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HB 17-1090

House bill 17-1090 is an amendment to a current bill that intends to continue an income tax credit to individuals who invest in advanced industry. The goal of this bill is to raise additional capital for advanced business industries in order for the businesses to increase revenue, create high paying jobs, and create high-skilled jobs. HB 17-1090 uses the following definition of advanced industry as defined in the original bill: Advanced Manufacturing, Aerospace, Bioscience, Electronics, Energy/Natural Resources/Cleantech, Information Tech, and Infrastructure Engineering.

HB 17-1090 gives a tax incentive by providing a tax credit that is equal to 25% of any single investment, up to $50,000. Any person who makes a capital investment of at least $10,000 in any of the advanced industries is eligible for the tax credit. While the current bill bans a single person from applying multiple tax incentives for the same business, it allows the same person to invest in multiple advanced industry businesses. Maximizing the tax credit (which is $750,000 for 2017) an investor can currently shelter $16,198,704.10 from income taxes. HB 17-1090 would double the amount of tax credits given in the 2018-2022 tax years from $750,000 to $1.5 million, which would shelter $32,397,408.21 from income taxes. Investors would therefore get approximately five times their initial investment in income tax credits.

Several of the goals of the bill could potentially fail to be realized. Firstly, this bill would only provide $6 million in capital inflow to these industries. Compared to overall industry profits, this capital inflow does not make a meaningful impact. These industries are growing naturally and do not necessarily need subsidized capital inflow. HB 17-1090 appears to benefit firms in advanced industry, but in reality benefits are only given to investors who receive a government sponsored tax shelter.

Additionally, HB 17-1090 does not specify what the investment into the business must be in order to qualify for the tax credit. A business owner could simply use the capital to buy a new factory, machine or other capital investment that does not create a job. If a firm owner buys a new machine that has the potential to replace employees, then there could be job loss. The business owner would have one less salary to pay, and could cover the cost of the machine's maintenance by applying for the tax credit each year. This bill does not directly create jobs, and could potentially lead to job loss.

HB-17-1090 is a bad idea in principle. According to the First Fundamental Theorem of Welfare Economics: a competitive market without interference will find equilibrium, indicating that there is no need for a competitive market to be subsidized. This holds true for the private sector job market, where the efficient allocation of resources will be attained because there is competition in the market. Since people will only work if they are being paid enough for their time and skills, and firms will only hire employees if they are beneficial to the productivity of the firm, then the market will employ the equilibrium amount of people. Jobs in Advanced Manufacturing, Aerospace, Bioscience, Electronics, Energy/Natural Resources/Cleantech, Information Tech, and Infrastructure Engineering, are private goods. Therefore, a tax incentive would not fix the market, but rather redistribute income in the market.

Another reason this bill would fail according to principal: is that its implementation would lead to tax payers receiving no benefits in return for giving money to failing businesses. A competitive market encourages innovation by rewarding innovative firms with bigger revenues. Firms that are unable to create new ideas and stay competitive within the market will eventually fail. If the state starts to subsidize these businesses, then they are interfering with the market. Firms that are not adding innovative ideas are able to get a capital boost each year through this bill, even though they may not be productive enough to succeed on their own. HB 17-1090 would allow failing businesses to exist through subsidies provided by the tax payer. If a business is failing, there is no gain from subsidizing that firm. Subsidizing a failing firm puts a burden on tax payers who have to continuously pump money into a firm that's unable to generate profits without capital influxes provided by the tax incentive.

The real winners of this bill are those who are being given tax incentives to invest in profitable industries. Because these advanced industries are increasing revenue, the business owners and investors will see their wealth grow. A healthy growing industry does not need to entice people to invest in it, because if there are profits to be made people will invest on their own. HB 17-1090 forces tax payers to give a tax incentive to naturally growing industries; this incentive acts as a bonus for investors. The taxpayer should not be giving money to investors whose investments are already profitable.

HB 17-1090 would also fail if put into practice. The only reason that the government should get involved with the private job market is if an imperfection exists in the job market. There are currently 5,900 companies in the advanced manufacturing industry in Colorado. This industry employs 150,700 people (Colorado Office). The appearance of competitive markets as well as job growth also exists in the six other advanced industries targeted by HB 17-1090. In Figure 1 the number of jobs in the other advanced industries have been listed along with the number of firms in that industry. Given that there are 38,840 firms in these industries, we can infer that a competitive market exists. The amount of firms subsidized was found by taking the maximum amount of potential investment ($6 million or $3 million) and dividing it by the maximum amount of tax credit ($50,000). Subsidizing 60 (2017 tax year) or 120 firms (2018-2022) would have little to no effect on the industries. Since there are 35,840 firms in these advanced industries, if 120 firms were subsidized, then less than 0.3% of the total firms in the market would be impacted. Therefore, the industry overall will not be affected by small scale government intervention.

Industry	Advanced Manufacturing	Aerospace	Bioscience	Energy & Natural Resources	Technology and Information	Infrastructure Engineering	Advanced Electronics	Total
Number of Jobs	150,700	25,100	27,900	123,200	146,800	137,200	28,100	639,00
Numbers of Firms	5,900	140	1,700	6,000	10,900	9,800	1,400	35,840

(Colorado Office)

If implemented, HB17-1090 likely will not achieve its goal of meaningful job creation. According to the 2017 Colorado Business Economic Outlook, there will be a 2.6% net increase in Manufacturing jobs (Leeds). STEM related occupations will constitute a component of the labor force that is expected to grow 18.6% by 2023(Colorado Office). This suggests that there are abundant jobs available to workers in these advanced industries. The Bureau of Labor Statistics showed that jobs in manufacturing, as well as the other advanced industries, have been growing in Colorado (Colorado Economy). This growth is naturally occurring in these advanced industries, therefore significant job creation as a result of this bill is unlikely.

All of these advanced industries provide 639,000 jobs in Colorado (Colorado Office). Illustrating that these industries on their own are able to provide an ample amount of jobs in the economy. According to the Bureau of Labor Statistics: the industries targeted by HB 17-1090 are currently experiencing growth (Colorado Economy). Job growth is naturally occurring in these industries, which already provide sufficient employment opportunities, meaning that government intervention is unnecessary and ineffective.

Instead of redistributing taxpayer money to business owners and investors, this money should be used to fund public goods. The government should not interfere with a competitive market like advanced industries. Left alone, these markets will provide the optimal and efficient outcome. However, public goods like recreational space, public lands, education and roads do not find optimal outcomes in the market. The government can intervene and ensure that an efficient and optimal outcome is reached for public goods. Since the government is able to ensure the best outcome for public goods; taxpayers' money should be used to fund public goods instead of subsidizing competitive markets.

My analysis demonstrates that HB 17-1090 does not directly fulfill its goal of creating high paying jobs. Even if enacted the amount of capital invested does not make a meaningful impact in the advanced industries it targets. HB 17-1090 allows the government to meddle in the competitive market harming these industries. Regardless of if this bill does what is promised, it is redistributing tax payers' money to a privileged few who don't need or deserve a tax payer sponsored subsidy. Enacting this bill would not create sufficient benefits for these advanced industries and should not be considered as a viable bill.

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