How States Are Improving Tax Incentives for Jobs and Growth

A national assessment of evaluation practices

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Why evaluate tax incentives

- Tax incentives are one of states' primary economic development tools
- They collectively cost states billions of dollars per year
- Evaluation is a proven way to improve the effectiveness of incentives
- Evaluations can lead to more constructive conversations about incentives

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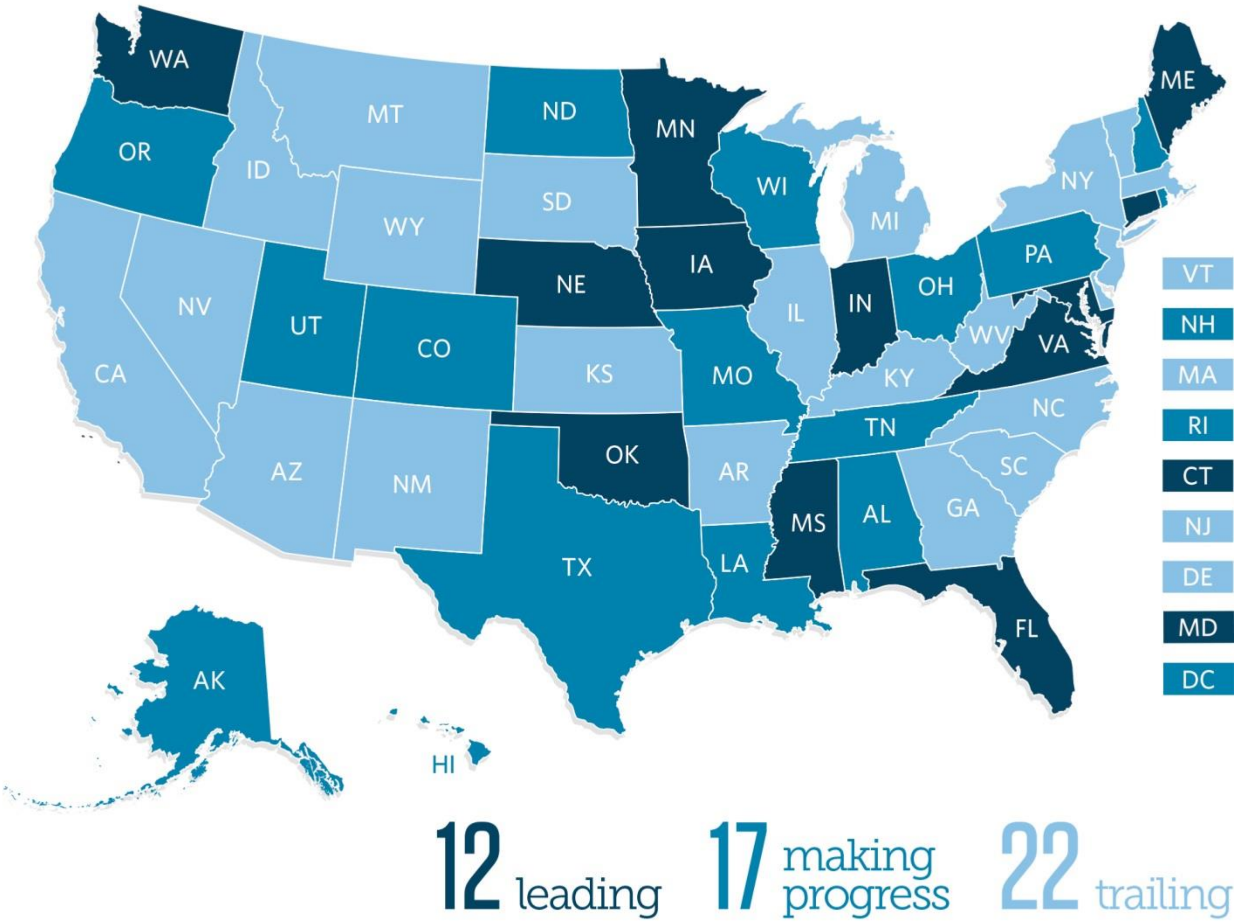
Figure 1

State Tax Incentive Evaluation Ratings



Note: The leading states have well-designed plans to regularly evaluate tax incentives, experience in producing quality evaluations that rigorously measure economic impact, and a process for informing policy choices. The states that are making progress have made a plan by enacting a policy that requires regular evaluation of major tax incentives. The trailing states lack a well-designed plan to regularly evaluate major tax incentives.

