

# How states evaluate tax incentives and use evaluations to inform policy

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# Agenda

- Why evaluate tax incentives?
- National context for evaluation
- Incentive evaluation in Georgia
- Incentive evaluation best practices
- Upfront analysis of new incentive programs
- How states have used evaluations to inform policymaking

# Why evaluate tax incentives?

## Why evaluate tax incentives?

- One of states' primary economic development tools
- Collectively cost states billions of dollars per year
- Evaluation is a proven way to improve the effectiveness of tax incentives



Image source: <https://www.debt.org/tax>

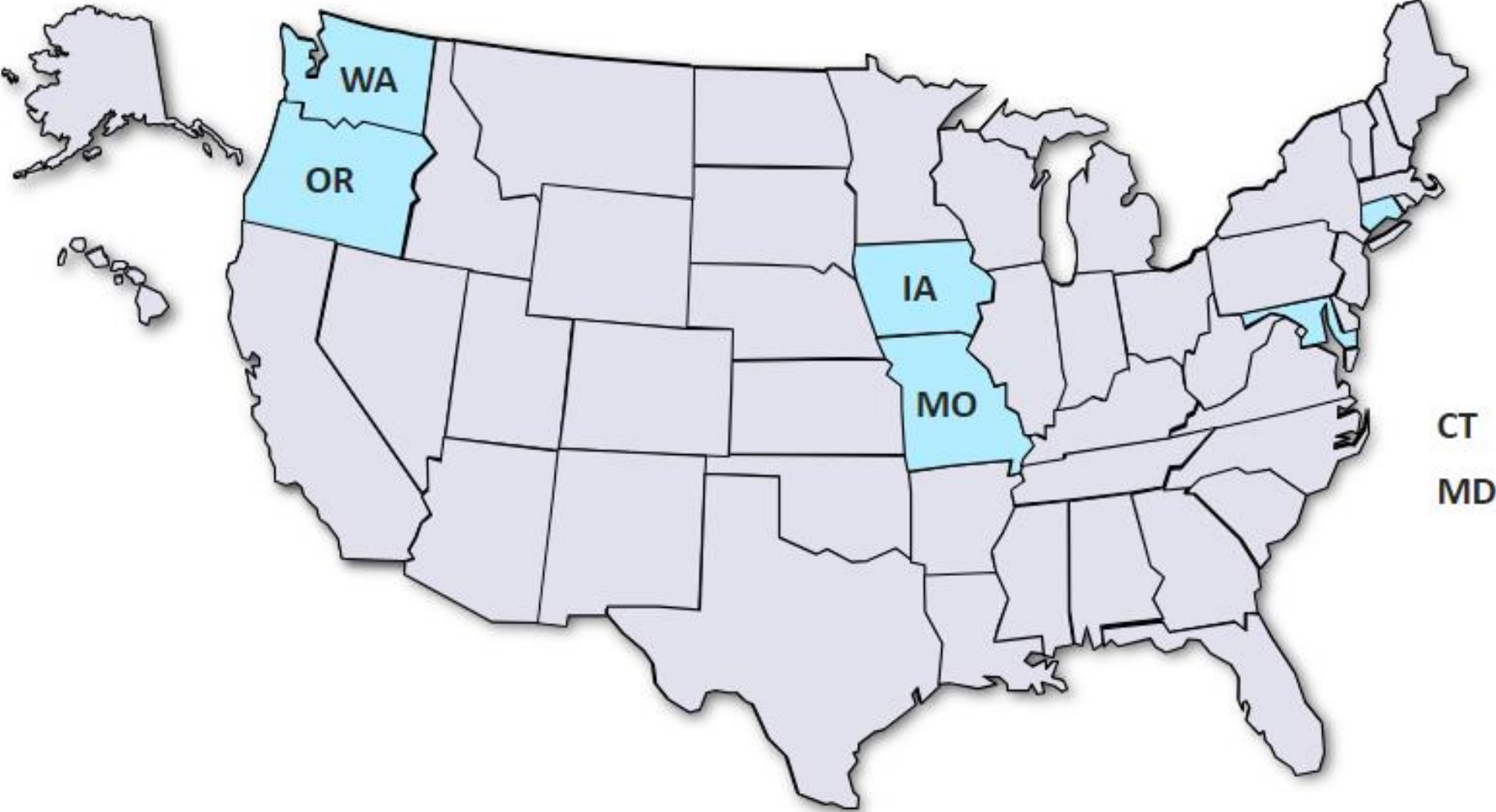
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## **With evaluations, states can...**

