How States Are Improving Tax Incentives for Jobs and Growth

A national assessment of evaluation practices

Bob Zahradnik
rzahradnik@pewtrusts.org
The Pew Charitable Trusts
11/18/2017
How States Are Improving Tax Incentives for Jobs and Growth

A national assessment of evaluation practices
Why to evaluate tax incentives

- Tax incentives are one of states’ primary economic development tools
- Tax incentives collectively cost states billions of dollars per year
- Evaluation is a proven way to improve the effectiveness of incentives
- Evaluations can lead to a more constructive conversation about incentives
Year evaluation laws were adopted in states that are “leading” or “making progress”
Three steps to effective evaluation

Step 1: Make a plan

Step 2: Measure the impact

Step 3: Inform policy choices
State tax incentive evaluation ratings

10 leading
18 making progress
23 trailing
Make a plan: Who evaluates in states that are “leading” or “making progress”
Make a plan: Developing a strategic schedule

- Include all major incentives
- Use a rotating multi-year cycle
- Study incentives with similar goals in the same year
- Coordinate evaluations with sunset dates
Measure the impact: High-quality evaluations include...

- A description of the incentive, its history, and goals
- An assessment of the incentive’s design and administration
- An estimate of the incentive’s economic and fiscal impact
- Policy recommendations
Evaluation example: Indiana

Table 12: Taxpayer Discount Scenario – Solar-Powered Roof Vent/Fan Installation Deduction

<table>
<thead>
<tr>
<th>Item</th>
<th>Tax Incentive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Solar Vent Fan Cost</td>
<td>$600</td>
</tr>
<tr>
<td>Installation Cost</td>
<td>300</td>
</tr>
<tr>
<td><strong>Total Cost</strong></td>
<td><strong>$900</strong></td>
</tr>
<tr>
<td>Deduction Amount (50% of Total Cost)</td>
<td>(450)</td>
</tr>
<tr>
<td><strong>Indiana State and Local Tax Savings</strong></td>
<td>($21)</td>
</tr>
<tr>
<td><strong>Total Projected Cost After Savings</strong></td>
<td><strong>$879</strong></td>
</tr>
<tr>
<td>Discount %</td>
<td>2.33%</td>
</tr>
</tbody>
</table>
Options to inform policy choices

- Create new legislative committees
- Utilize existing committee structure
- Require the governor to make recommendations after evaluations
- Establish expiration dates on incentives to encourage review
With evaluations, states can...

- Make subtle changes to incentives to 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
Questions?

You can submit a question at any time by clicking on the control panel on the right side of your screen.

Once you do so, enter your query in the “Questions” box.
Josh Goodman
Officer, The Pew Charitable Trusts
jgoodman@pewtrusts.org