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Evidence-Based Tax Incentives

Josh Goodman

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Two key steps to improve tax incentive policy…

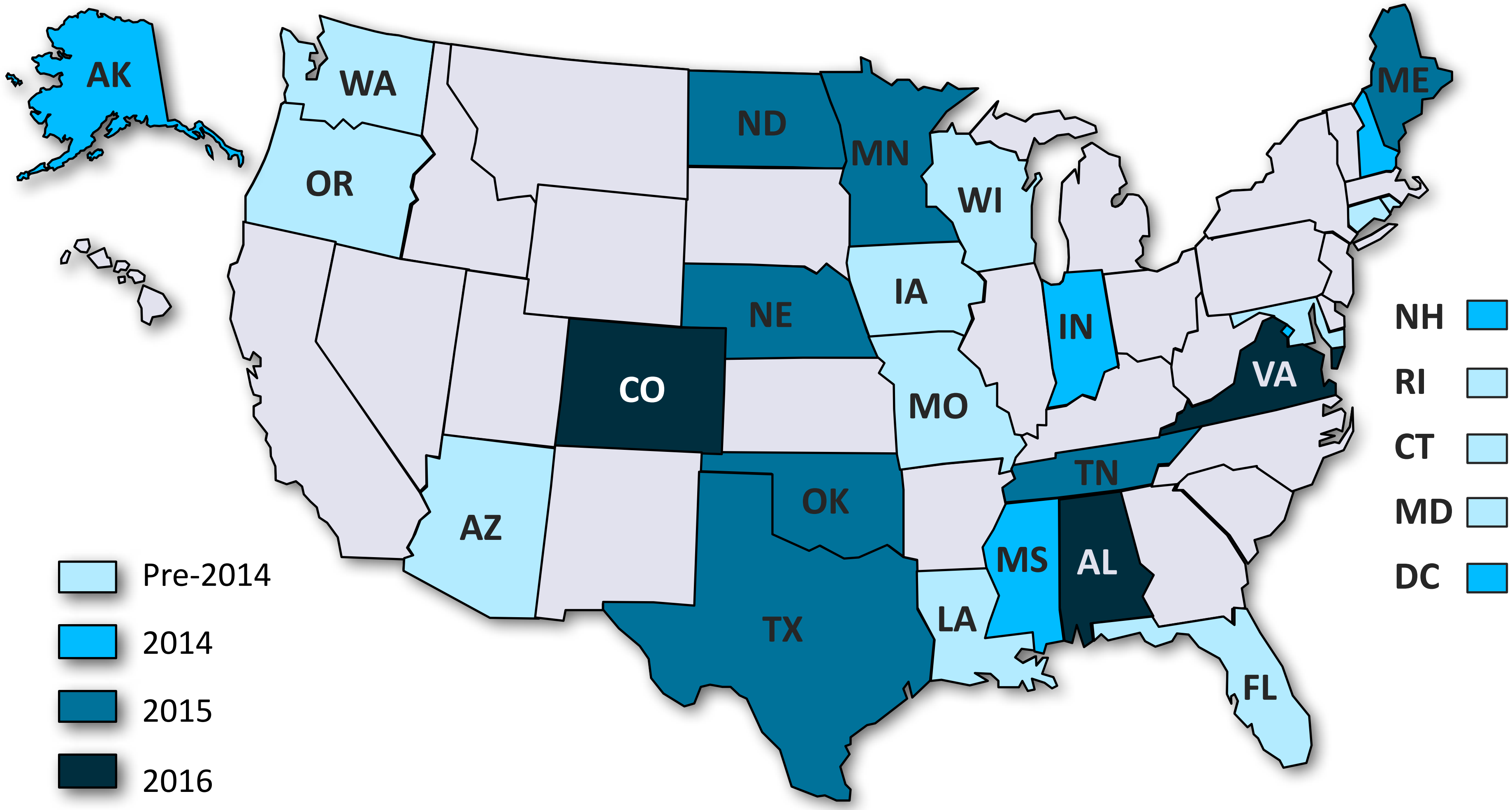
- Regularly evaluate the economic and fiscal results of tax incentive programs

