'Smoke and mirrors' or long-range planning? Possible Samsung tax breaks stir debate

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Corporate tax breaks often draw criticism based on concerns that they might reward companies for actions they were going to take anyway and that the forgone tax revenue might hurt local communities financially.

When it comes to Samsung, a new objection can be added to that litany.

The technology company is seeking to lock in publicly funded incentives from the Manor and Taylor school districts for 11 prospective semiconductor fabrication plants that it doesn't expect to be operational for more than 10 years — and in some cases two decades — if it goes forward with them at all.

That's prompting questions about how the incentive applications can be properly assessed when the agreements wouldn't take effect until so far into the future, as well as the propriety of binding future residents to such deals.

"It's fiction," said Trenton Henrichson, a computer engineer and a leader of Central Texas Interfaith, a group that is opposed to the incentives. "If you're talking about (fabrication plants) 10 years in the future like you know what they're going to be, you're just making stuff up."

South Korea-based Samsung's applications for tax breaks from the Manor and Taylor districts outline a staggering amount of potential investment in the region — totaling about $192 billion across the 11 possible fabrication plants over the next two decades.

The applications — which haven't been approved by the school districts — were filed under the state's controversial Chapter 313 incentive program that empowers school districts to grant tax breaks in exchange for development within their boundaries. They were posted this week to the Texas comptroller's website.

The Chapter 313 program is set to expire at the end of this year, but incentive deals reached before then will be allowed to proceed. That has prompted a flood of applications from companies attempting to get in under the wire — more than 400 applications have already been filed statewide in 2022, almost three times the previous full-year high of about 150, according to the comptroller's office.

If Samsung's applications are approved and it opts to make all of the massive investment outlined in them, two of the plants would be built in Austin, where the
company already has manufacturing facilities, and nine would be built in Taylor, a small town about 25 miles northeast of Austin where it's in the process of building a $17 billion plant announced last year. The 11 new plants would become operational on a staggered basis from 2034 to 2042, the company's Chapter 313 applications indicate.

Meanwhile, the potential tax breaks would be huge, totaling $4.8 billion over the life of the agreements if all 11 plants are completed as described in the applications, according to an analysis by the American-Statesman. That figure assumes no change in tax rates far into the future, however, meaning the sum could go up if property tax rates rise.

Samsung has said it's merely considering the possibility of making the investments in the Austin area as part of its long-range strategizing.

"We currently do not have specific plans to build at this time, however, the Chapter 313 applications to the state of Texas are part of a long-term planning process of Samsung to evaluate the viability of potentially building additional fabrication plants in the United States," Samsung spokesperson Michele Glaze said.

Taking a flier?

Critics contend that means the company is just taking a flier as the Chapter 313 deadline closes in, joining the rush to secure such deals for tax breaks on the off chance it might opt to use them someday. A number of other corporations have also filed applications for deals around the state that wouldn't go into effect for about two decades, including fellow chipmaker Texas Instruments in the Dallas area.

"It's clear that they're gaming (the Chapter 313 program) to lock in these incentives," said Nathan Jensen, a University of Texas professor who studies taxpayer-funded incentives to corporations.

"It's terrible public policy" if the applications are approved, Jensen said. "I don’t think anyone with a straight face can say we know what the tax rates are going to be (a decade or two into the future), or the laws and the school finance system," or other changes that might happen.

But Justin Yancy, president of the Texas Business Leadership Council, said he doesn’t consider the flood of applications for Chapter 313 deals statewide to be nefarious or surprising. Companies are simply realizing "they need to beat the clock" before the Chapter 313 program expires, he said, because the availability of tax breaks is an important consideration when it comes to expansions and relocations.

Yancy and many other business leaders and economic development officials in Texas have said the expiration of Chapter 313, which is among the state's top incentive programs, will hurt its ability to compete for projects. They intend to lobby state lawmakers to enact a replacement during next year's legislative session.

“Texas needs to have effective tools in our economic development tool box to continue to be competitive with other states that are doing all that they can" to lure big-ticket corporate expansions and relocations, Yancy said.
As for the spate of Chapter 313 applications for projects that won't happen for a decade or two, Yancy said they might make sense for companies doing long-range planning that aren't certain what Texas' policy regarding incentives will be once the Chapter 313 program goes away.

Still, he said the exceptionally long time horizons mean "a lot of stars would have to align for (a company's) needs to still be the same that far out."

Leaders of Central Texas Interfaith called such applications "smoke and mirrors," saying the plans are fuzzy and local officials have no way to evaluate them. The organization helped lobby against renewal of the Chapter 313 program during last year's session of the state Legislature, saying the corporate tax breaks granted under it have decreased the amount of money available for public education in the state.

Dick Lavine, senior fiscal analyst with the public policy group Every Texan, raised another issue — future leaders of the Taylor and Manor school districts, as well as residents of the areas, might not appreciate being forced to abide by deals made 10 or 20 years earlier.

"They may rue the day this open invitation was extended (to Samsung) to come at their convenience" if the applications are approved, Lavine said.

"Taylor is a nice little town with good barbecue," he said. "In 20 years, (its residents) may be tired of all these semiconductor plants causing traffic jams, pushing up housing prices and making Taylor just an extension of downtown Austin."

Representatives of the Taylor and Manor school districts didn't immediately respond to requests for comment.

Chapter 313 incentive agreements, which are named for a section of the state's tax code, allow school districts in Texas to give significant property tax breaks to companies in exchange for projects that will create jobs and other investments in their areas.

Local tax revenue that school districts waive under Chapter 313 agreements is substantially replaced by the state through its school funding formula, leading to criticism that school officials have no reason not to approve them regardless of a project's worthiness.