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By Che Odom

A Republican plan to change the way exports and imports are taxed federally could drive states to battle for manufacturing business with tax credits and incentives.

"If you have a company that is looking to move manufacturing back to the U.S. because of the border adjustment tax," which may mean hundreds of jobs, "you can see why a state would want them to come," Mike Bernier, a senior manager of the national tax practice at Ernst & Young LLP, said during a Jan. 31 EY webinar about the state-side implications of potential federal tax changes.

A proposal by House Speaker Rep. Paul D. Ryan (R-Wis.) would transform the current corporate income tax into a destination-based tax on domestic consumption and can best be described as resulting in a 20 percent "border adjusted" cash-flow tax. Tax would be applied to imports but not to exports, under the plan.

Also, the plan calls for a mandatory tax on previously untaxed accumulated foreign earnings, a territorial system of taxing future foreign earnings and the elimination of most business tax preferences.

The changes, along with others planned under Republican control of the White House and Congress, may mean more businesses will return manufacturing operations to the U.S., and states will be competing for those businesses, Bernier said.

Meanwhile, the prospects are already high that intrastate competition for jobs, fueled by tax credits and incentives, will increase during the new administration. President Donald Trump in December announced that he and Vice President Mike Pence had brokered a deal that would keep roughly 800 jobs at a Carrier plant in Indiana from moving to Mexico. In exchange, Carrier would receive $7 million in state incentives over 10 years.

The president actively campaigned to keep Carrier Corp. jobs in Indiana, and some state officials have questioned the need for Trump to express his favor of states battling to bring jobs to their communities. Conversely, some companies and business advisers are concerned states, as well as companies, may seek Trump’s help gaining leverage in negotiations.

Costly Battle

Incentives and tax breaks present challenges to the bottom line for cities and states, which hope for an increase in tax base through income, sales and other taxes to make up the difference.

“This can be a very costly competition for states,” Norton Francis, a tax policy researcher from the Urban Institute, told Bloomberg BNA, adding that the incentives and credits can be too costly for a state.

States will likely compete for any relocating businesses so that they can benefit from the increased employment and tax base, Bernier said.

“That competition is likely to generate significant state discretionary, and statutory, credits and incentives opportunities,” he said.

For example, the Texas Taxpayers and Research Association has already been reaching out to companies reminding them of the ability to benefit from property tax relief under Chapter 313 of the Texas Economic Development Act, if certain conditions are met, he said.

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