- 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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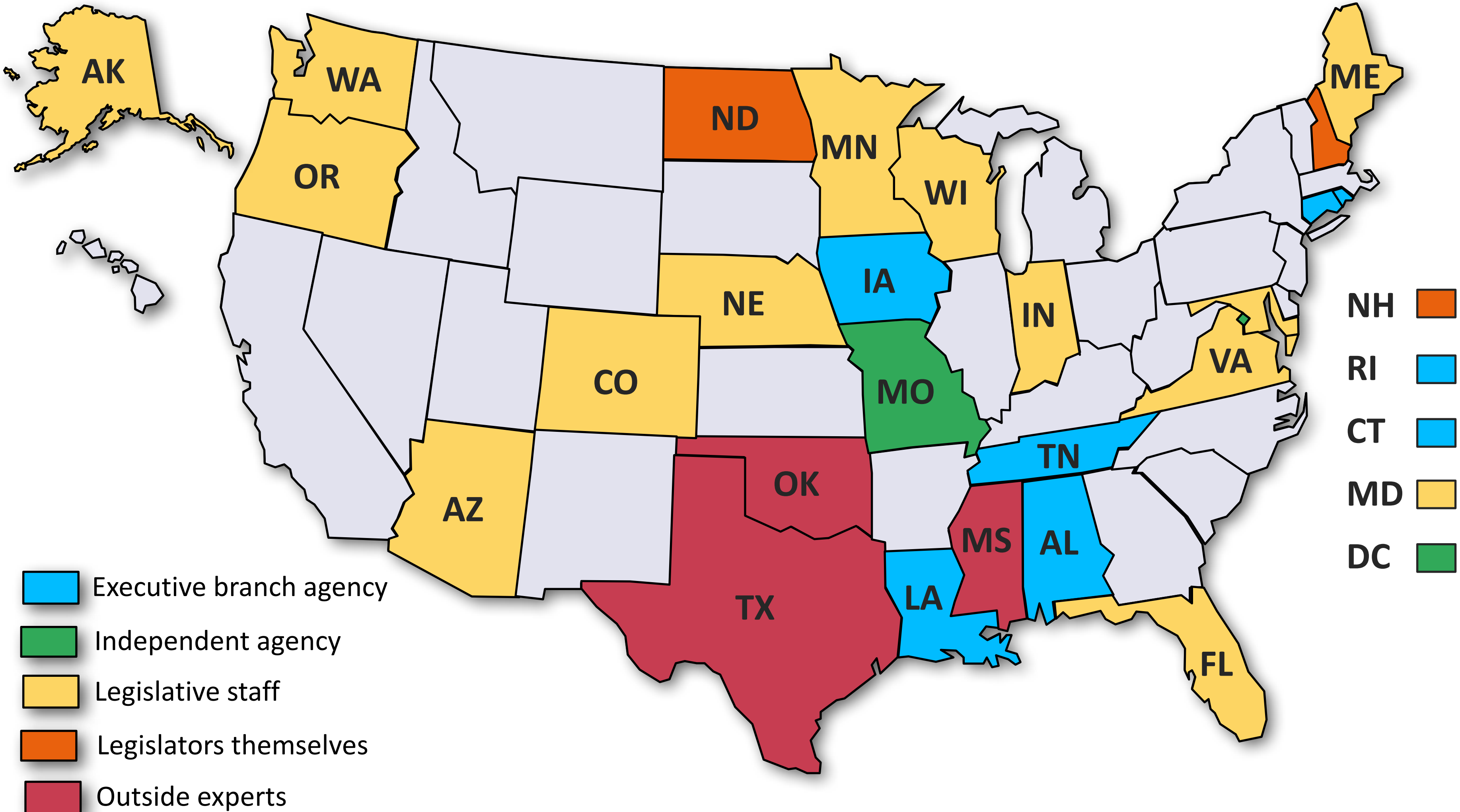
Who evaluates



