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EVIDENCE COUNTS

Evaluating State Tax Incentives for Jobs and Growth

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Trade-offs





Evidence Counts



Evaluating State Tax Incentives
for Jobs and Growth

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Avoiding Blank Checks

Creating Fiscally Sound
State Tax Incentives

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DOLLARS



Security
Features
Details
Bar

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AVOID BLANK CHECKS

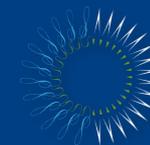


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AVOID
BLANK
CHECKS

**Costs Can
Grow Quickly...**

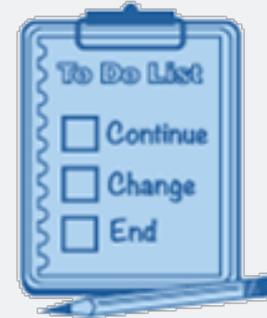


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Four Principles to Ensure Tax Incentives Deliver a Strong Return on Investment



① All tax incentives will be reviewed regularly according to a strategic schedule.



② Evaluations will draw clear conclusions based on measurable goals.



③ Rigorous evaluation will determine the benefits and costs.



④ Evidence from evaluations will inform policy choices.





① All tax incentives will be reviewed according to a strategic schedule.

Decision point: How is the schedule determined?

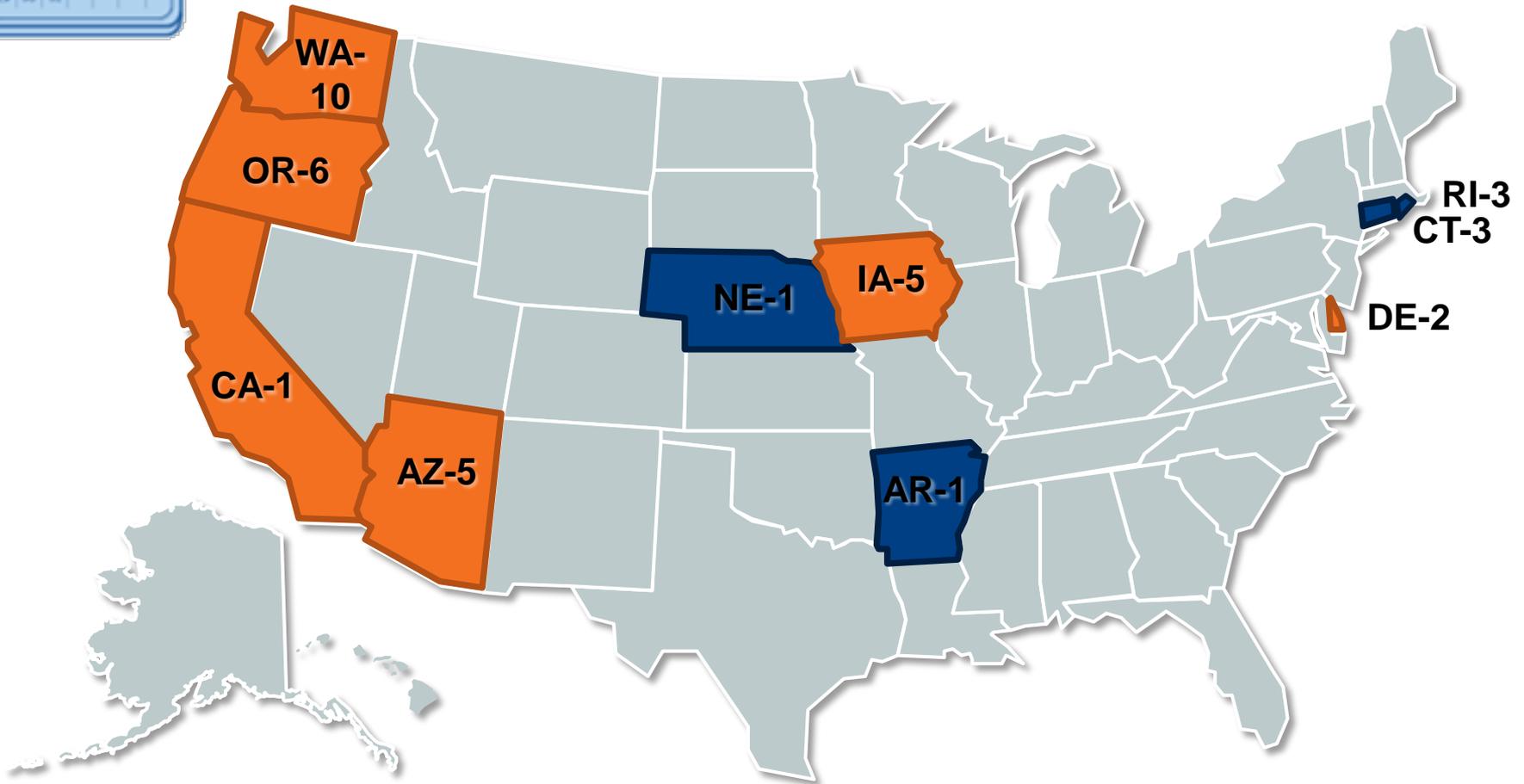
Some ideas:

