

With Amazon HQ2 Not Likely to Land in Newark, Talk Turns to Taxes, Incentives

John Reitmeyer | November 13, 2018

Murphy and legislative leaders say just making list of finalists has been a boon to state's largest city, which is being positioned as a high-tech hub



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Although it hasn't been officially announced, it appears that Amazon has chosen to split its East Coast headquarters between New York's Long Island City and Northern Virginia — leaving Newark as an also-ran in the closely watched competition.

Nevertheless, Gov. Phil Murphy and other New Jersey officials believe the state has already benefited by having Newark listed among the top 20 finalists that were announced earlier this year, bringing invaluable attention to the city's ongoing revitalization. The Garden State could also profit indirectly by having residents within close commuting distance of some of the new Amazon offices if they end up in Queens. And some wishful thinkers still believe Newark may not be altogether out of the running for a small slice of the action.

Meanwhile, Amazon's prolonged site-selection process has also rekindled a debate about the role that taxes — and corporate-tax incentives — play in the broader competition among states when it comes to landing the biggest corporate fish.

Scared off by high corporate taxes?

Senate Minority Leader Tom Kean Jr. (R-Union) is among those now pointing to Amazon's decision as a reason to take a new look at the state's corporate-tax rates, which were recently hiked for the highest-earning companies.

"How many more times are we going to sit by and watch companies choose to set up shop elsewhere, before we take action?" asked Kean Jr.

But Murphy responded by saying taxes didn't come up at all in high-level talks.

Newark, which is New Jersey's largest city, has been in the midst of an economic-development revival, with the city recasting itself as an emerging tech center, including by promoting the high-capacity internet fiber that's buried beneath its sidewalks. Amazon, which said the HQ2 project would bring 50,000 new jobs and billions of dollars in investment to the site of its new corporate offices, named Newark as a top candidate earlier this year.

State and local officials had high hopes for Newark: The city is already home to Audible, an Amazon subsidiary that produces downloadable audiobooks, and it met several criteria for Amazon's corporate expansion, including proximity to major urban centers and high-level tech talent. State lawmakers also passed legislation earlier this year to provide Amazon with a major corporate-tax incentive.

Sidestepping the question

When asked about indicators that Newark was being passed over, Murphy, a first-term Democrat, said during a recent news conference that just making it onto the list of finalists was a major accomplishment. He also said the Amazon site-selection process helped forge ties between his staff and the administration of Newark Mayor Ras Baraka as they refined the state's sales pitch, which is something that should boost ongoing efforts to attract other companies.

"Newark as a finalist is a huge win no matter what Amazon ends up doing. We've said that from day one," Murphy said. "It sharpened our game (and) brought us closer together and our teams."

John Boyd, principal at Princeton-based The Boyd Co., a leading corporate-site consultant, said it should not be a surprise that Amazon officials may ultimately decide to divide the HQ2 site between two different East Coast locations.

“Recruiting 50,000 tech-savvy workers in any one city would be a real challenge for Amazon's HR team, in fact, an unnecessary one,” Boyd said.

He's also not ready to rule out New Jersey as a place that stands to benefit from Amazon's expansion. Some optimists are talking about a new rail link connecting an Amazon HQ2 in Long Island City to Newark.

“Newark offers all of the transportation and labor-market skillsets for a fraction of the cost of Long Island City,” Boyd said.

No official word

While there's been no official announcement from Amazon, Kean Jr. suggested the state's corporate-tax structure has been a major factor. Even while New Jersey was in the running, Murphy and Democratic legislative leaders enacted a new law over the summer as part of the latest state budget that hiked the state's corporate-tax rate for the highest-earning businesses. The top end for companies with more than \$1 million in profits went from 9 percent to 11.5 percent.

“Gov. Murphy's efforts to grow an innovative economy need to be more than just rhetoric,” Kean Jr. said.

But others are suggesting New Jersey and any other state that doesn't end up hosting Amazon's new corporate offices may ultimately be grateful because lucrative tax breaks would not be redeemed by Amazon.

Greg LeRoy, executive director of the tax-incentive watchdog organization Good Jobs First, said the type of large-scale tax breaks that are often used to land a major company like Amazon typically amount to “a massive transfer of wealth from taxpayers to shareholders.” Even being home to just half of the proposed HQ2 will drive expensive growth in services like education, transportation and public safety, he said.

“If Amazon gets tax breaks and doesn't pay the full costs of this induced growth, existing residents and small-business owners will get stuck with higher taxes and more-stressed public services,” LeRoy said.