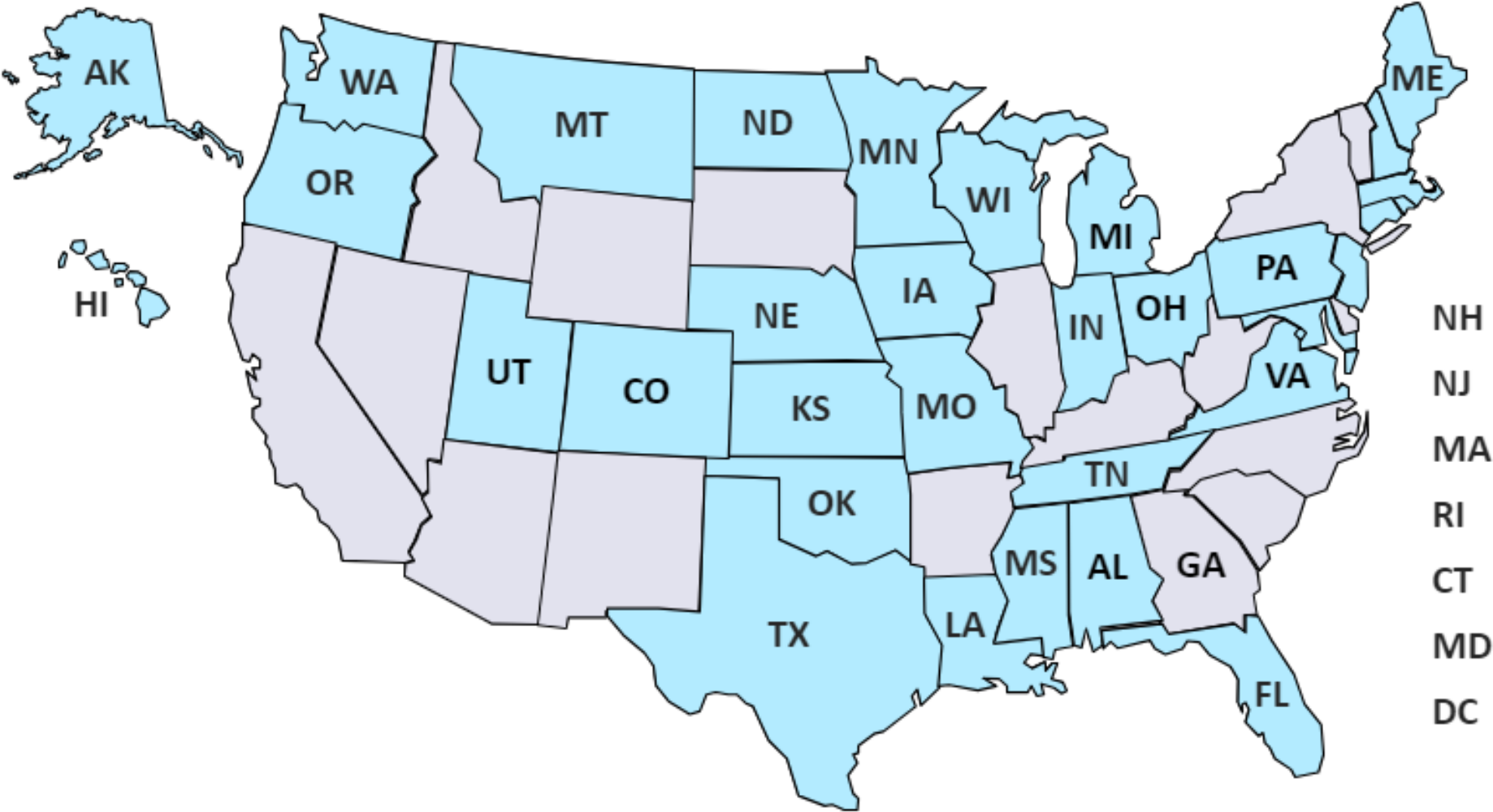
- Identify programs that are working well, so that the state can invest in them with confidence
- Make subtle changes to incentives to increase their return on investment
- Repeal or replace ineffective or obsolete incentives
- Analyze whether incentives are serving the needs of beneficiaries
- Have a more constructive conversation about incentives