- Ensure evaluations are ready in time for budget and policy decisions.
- Consider grouping tax expenditures with similar goals together.
- Allow for flexibility.





Ten states ensure regular ongoing review of tax incentives.





② Evaluations will draw clear conclusions based on measurable goals.

- Conclusions provide lawmakers with choices that they can consider and act upon.
- Analysts can draw conclusions about ways an incentive might be improved.
- To arrive at clear conclusions, evaluators must ask questions about what the tax incentive is trying to achieve.





② Evaluations will draw clear conclusions based on measurable goals.

How can we quantify
“technology and expertise”?

What qualifies
as a “small
business”?

The purpose of the Laboratory Partnership with Small Business Tax Credit is “to bring the technology and expertise of the national laboratories to small businesses in New Mexico to promote economic development in the state, with an emphasis on rural areas.”

How do we
define
“rural
areas”?

What economic
activity should
change, and how?





② Evaluations will draw clear conclusions based on measurable goals.

Decision point: How will the metrics used in the evaluation be determined?

Some ideas:

- Require legislative guidance for new, expanded, or extended tax expenditures.
- Example: DC Tax Transparency and Effectiveness Act of 2013.
- Comparison approach to benchmarks.





③ Rigorous evaluation will determine the benefits and costs.

- To what extent did the incentive affect the choices businesses made?
- Were existing businesses affected by the incentives?
- Did the benefits outweigh the negative effects of the tax increases or spending cuts needed to offset it?





③ Rigorous evaluation will determine the benefits and costs.

Decision points:

- Who will provide the analysis?
- How can the necessary data be collected and made available?
- What methodologies will be used?





④ Evaluations will inform policy choices.

Decision point: How can the evaluations be best connected to policy decision-making?

Some ideas:

- Oregon's sunset approach.
- Legislative hearings, e.g. Washington, Iowa, and Arizona.



Rhode Island's Plan for Evaluating Tax Incentives



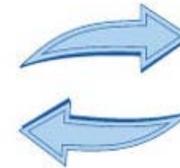
1. Create a strategic evaluation schedule



