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# **Options for ongoing evaluation of economic development tax incentives**

FTA Revenue Estimation & Tax Research Conference

October 8, 2013

Jeff Chapman



# Evidence Counts



Evaluating State Tax Incentives  
for Jobs and Growth

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# Avoiding Blank Checks

Creating Fiscally Sound  
State Tax Incentives



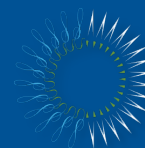
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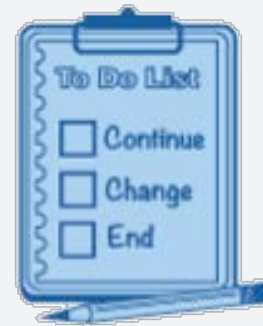


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## Four Principles to Ensure Effective Tax Incentives



① All tax incentives will receive review according to a strategic schedule.



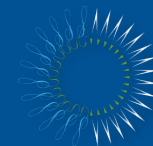
② Evaluations will draw clear conclusions based on measurable goals.



③ Rigorous evaluation will determine the benefits and costs.



④ Evaluations will inform policy choices.



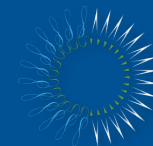
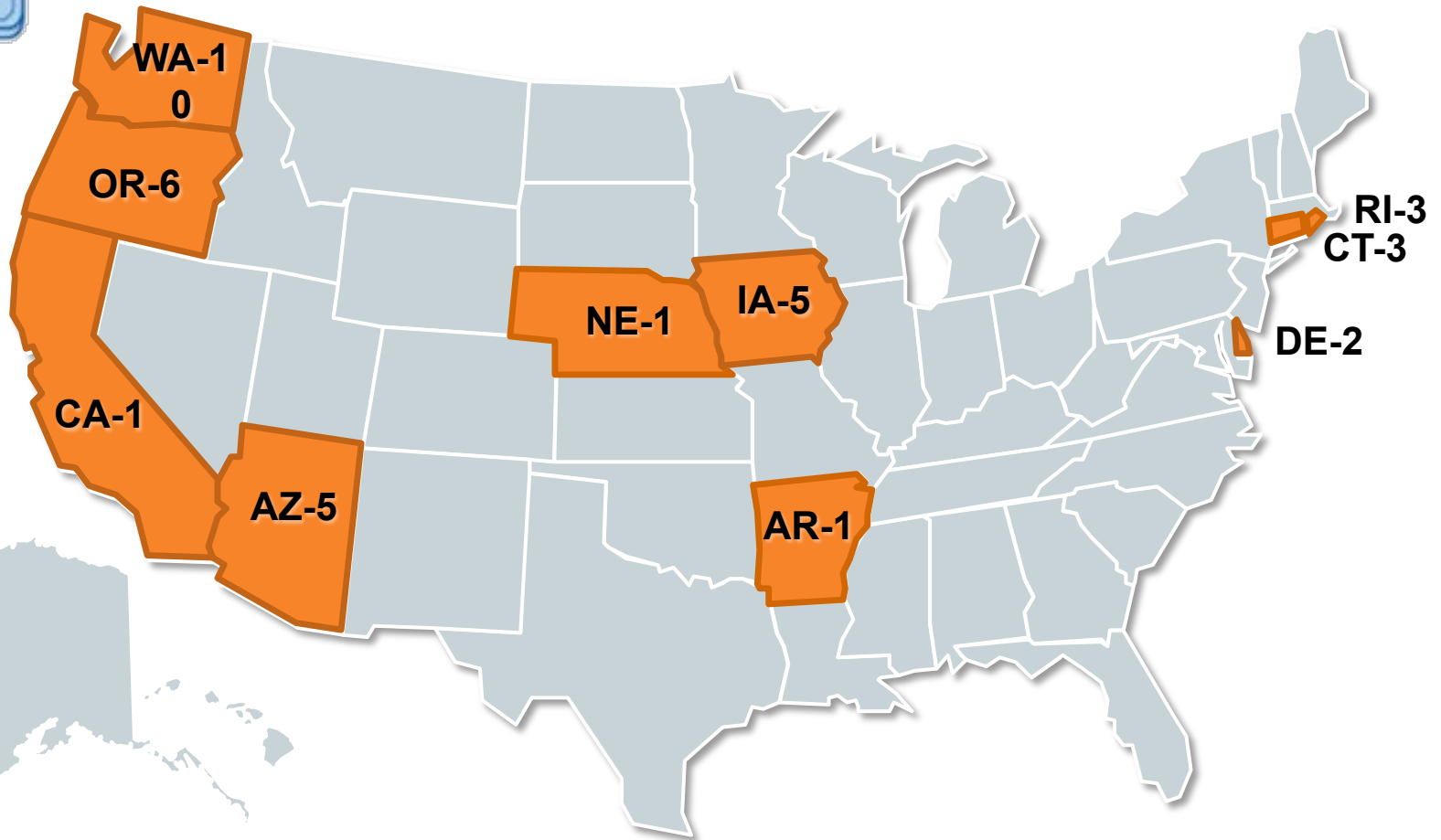


① All tax incentives will receive review according to a strategic schedule.

**Decision point:** How often should tax incentives be reviewed?



## Ten states have scheduled ongoing review of tax incentives





① All tax incentives will receive review according to a strategic schedule.

