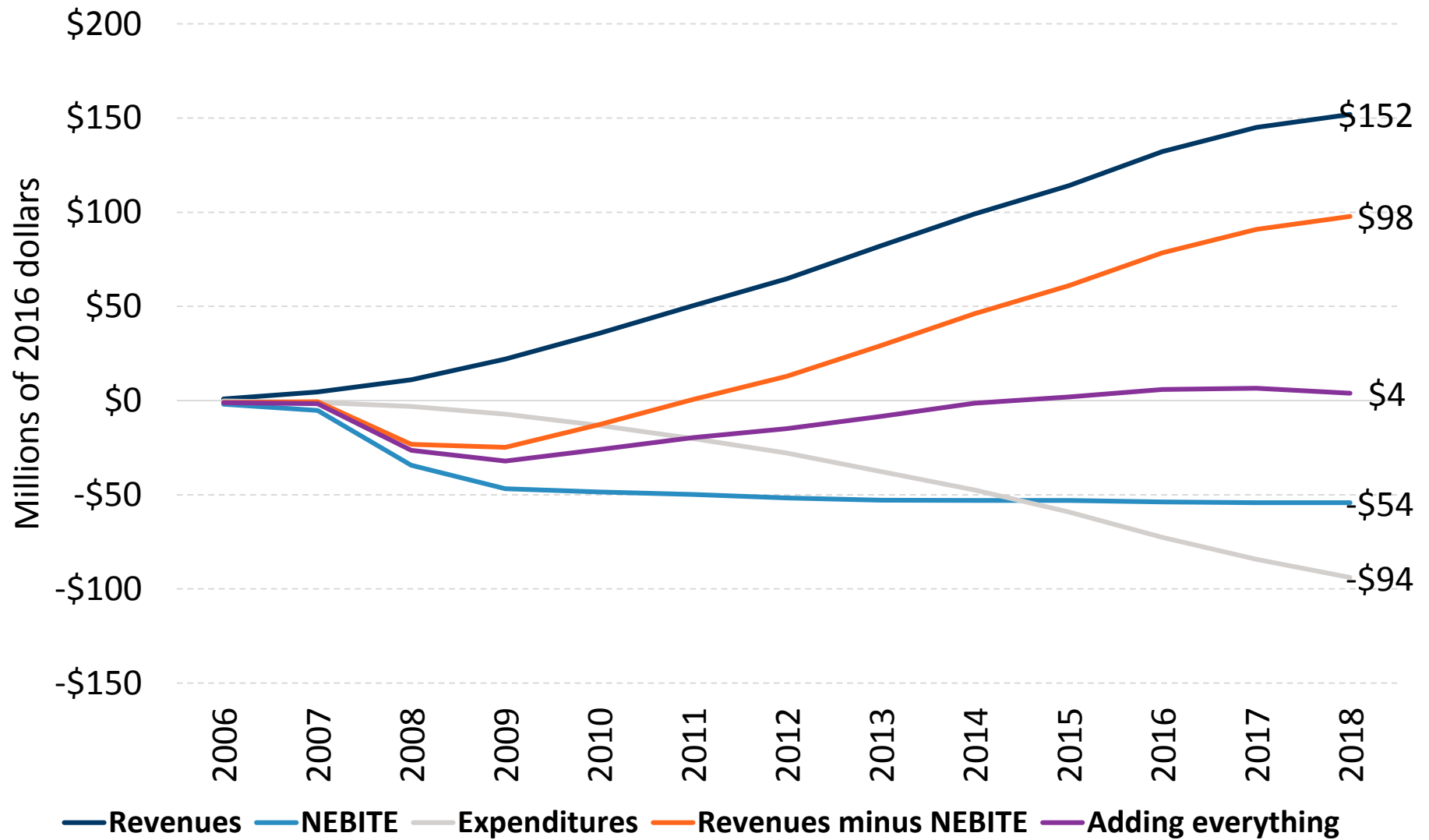
Jobs/population attributed to NEBITE (2006-2018, units)



