

THE  
**PEW**  
CHARITABLE TRUSTS

# How States Are Improving Tax Incentives for Jobs and Growth

A national assessment of evaluation practices

Bob Zahradnik

[rzahradnik@pewtrusts.org](mailto: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

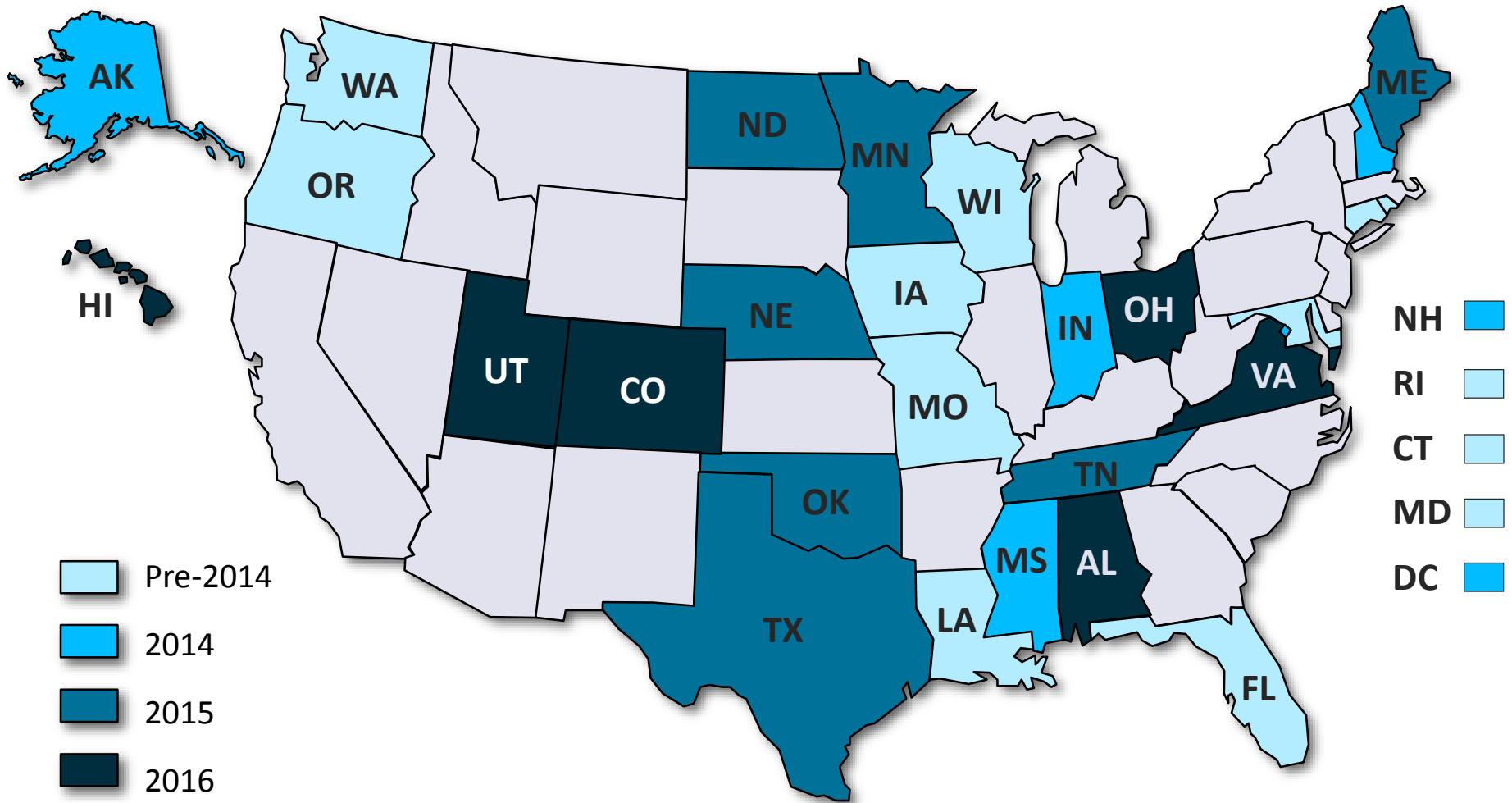
● Tax incentives are one of states' primary economic development tools

