Two key steps to improve tax incentive policy...

1. Regularly evaluate the economic and fiscal results of tax incentive programs.

2. Ensure that the fiscal costs of tax incentives are predictable, so that they do not cause budget challenges.
With evaluations, states can...

- Make subtle changes to incentives to greatly increase their return on investment
- Identify programs that are working well, so that the state can invest in them with confidence
- Repeal or replace ineffective or obsolete incentives
- Have a more constructive conversation about incentives
States regularly evaluating tax incentive programs

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Who evaluates

Executive branch agency
Independent agency
Legislative staff
Legislators themselves
Outside experts
For states with evaluation laws, lawmakers can...

- Provide guidance to evaluators
- Improve the process over time
- Hold hearings on evaluations
- Use the findings to improve policy
Unpredictable costs: Michigan’s estimates of its MEGA Tax Credit liability, FY 2015-FY 2032

Flawed assumptions led Michigan to underestimate the state’s MEGA commitment in 2011 and 2014.
Unpredictable timing: Annual cost of Virginia’s Coal Employment and Production Incentive Tax Credit

Source: Virginia Department of Taxation
Options to make the costs of incentives more predictable

**Strategy #1: Gather and share high-quality data on the costs of incentives by:**

- Regularly forecasting the cost
- Monitoring costs and commitments of large and high-risk programs
- Sharing timely information on incentives across relevant agencies

**Strategy #2: Design incentives in ways that reduce fiscal risk, including:**

- Capping how much programs can cost each year
- Controlling the timing of incentive redemptions
- Requiring lawmakers to pay for incentives through budget appropriations
- Restricting the ability of companies to redeem more in credits than they owe in taxes
- Linking incentives to company performance
- Requiring businesses to provide advance notice of program participation
Missouri’s approach to gathering data on the costs of incentives

The Department of Revenue and Department of Economic Development share a unified database with tax credit information.

State agencies project the cost of each tax credit in the current year and one future year.

The House and Senate budget committees hold hearings on the projections and ask questions about trends.
Size of Iowa’s aggregate tax credit cap

Iowa has placed a combined cap on many of the state’s economic development tax credits. Lawmakers have adjusted the limit depending on their priorities and the state’s budget situation.

Sources: Iowa Code; Des Moines Register
Florida’s appropriations approach encourages lawmakers to regularly review economic development programs

“Fla. jobs programs may get a revamp”
-Tampa Bay Times

“Development money debated”
-Sarasota Herald Tribune
Questions?

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