**Decision point:** How is the schedule determined?

**Some ideas:**

- Ensure evaluations are ready in time for budget and policy decisions
- Consider grouping tax incentives with similar goals together.
- Flexibility



① All tax incentives will receive review according to a strategic schedule.

**Decision point:** What factors should be used to determine the type of analysis needed for each tax expenditure?

# LOCAL GOVERNMENT BUSINESS INCOME (B&O TAX)

Expedited review,  
WA Dept. of Revenue

Current statute: RCW [82.04.419](#)

## Department of Revenue 2012 Tax Exemption Report (p. 39):

**Description:** Exemption from B&O tax is provided for local governments, including school and fire districts, with the exception of income from utility or enterprise activities.

**Purpose:** To reflect the legislative policy of not taxing government activities, except for proprietary activities such as the provision of utility services.

**Category/Year Enacted:** Government. 1983

**Primary Beneficiaries:** Local governments.

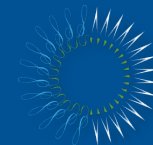
**Possible Program Inconsistency:** None evident.

### **Taxpayer Savings (\$000):**

	FY 2012	FY 2013	FY 2014	FY 2015
State tax	\$ 20,550	\$ 21,880	\$ 19,410	\$ 20,670
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues?

Yes



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## JLARC Staff's Approach to the Tax Preference Reviews

Statute guides the 11 questions typically covered in the reviews.

### Public Policy Objectives:

1. What are the public policy objectives that provide a justification for the tax preference? Is there any documentation on the purpose or intent of the tax preference? (RCW 43.136.055(b))
2. What evidence exists to show that the tax preference has contributed to the achievement of any of these public policy objectives? (RCW 43.136.055(c))
3. To what extent will continuation of the tax preference contribute to these public policy objectives? (RCW 43.136.055(d))
4. If the public policy objectives are not being fulfilled, what is the feasibility of modifying the tax preference for adjustment of the tax benefits? (RCW 43.136.055(g))

### Beneficiaries:

5. Who are the entities whose state tax liabilities are directly affected by the tax preference? (RCW 43.136.055(a))
6. To what extent is the tax preference providing unintended benefits to entities other than those the Legislature intended? (RCW 43.136.055(e))

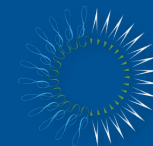
### Revenue and Economic Impacts:

7. What are the past and future tax revenue and economic impacts of the tax preference to the taxpayer and to the government if it is continued? (This includes an analysis of the general effects of the tax preference on the overall state economy, including the effects on consumption and expenditures of persons and businesses within the state.) (RCW 43.136.055(h))
8. If the tax preference were to be terminated, what would be the negative effects on the taxpayers who currently benefit from the tax preference and the extent to which the resulting higher taxes would have an effect on employment and the economy? (RCW 43.136.055(f))
9. If the tax preference were to be terminated, what would be the effect on the distribution of liability for payment of state taxes? (RCW 43.136.055(i))
10. For those preferences enacted for economic development purposes, what are the economic impacts of the tax preference compared to the economic impacts of government activities funded by the tax? (RCW 43.136.055(j))

### Other States:

11. Do other states have a similar tax preference and what potential public policy benefits might be gained by incorporating a corresponding provision in Washington? (RCW 43.136.055(k))

Full review,  
Washington Joint Legislative  
Audit & Review Committee



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② Evaluations will draw clear conclusions based on measurable goals.

- Is the tax expenditure meeting the state's goals?
- How could it be improved?

What, exactly, are the state's goals?



## ② Evaluations will draw clear conclusions based on measurable goals.

How do we measure investment?

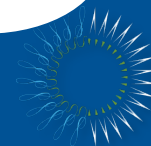
How do we know if it's incentivizing or rewarding?

What does substantially mean?

- credit for substantially increased research & development:
- “Provides an incentive for businesses to substantially increase investment in research and development in Maine.”

What is a good ROI for the state's investment?

In this the final desired outcome or means to an end?





② Evaluations will draw clear conclusions based on measurable goals.

**Decision point:** How will the metrics used in the evaluation be determined?

**Some ideas:**

- Require legislative guidance for new, expanded, or extended tax incentives
- DC Tax Transparency and Effectiveness Act of 2013
- Comparison approach

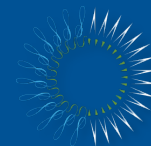


③ Rigorous evaluation will determine the benefits and costs.

What is meant by rigorous evaluation depends on the type of tax incentive.

#### ECONOMIC DEVELOPMENT TAX INCENTIVES:

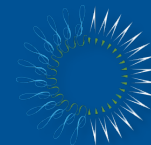
*Exceptions to regular tax rules designed to achieve an economic goal by encouraging businesses to do something that they otherwise would not have done.*





③ Rigorous evaluation will determine the benefits and costs.

- To what extent did the incentive affect business' choices?
- How were existing businesses affected by the incentives?
- Did the benefits outweigh the negative effects of paying for it?





③ Rigorous evaluation will determine the benefits and costs.

**Decision points:**

- Who will provide the analysis?
- How can the necessary data be collected and made available?
- What methodologies will be used?



#### ④ Evaluations will inform policy choices.

**Decision point:** How can the evaluations be best connected to policy decision-making?

**Some ideas:**

- Oregon's sunset approach
- Legislative hearings, e.g. Washington, Iowa, and Arizona





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# Economic Development Tax Incentives Project

**Overview**

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State Work

[pewtrusts.org/taxincentives](http://pewtrusts.org/taxincentives)

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