Source: Pew analysis based on interviews with state officials and a review of tax incentive evaluations and evaluation statutes

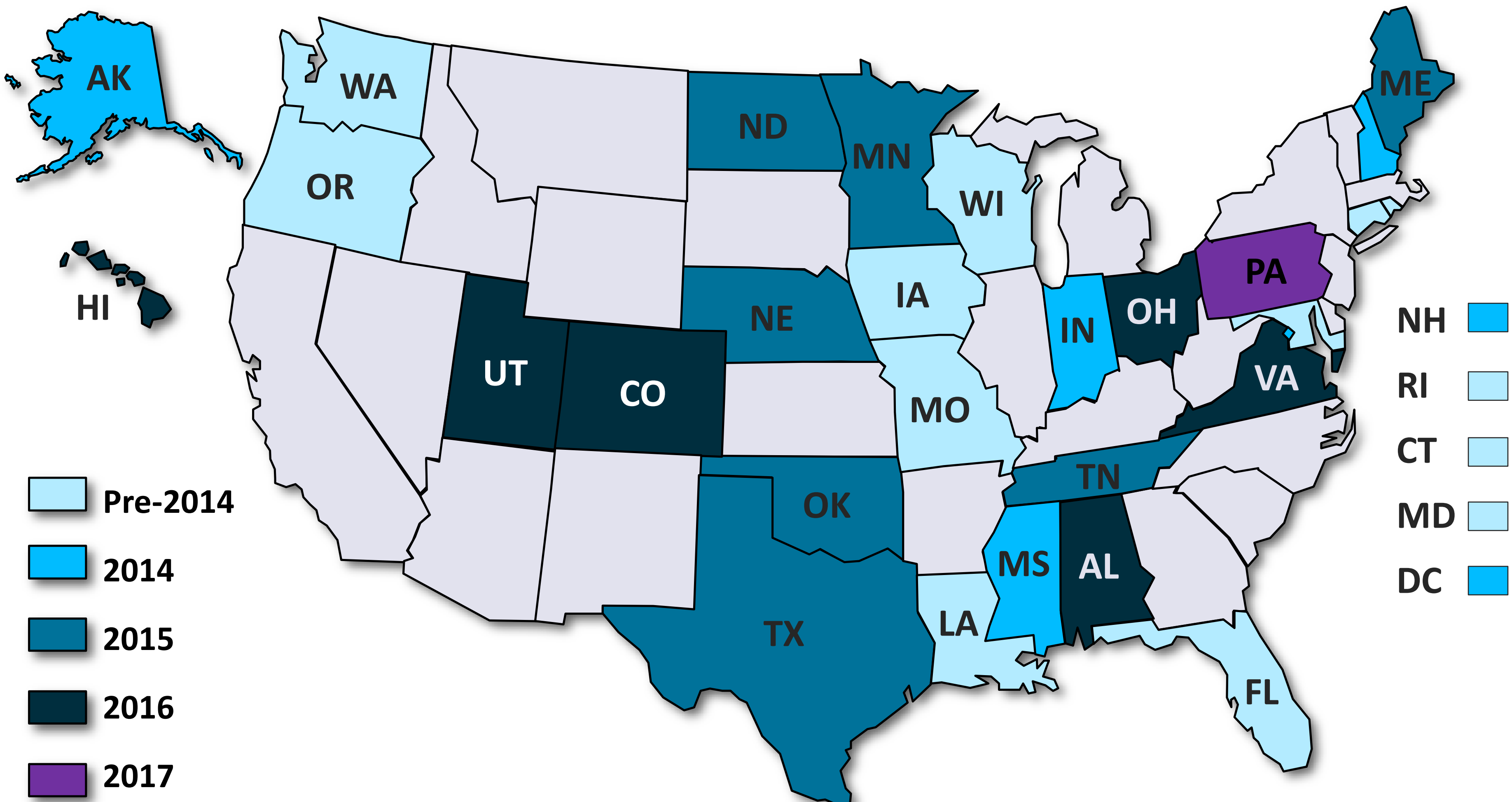
Three steps to effective evaluation

Step 1: Make a plan

Step 2: Measure the impact

Step 3: Inform policy choices

Year evaluation laws were adopted in states that are "leading" or "making progress"



Decisions when designing a process for ongoing tax incentive evaluation

1. Which programs will be evaluated?
2. What schedule should be used?
3. Who should conduct the analysis?
4. How will the evaluators access relevant data?
5. What should the analysis include?
6. How can the results be connected to the policymaking process?