# Which states evaluate?

The changing landscape of incentive evaluation – pre-2013

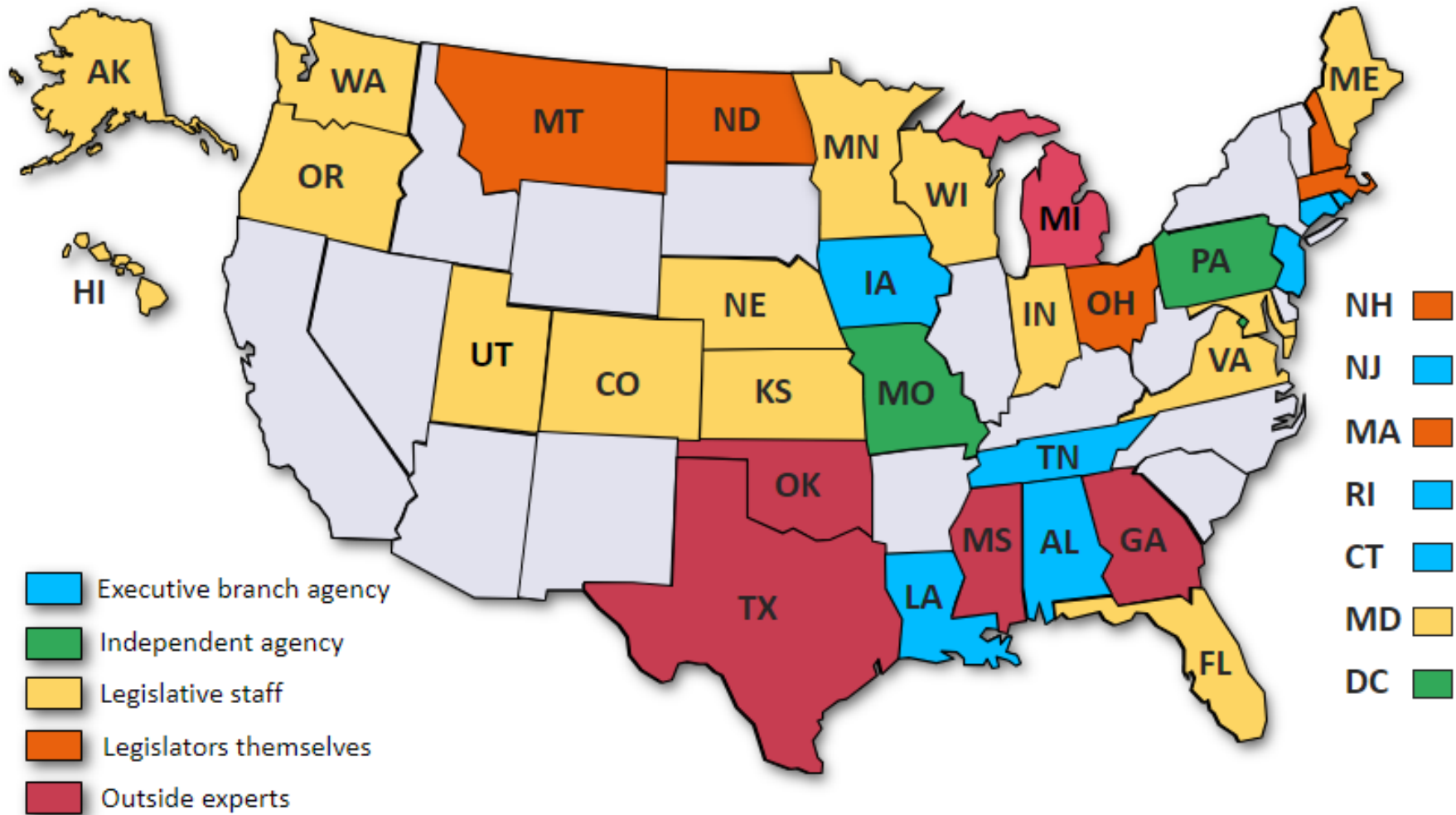


# The changing landscape of incentive evaluation – 2023

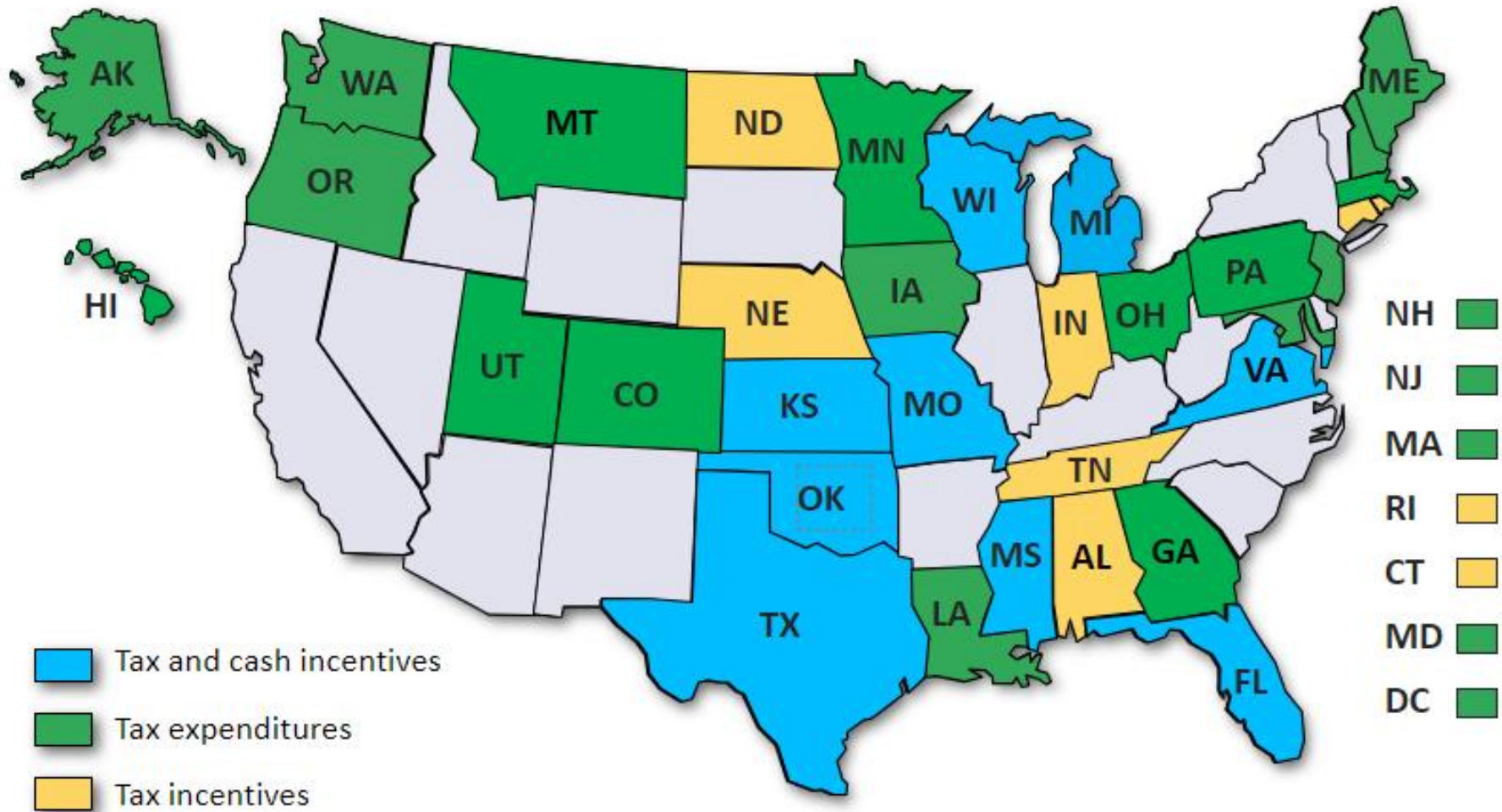




# State evaluation offices



# Scope of evaluations



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## Incentive evaluation in Georgia

- 2017 – Senate Special Tax Exemption Study Committee
- 2018, 2019, and 2020 – Proposed evaluation legislation
- 2021 – SB6/Act 166 of 2021 passed
- 2022 – Evaluations published
- 2023 – Joint Tax Credit Review Panel

# Incentive evaluation best practices

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At minimum, evaluations should include...