● 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

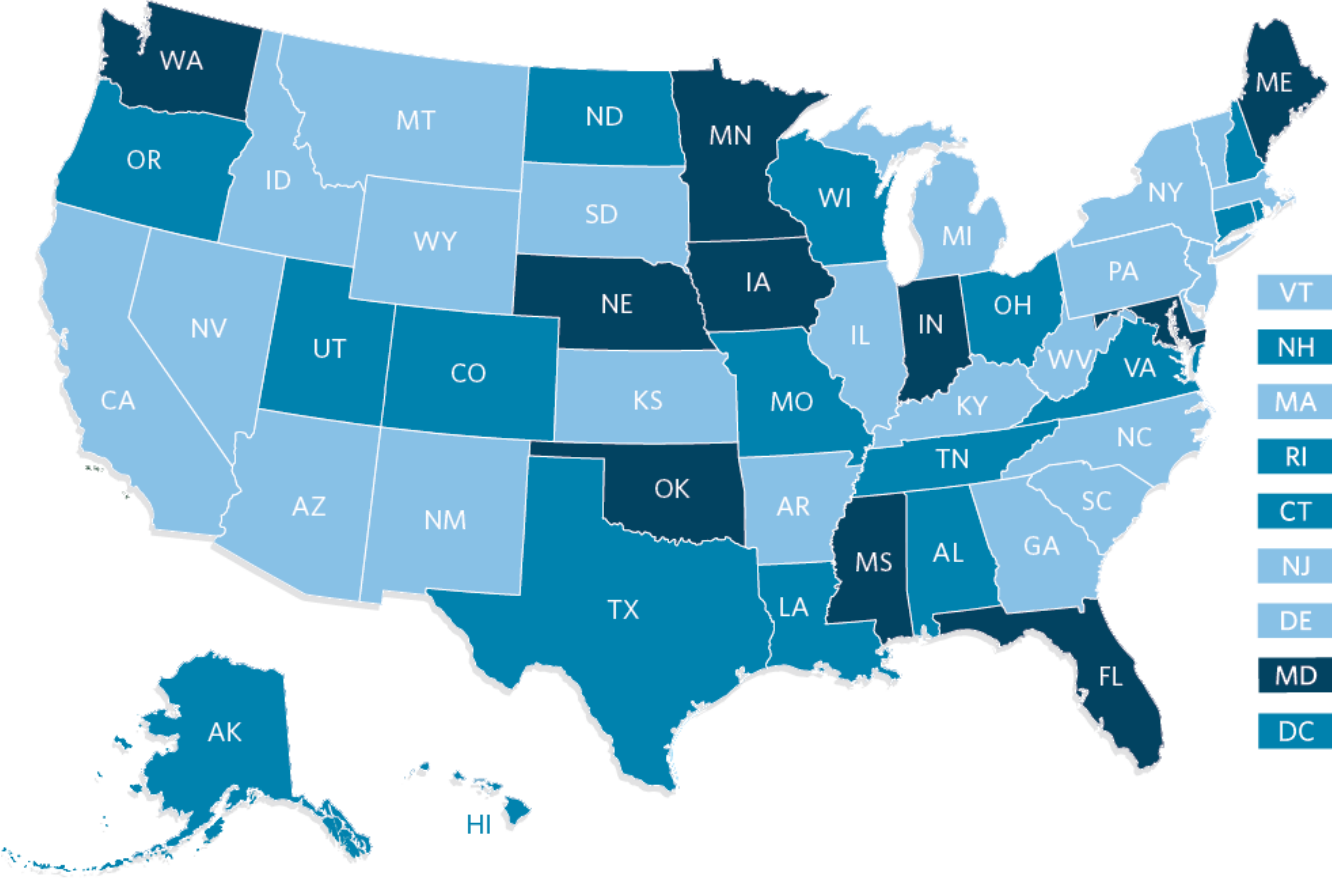


Step 2: Measure the impact



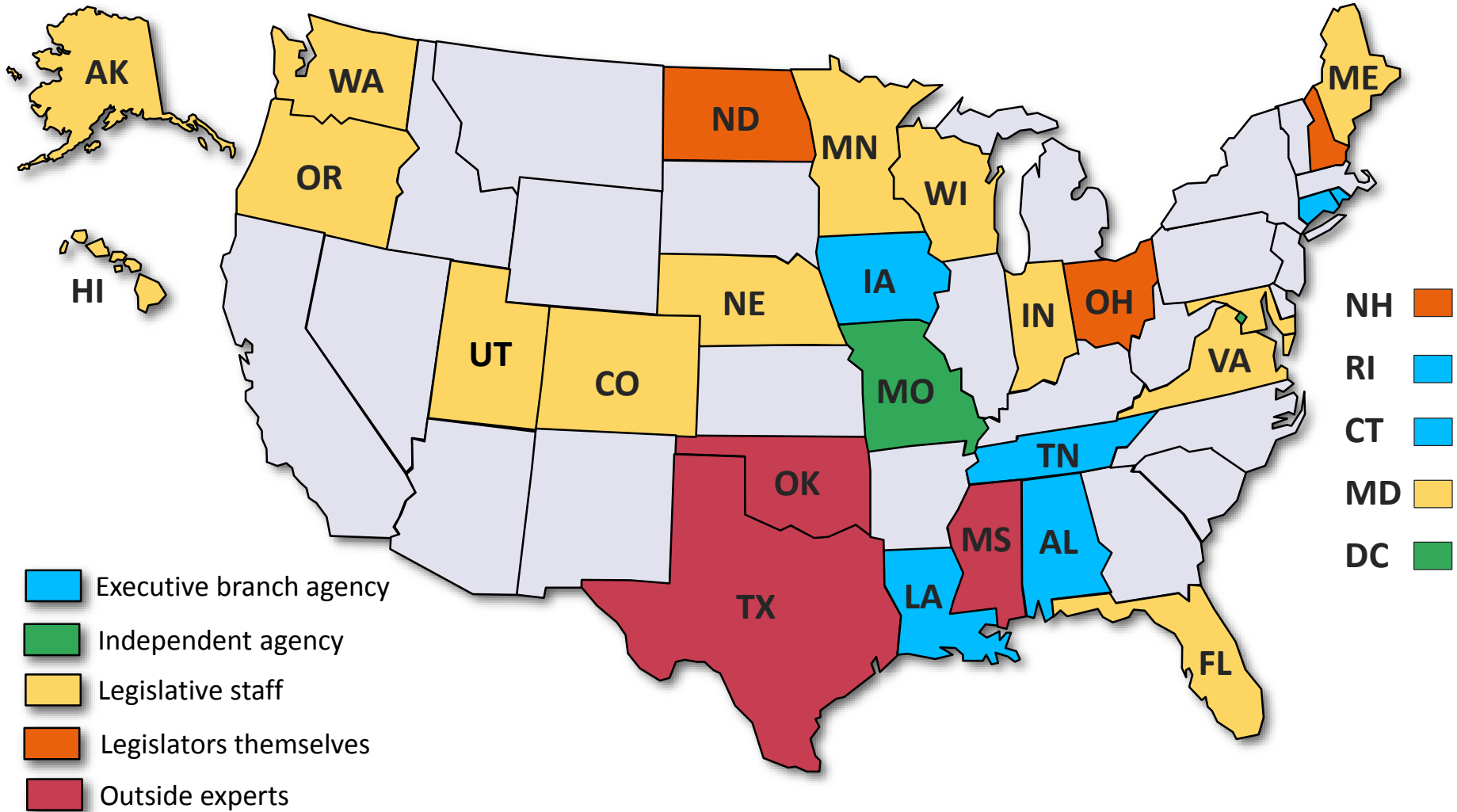
Step 3: Inform policy choices

# 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**

| <b>Item</b>                                | <b>Tax Incentive</b> |
|--|----------------------|
| Solar Vent Fan Cost                        | \$600                |
| Installation Cost                          | <u>300</u>           |
| <b>Total Cost</b>                          | <b>\$900</b>         |
| Deduction Amount (50% of Total Cost)       | <u>(450)</u>         |
| <b>Indiana State and Local Tax Savings</b> | <b><u>(\$21)</u></b> |
| <b>Total Projected Cost After Savings</b>  | <b>\$879</b>         |
| <b>Discount %</b>                          | <b>2.33%</b>         |

# 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



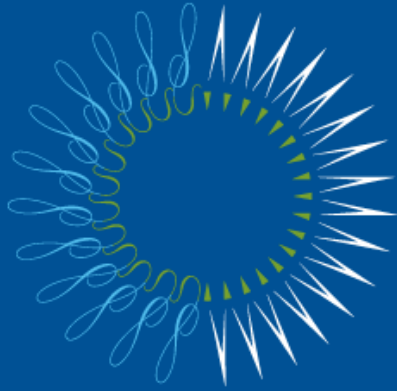
Repeal or replace ineffective or obsolete incentives

# 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.



THE  
**PEW**  
CHARITABLE TRUSTS

**Josh Goodman**

Officer, The Pew Charitable Trusts

[jgoodman@pewtrusts.org](mailto:jgoodman@pewtrusts.org)