10 states that are leaders in tax incentive evaluation

David M. Kall | Thursday, August 17, 2017

In May 2017, Pew Charitable Trusts issued a report (How States Are Improving Tax Incentives for Jobs and Growth) containing Pew's assessment of how well states evaluate their tax incentive programs. In just the last five years, "27 states and the District of Columbia have made progress in gathering evidence on the results of their economic development tax incentives."

The authors looked at how well-designed the plans for regular reviews were, evaluators' experience in producing quality evaluations, and the processes for informing policy choices. "No state met these three criteria five years ago," but now, "ten states are leaders in tax incentive evaluation." Taking the District of Columbia into account, the 10 states that excel, because they "rigorously measure the economic and fiscal impact of their programs," resulting in "realistic, reliable information," are these:

1. Florida
2. Indiana
3. Iowa
4. Maine
5. Maryland
6. Minnesota
7. Mississippi
8. Nebraska
9. Oklahoma
10. Washington

Another 18 states are making progress:

1. Alabama

2. Alaska
3. Colorado
4. Connecticut
5. District of Columbia
6. Hawaii
7. Louisiana
8. Missouri
9. New Hampshire
10. North Dakota
11. Ohio
12. Oregon
13. Rhode Island
14. Tennessee
15. Texas
16. Utah
17. Virginia
18. Wisconsin

The remaining 23 states, those that Pew classified as “trailing,” either lack an evaluation policy, or have had a policy in place for five years or longer that has not been effective in measuring impact or helping lawmakers improve programmatic effectiveness.

Pew deployed a number of techniques, including interviewing lawmakers and the people who evaluate and administer the incentive programs, and analyzing tax incentive laws and evaluations. Ultimately, their goal was to determine whether the states had accomplished these three steps:

1. **Making a plan**: Did the state establish policies requiring evaluation of major tax incentives, and if a policy had been in place for five years or more, did the state implemented it by actually producing evaluations?
2. **Measuring the impact**: Did the state evaluations estimate the extent to which incentives successfully changed business behavior, as opposed to rewarding what companies would have done anyway? In practice, those states that met this standard also addressed other key questions regarding economic impact, such as whether incentives benefit some businesses at the expense of others.
3. **Informing policy choices**: Did the state make changes to incentives that were consistent with the findings of evaluations or have a formal process, such as holding legislative hearings, that ensures lawmakers consider the results?

Business development incentives

Measuring the effectiveness of these kinds of programs is critical because states give away so much tax incentive money while touting this largesse as a feature of their business-friendly tax climates. For instance, on July 27, 2017, Wisconsin representatives signed a Memorandum of Understanding (MOU) with Foxconn, a Chinese electronics manufacturer for Apple and others. The document provided that Foxconn would invest up to $10 billion to construct a fabrication facility in exchange for $3 billion in tax incentives, including a construction sales tax exemption, and refundable Enterprise Zone credits for capital invested and jobs created. The Legislative Fiscal Bureau’s analysis of the legislation, AB 1, estimates that the project's break-even point would occur during the 2042-43 fiscal year.

Wisconsin is on Pew’s list of states that are “making progress” because it has adopted a plan for regular evaluation of tax incentives; it “could improve by including rigorous economic analysis in the evaluations” and expanding the scope of these reviews. Pew observed that the Badger State’s Legislative Audit Bureau studies programs administered by the Wisconsin Economic Development Corp., but not others, such as the $36 million Research Expenditures Credit operated by other agencies. The Foxconn deal is an Economic Development Corp. project.

Conversely, Michigan is a trailing state. At the end of July, the Gov. Rick Snyder signed three bills into law, known collectively as the Good Jobs for Michigan jobs package. At the bill signing, the governor cheered the package as one that “will entice new and emerging businesses with sizable workforces, by allowing them to keep some or all of the state income tax paid by their employees if certain criteria are met.”

The legislative analysis of the jobs package reveals feeble scrutiny of their fiscal impact:

> To the extent that any new job created as a result of the bills would not have been otherwise created (an outcome which is technically impossible to determine), there would be no direct loss of income tax revenue, although the overall revenue via income tax withholding would be less than under current law. However, if some degree of job creation would have occurred in absence of the bills, then there will be a net loss of income tax revenue, the magnitude of which cannot be determined.

The legislative analysis calculates that the maximum amount of the tax capture for all eligible employers is $200 million. Thus, analysts peg this amount as the “potential net revenue loss, although in all likelihood it will be significantly less.”

Film credits

Georgia is another one of Pew’s trailing states. We recently posted an article about California’s film tax incentive program, in which we noted that Georgia is one of only two states to receive the highest rating from the Film Production Capital star guide. Georgia claims that this is because it has a vast production infrastructure, and “one of the most competitive tax incentive programs in the country, along with a broad network of production and recording facilities, a large and skilled workforce including actors, the latest production equipment and suppliers, gaming and interactive media developers, and technology and support services.”

That may be so, but Pew frowns on the Peach State’s lackadaisical tax credit evaluation process, pointing out that it “has not adopted a plan for regular evaluation of tax incentives.” Moreover, it has “provided hundreds of millions of dollars in film tax credits but has not rigorously studied the results of the program.”

Among the films produced in Georgia are *Captain America: Civil War*, and *Anchorman 2: The Legend Continues*. But, Pew contends, this activity has “come at a price. From 2009 through 2014, film tax credits cost the state more than $900 million…. In fiscal year 2017, the program is expected to cost $376 million.

Research relationships with higher education institutions

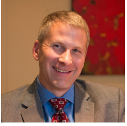
New Jersey is a third state on Pew’s “trailing” list. Like Georgia, it has “made billions of dollars in incentive commitments in recent years,” but has “not adopted a plan for regular evaluation of [these] incentives.”

Earlier this month, Gov. Chris Christie signed A4432 into law, which provides increased tax credit amounts under the Grow New Jersey Assistance Program for certain businesses that have collaborative research relationships with colleges or universities.

As if to underscore Pew’s grade of the Garden State, the bill’s fiscal estimate states that “[t]he Office of Legislative Services finds that the bill will result in an indeterminate decrease in State revenue as a result of increased tax credits…The number of businesses eligible for the increased tax credit amounts… is not subject to accurate qualification…. This decrease in revenue is likely to be offset to some degree by an indeterminate increase in revenue realized through an increase in business activity.”

If any consolation, Pew reports that New Jersey has contracted with researchers from Rutgers University to complete a one-time study of incentives by 2018.

Ultimately, Pew argues that “when lawmakers have this information [on the effectiveness of incentives], they use it.” Referring to policymakers in several states that are on its “excel” list, Pew justifies the highest rankings because these officials “have made changes to incentives that were consistent with the findings or recommendations of evaluations. Changes both large and small—from ending ineffective programs to subtly modifying the design or administration of incentives—can greatly improve the effectiveness of state economic development efforts,” the Pew report argues.



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