- A description of the incentive, including its history and goals
- An assessment of the program's design and administration
- Estimates of the expenditure's economic and fiscal impacts
- Policy recommendations

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## Other criteria to consider

- **Displacement** – to what extent does the expenditure benefit certain taxpayers at the expense of others?
- **Leakage** – does the expenditure benefit non-state residents?
- **Timing** – how does timing impact the level of fiscal risk and economic return to the state?
- **Opportunity costs** – are there trade-offs related to expenditure costs?
- **“But for”** – does the credit change taxpayer behavior

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## What is the “but for” question?

- To what extent does an incentive influence business decisions?
- Does the incentive reward businesses for activity that would have occurred anyway?
- Activity rarely is 100% attributable to incentive
- Ranges from 0% - 100%
- State evaluators have developed clever methods to estimate incentive impact

# Strategies for policymakers: connecting evaluation findings to policymaking



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## Connecting evaluations to policymaking

- Sunsets
- Treating incentives like other spending
  - Budget process
  - Caps
- Legislative committees
- Recurring commissions
- Incorporating stakeholder input

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## Questions policymakers may consider:

- Is the program designed to achieve its intended goals?
- Does the program duplicate another in the state?
- Are those eligible for the program aware it exists?
- Are there programs offered in other states (at what level)?
- What are the consequences if the program is modified?
- Is the program's purpose still relevant and is the cost justified?
- Are program eligibility requirements appropriately defined?
- Is the program administered efficiently?



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## Sunrise process: Considering new tax incentives

- Does the incentive have a clear and measurable goal?
- Is the incentive designed to meet the goal?
- How will we know if we are making progress toward the goal?

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## Sunrise process: Options

- Establish principles for designing tax incentives
- Develop procedures to consider proposed incentives in a deliberative manner
- Conduct upfront analysis of proposed incentives to forecast their effectiveness

## Sunrise Example: New Mexico

- SB231 Fiscal Impact statement

LFC Tax Expenditure Policy Principle	Met?	Comments
<b>Vetted</b>	✘	This bill was not heard by interim legislative committees.
<b>Targeted</b>		
Clearly stated purpose	✔	The bill provides a specific purpose statement.
Long-term goals	✘	Not included in the bill.
Measurable targets	✘	Not included in the bill.
<b>Transparent</b>	✔	The bill requires annual reporting by TRD to interim legislative committees.
<b>Accountable</b>		
Public analysis	✔	The bill requires annual reporting by TRD to interim legislative committees.
Expiration date	✘	The bill does not include a delayed repeal date.
<b>Effective</b>		
Fulfills stated purpose	?	Because it would be difficult for employers to know if job candidates are qualified foster youth (particularly regarding confidentiality concerns), the credit may not impact hiring decisions, calling to question whether the credit could fulfill the bill's stated purpose of encouraging the employment of current and former foster youth.
Passes "but for" test	?	
<b>Efficient</b>	?	
Key: ✔ Met ✘ Not Met ? Unclear		

# How states have used evaluation findings to inform policy decisions

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## Evaluation Success Stories

- Alabama Historic Rehabilitation Tax Credit
- North Dakota Angel Investment Tax Credit
- ImagiNE Nebraska Act

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## Alabama

### **Historic Rehabilitation Tax Credit**

- Program had sunset
- Evaluation showed strong positive results
- Restarted the program along with reforms suggested by the evaluation



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## North Dakota

### **Angel Investment Tax Credit**

- Evaluation identified flaw in program design: credits awarded to investors outside of the state
- Reformed program improves targeting of credits to investors located in ND

### **21st Century Manufacturing Workforce Incentive**

- Evaluation identified gap in the state's economic development programs
- Recommended creating an incentive to assist businesses in modernizing their manufacturing processes
- New incentive created in 2019

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## Nebraska

### **Advantage Act**

- State's signature incentive
- Costs rapidly increased
- Scheduled to sunset
- Legislative Audit Office (LAO) evaluation cited inadequate fiscal protections

### **ImagiNE Nebraska Act**

- Replacement program
- Included limits on yearly program costs
- LAO pre-implementation audit found data collection improvements to answer key questions about effectiveness

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## Additional Resources

### **Pew Website**

Many, many publications and articles relating to tax incentive evaluation design.  
Policy briefs, articles, webinars, etc.

### **NCSL Database of Evaluations**

Over 300 evaluations from over 40 states

### **Contact Us**

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