#1: Which programs will be evaluated? Options include:

- All economic development **tax** incentives
- All economic development **incentives** (including cash incentives such as grants and loans)
- All tax expenditures

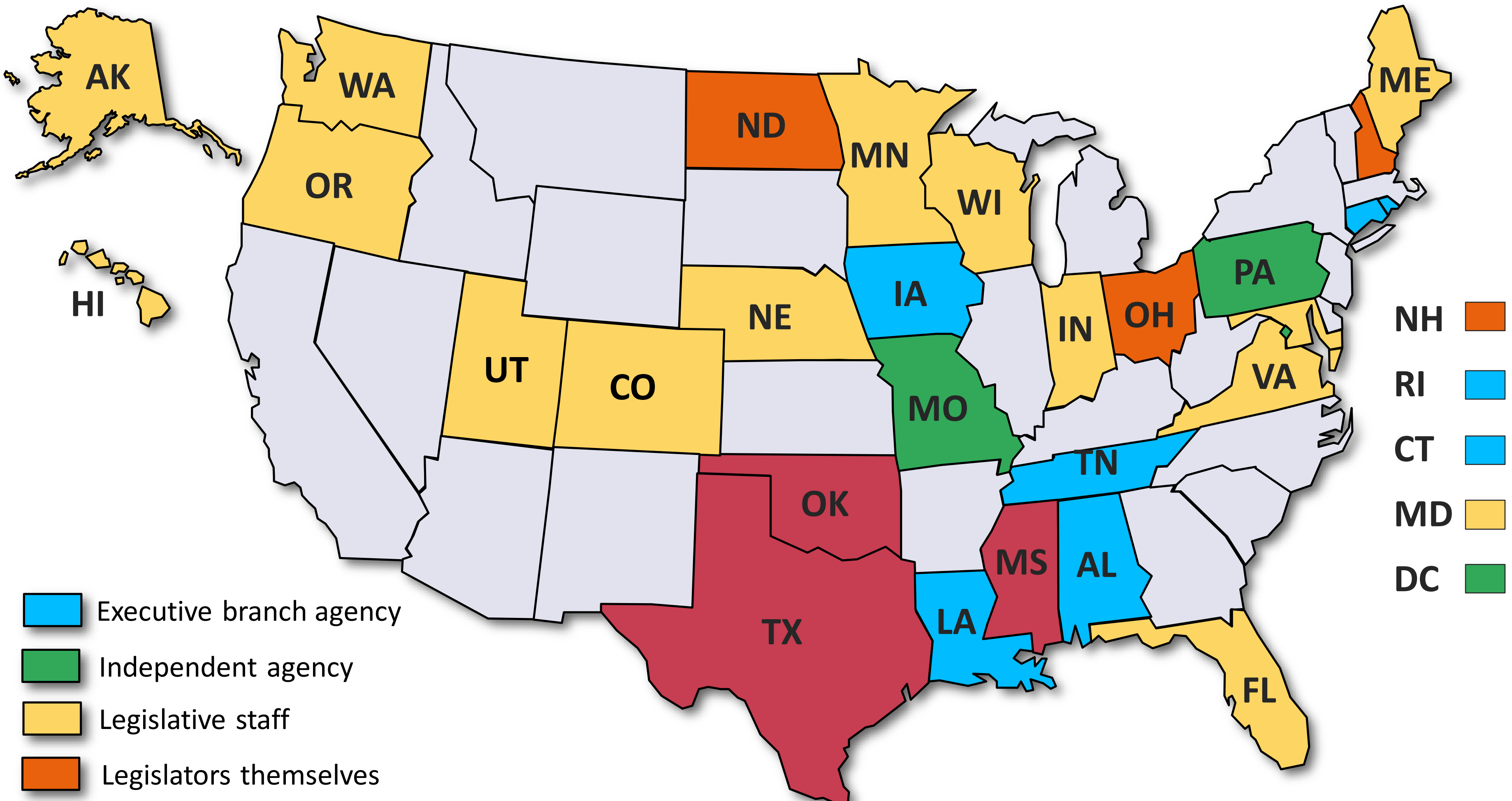
#2: What schedule should be used?

- A rotating multi-year cycle is common
- The length of the cycle often depends on the scope of the process
- States often evaluate similar incentives in the same year to allow for comparisons

#3: Who should conduct the analysis? Options include:

- Legislative staff (such as program evaluation or fiscal staff)
- Outside experts such as academic researchers or private consultants
- Executive branch agencies

Make a plan: Who evaluates in states that are "leading" or "making progress"



#4: How will the evaluators access relevant data?

- Evaluation laws typically include provisions that ensure access to data from other government agencies

- The laws often also acknowledge the importance of protecting sensitive or confidential data

#5: What should the analysis include?

- A description of the incentive, its history, and its goals
- An assessment of the incentive's design and administration
- An estimate of the incentive's economic and fiscal impact
- Policy recommendations

#6: How can the results be connected to the policymaking process? Options include:

- **Legislative hearings** (create new legislative committees or utilize existing committee structure)
- **Sunset dates**
- **Gubernatorial recommendations**

With evaluations, states can…

- Make subtle changes to incentives to increase 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

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