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Tax Expenditure Evaluations: Types and Questions to ask



Different approaches – Different questions

- **Descriptive Analysis**
 - Includes summary of how a credit works, information on which taxpayers claim the credit – perhaps by income level or industry or geography, may include some recommendations for changes
 - May use literature review and alternative scenarios to estimate effect
 - Can be performed relatively quickly with relatively fewer resources
- **Economic Impact Analysis**
 - Provides information on the value of the economic activity resulting from a tax incentive, such as employment or change in GDP
 - Often performed using IMPLAN or REMI model
 - Includes a return-on-investment (ROI) calculation
- **Econometric Analysis**
 - Attempts to differentiate between activity that is a direct result of the credit and that which would have occurred in the absence of the credit
 - Typically relies on econometric modelling to determine a causal relationship
 - Usually very data intensive and more time consuming to conduct
 - Often results are subject to some qualifications



Some Examples -

Descriptive Analysis (Least Resources)

- [Indiana Earned Income Tax Credit](#)
- [Evaluation of Pine Tree Development Zones in Maine](#)
- [Colorado Tax Expenditure Compilation Report, 2019](#)

Economic Impact Analysis

- [Nebraska Advantage Act](#)
- [Georgia Film Tax Credit Evaluation](#)

Econometric Analysis (Most Resources Required)

- [Historic Preservation Tax Credit in Iowa](#)
- [Beginning Farmer Tax Credit Program in Iowa](#)
- [Worth the Cost? An Examination of the Commercial Revitalization & Commercial Expansion Programs - NYC](#)



Other questions to consider -

- **Justification**
 - Why is this subsidy required?
 - How long is the subsidy needed?
 - How is it provided – credit, deduction, loan, grant?
- **Efficiency**
 - Does the tax incentive create unintended incentives in the economy or change taxpayer behavior?
 - Does it effect some taxpayers more than others or industries more than others?
- **Equity**
 - How are the benefits of the tax incentive distributed? Across income groups, different demographic groups or geographically
- **Opportunity Costs**
 - What is the likely impact of what the state would not be spending on when funding this tax incentive?



Other questions, cont'd.

- **Influence of outside incentives/factors**
 - Does the economic development project involve incentives from local or federal government?
 - What is the impact of the state tax structure on investment decisions?
- **Credit Structure and Administration**
 - Is credit designed in a manner that best supports its intended purpose?
 - Consider compliance costs of program – may influence who participates
- **Budgetary Risk**
 - Anticipate future costs of program
 - Analyze state liabilities of carry-forwards
 - Does increased use of the credit increase budgetary risk to the state
- **Local Government Impact**
 - What is revenue consequence of the policy across all jurisdictions?