Scope of evaluations

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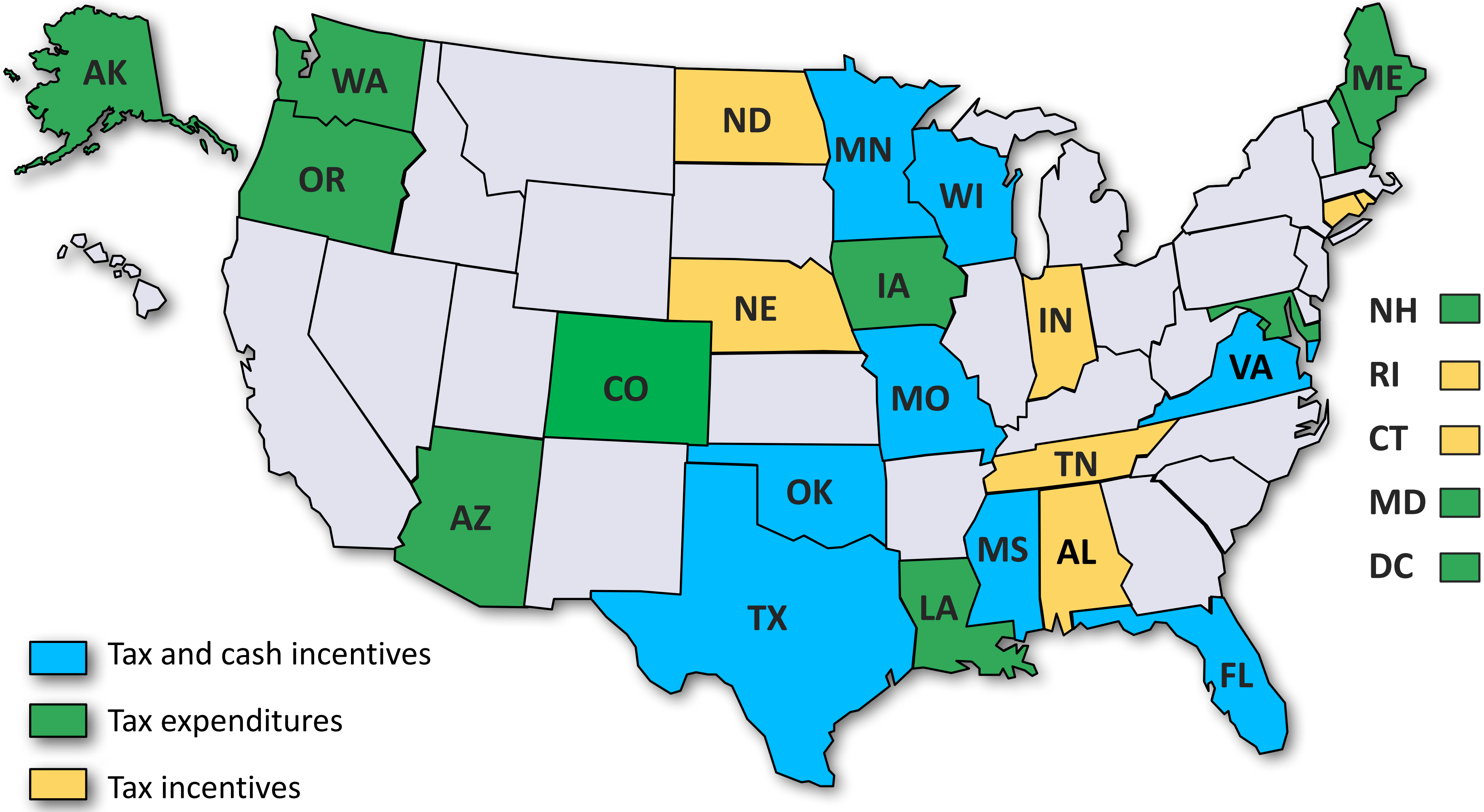
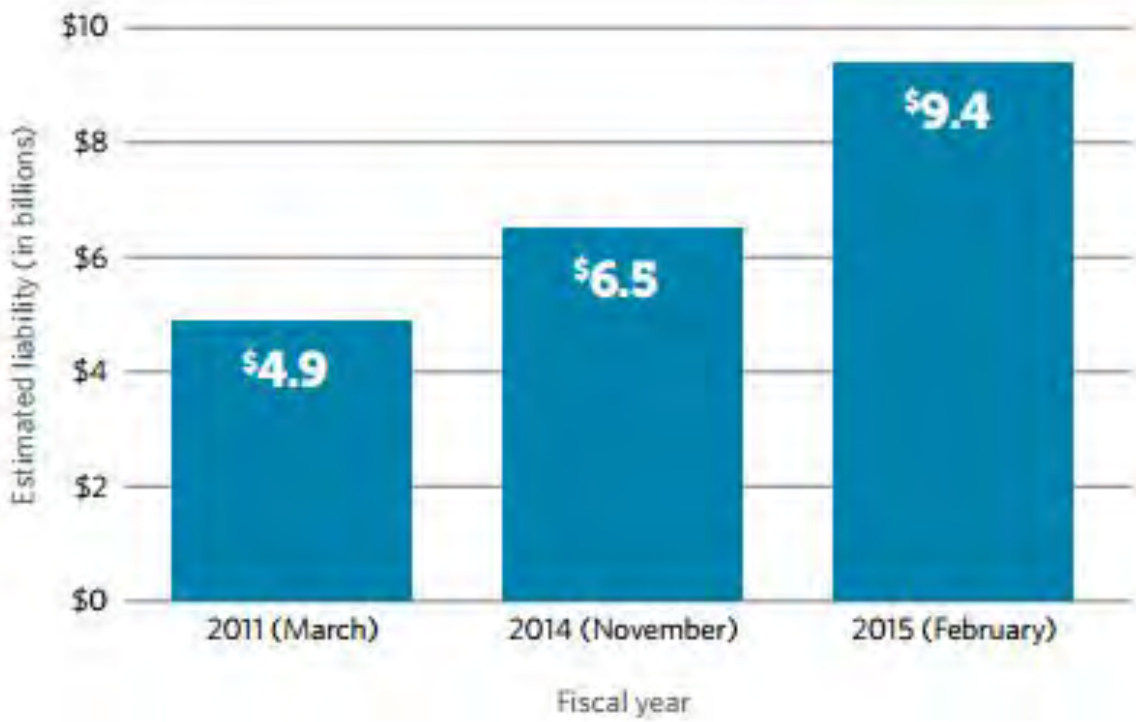