4. Decide to continue, change, or end programs



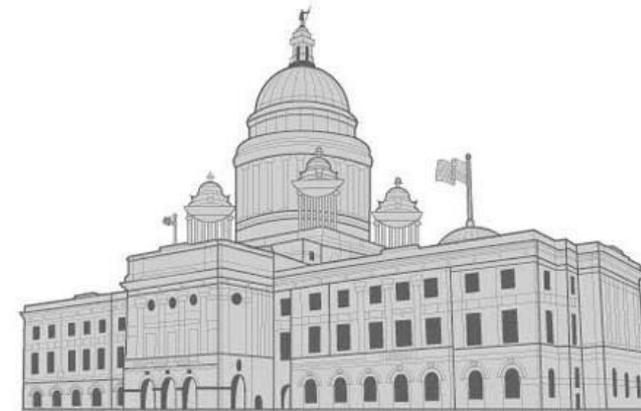
2. Measure benefits and costs



5. Repeat steps 1-4



3. Use evidence to inform recommendations



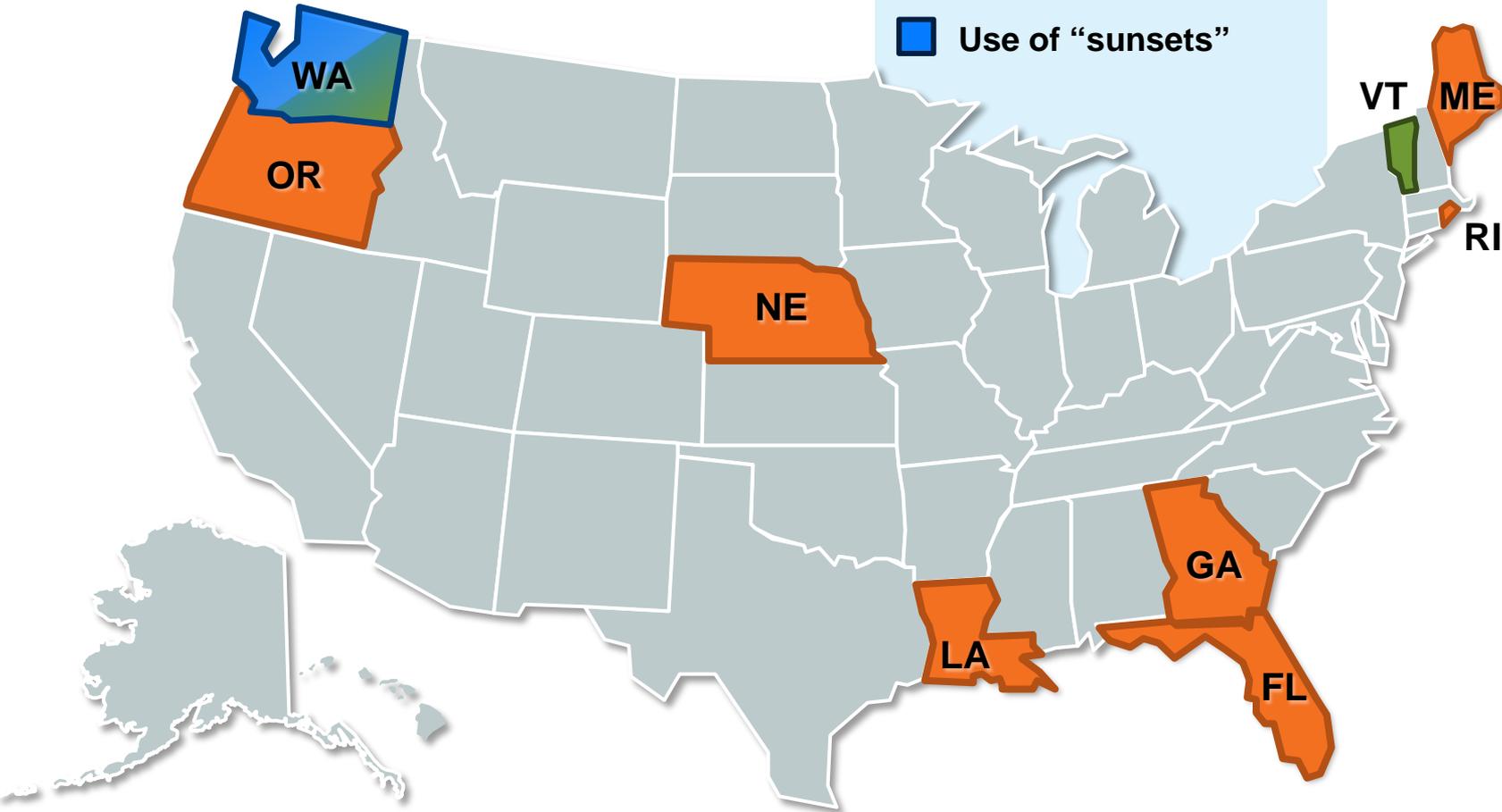
Growing momentum in 2013

Took steps toward...

 Effective evaluation

 Clearer goals

 Use of “sunsets”





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