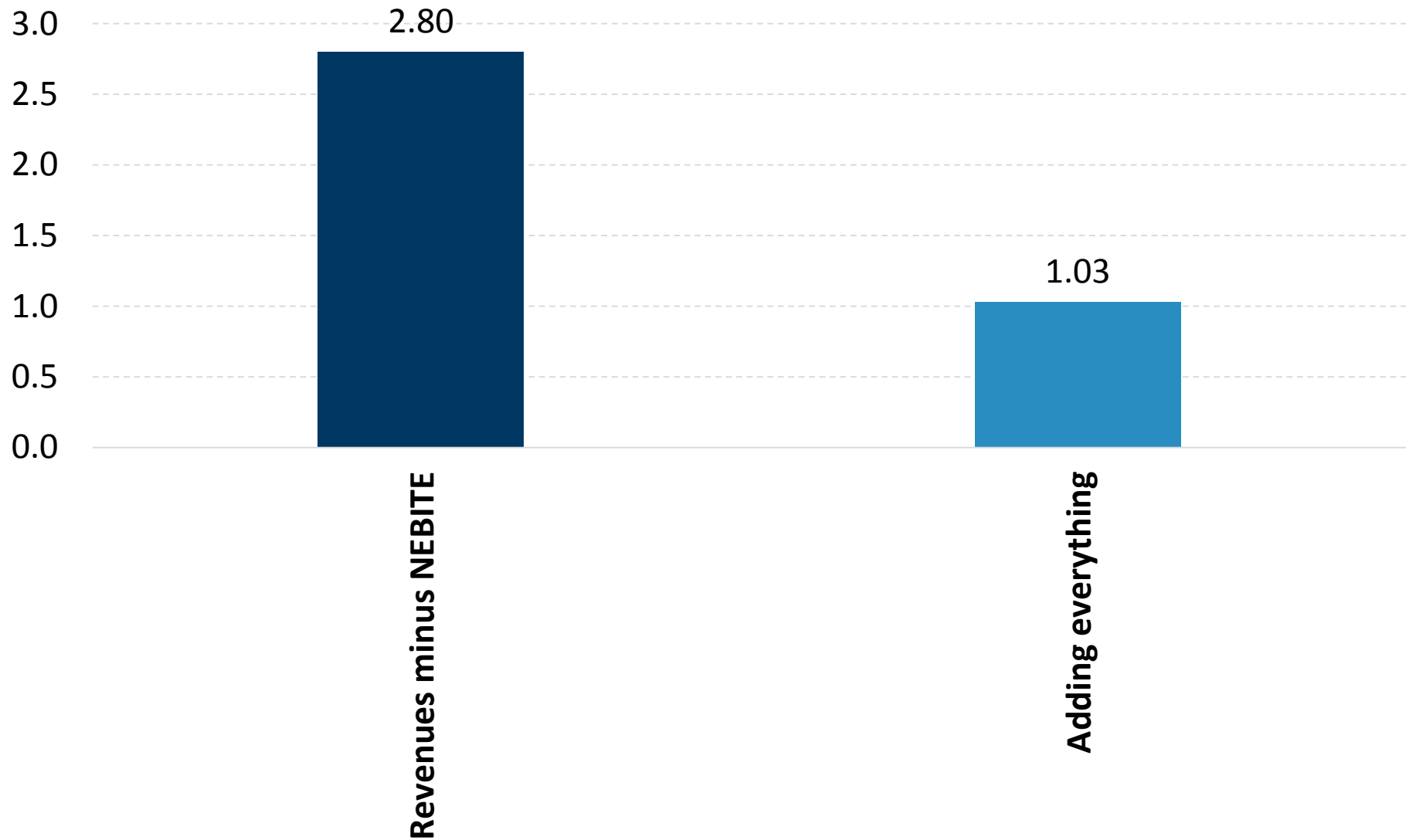
Annual NEBITE revenues and expenditures



Cumulative NEBITE revenues and expenditures



Benefit-cost ratios (“BCRs”) for state income and costs



Detail fiscal impact of NEBITE (2006-2018, 2016 \$ millions)

REVENUES	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	'06-'18
Individual income tax	\$0.1	\$0.3	\$0.4	\$0.7	\$0.8	\$0.9	\$0.9	\$1.1	\$1.2	\$1.0	\$1.3	\$0.9	\$0.4	\$10
Sales and use tax	\$0.1	\$0.5	\$0.9	\$1.5	\$1.9	\$2.1	\$2.1	\$2.7	\$2.7	\$2.4	\$2.8	\$2.0	\$1.0	\$20
Corporate income tax	\$0.0	\$0.1	\$0.1	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$0.1	\$0.1	\$0
All other taxes	\$0.0	\$0.2	\$0.4	\$0.6	\$0.7	\$0.7	\$0.7	\$0.8	\$0.7	\$0.6	\$0.8	\$0.5	\$0.3	\$10
Special funds	\$0.4	\$2.1	\$3.7	\$6.1	\$7.5	\$7.7	\$7.4	\$8.7	\$8.1	\$6.7	\$8.2	\$5.3	\$2.2	\$70
Federal funds	\$0.0	\$0.2	\$0.5	\$1.0	\$1.4	\$1.7	\$1.9	\$2.6	\$2.6	\$2.9	\$3.6	\$3.1	\$2.6	\$20
Other transfers	\$0.2	\$0.2	\$0.4	\$0.6	\$0.7	\$0.7	\$0.7	\$0.8	\$0.8	\$0.6	\$0.8	\$0.5	\$0.2	\$10
Highway funds	\$0.0	\$0.1	\$0.2	\$0.4	\$0.5	\$0.5	\$0.5	\$0.6	\$0.6	\$0.5	\$0.6	\$0.4	\$0.2	\$10
Total revenues >>	\$0.9	\$3.7	\$6.5	\$10.9	\$13.8	\$14.6	\$14.4	\$17.5	\$16.9	\$14.9	\$18.2	\$12.8	\$6.9	\$152