For states with evaluation laws, lawmakers can…

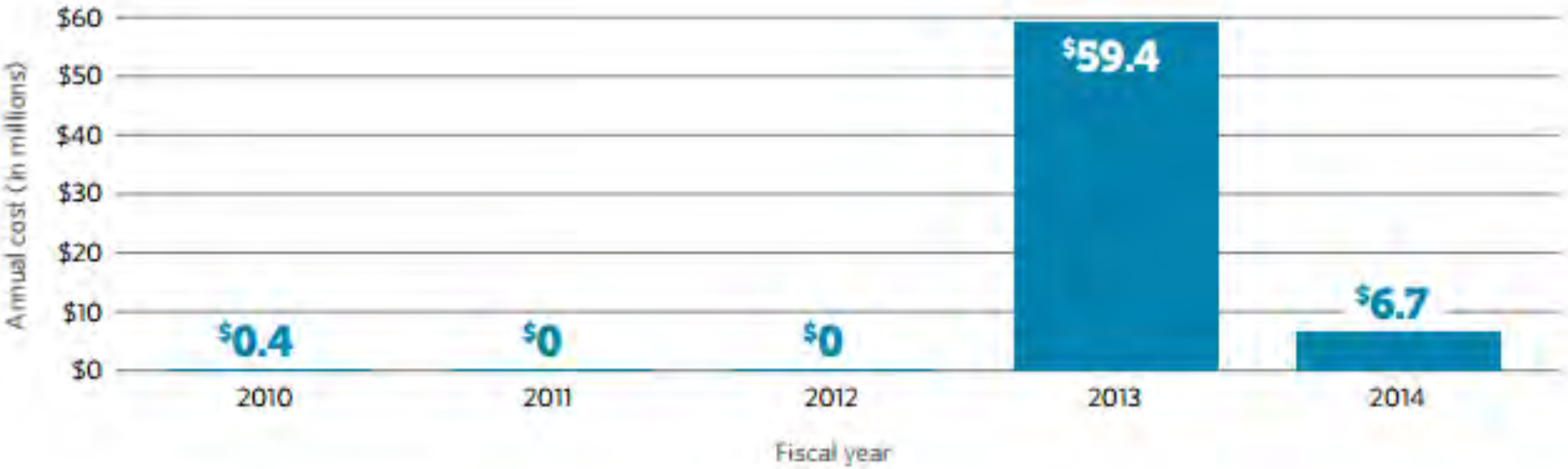
- Provide guidance to evaluators
- Improve the process over time
- Hold hearings on evaluations
- Use the findings to improve policy

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?

Josh Goodman
jgoodman@pewtrusts.org

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