NEBITE	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	'06-'18
NEBITE >>	-\$1.9	-\$3.3	-\$29.1	-\$12.5	-\$1.7	-\$1.3	-\$1.9	-\$1.2	-\$0.1	\$0.0	-\$0.7	-\$0.4	\$0.0	-\$54

EXPENDITURES	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	'06-'18
General Government	\$0.0	-\$0.1	-\$0.2	-\$0.4	-\$0.5	-\$0.6	-\$0.6	-\$0.8	-\$0.7	-\$0.8	-\$0.9	-\$0.7	-\$0.5	-\$10
Education	-\$0.1	-\$0.2	-\$0.5	-\$1.0	-\$1.5	-\$1.8	-\$2.0	-\$2.7	-\$2.9	-\$3.5	-\$4.2	-\$3.8	-\$3.4	-\$30
Agriculture, ED, and R&D	\$0.0	-\$0.1	-\$0.2	-\$0.2	-\$0.2	-\$0.2	-\$0.2	-\$0.1	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0
Higher Education	\$0.0	-\$0.3	-\$0.6	-\$1.2	-\$1.7	-\$1.9	-\$2.0	-\$2.4	-\$2.3	-\$2.5	-\$2.7	-\$2.1	-\$1.4	-\$20
Regulatory	\$0.0	-\$0.1	-\$0.1	-\$0.2	-\$0.3	-\$0.3	-\$0.4	-\$0.4	-\$0.4	-\$0.5	-\$0.5	-\$0.4	-\$0.3	\$0
Public Safety	\$0.0	\$0.0	\$0.0	-\$0.1	-\$0.1	-\$0.1	-\$0.1	-\$0.1	-\$0.1	-\$0.1	-\$0.1	-\$0.1	-\$0.1	\$0
HHS	\$0.0	\$0.1	-\$0.1	-\$0.4	-\$0.9	-\$1.4	-\$1.9	-\$2.7	-\$2.8	-\$3.7	-\$4.6	-\$4.4	-\$4.1	-\$30
Natural Resources	\$0.0	-\$0.1	-\$0.2	-\$0.4	-\$0.4	-\$0.4	-\$0.3	-\$0.3	-\$0.3	-\$0.3	-\$0.3	-\$0.1	\$0.0	\$0
Transportation	\$0.0	-\$0.1	-\$0.2	-\$0.3	-\$0.4	-\$0.4	-\$0.3	-\$0.3	-\$0.2	-\$0.2	-\$0.1	\$0.0	\$0.1	\$0
Total expenditures >>	-\$0.1	-\$0.9	-\$2.1	-\$4.2	-\$6.0	-\$7.0	-\$7.6	-\$9.8	-\$9.8	-\$11.6	-\$13.5	-\$11.7	-\$9.6	-\$94



Main takeaways

- New/expanded business income tax exemptions, or NEBITes, allow a business to have an exemption for paying taxes on revenues from new or expanded enterprises
 - Subject to review by the state, public stakeholders, and under certain qualifications
- Used data from DOC, the administrator of the program, on project performance
 - 48 total projects from 2006 through 2017, data reported on 43 of them
 - Reported project inception date, jobs created, wages created, and other information
 - Concentrated in manufacturing industries, business services, and wholesale/retail
- Economic and demographic impact results showed a medium-term positive impact
 - Peak of 1,400 jobs and 1,400 added to state population
 - Tapers off in the later years of analysis as the rate of projects declines
- Fiscal impact is either positive or slightly negative, depending on the “but for” ratio assumed in the analysis and/or if state expenditures are included
 - Without a “but for” and not counting state expenditures, this ratio is around 2.8
 - With the state expenditures counted, this ratio is slightly above 1.0 (a “breakeven”)

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