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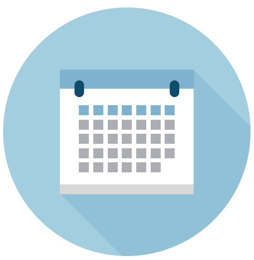
Strategies for Evaluating Tax Incentives

Overview

A growing number of states are recognizing the importance of evaluating their economic development tax incentives. For example, lawmakers in Indiana, Mississippi, and Rhode Island have recently enacted legislation to ensure their states take three key steps to regularly review and analyze these programs.



1. Develop a schedule

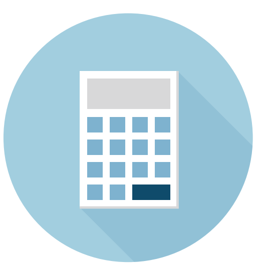
When states evaluate all of their tax incentives regularly, they are able to identify which incentives are effective and which are not and use this information to improve the programs' results. States often review their incentives on a rotating basis over several years. Determining how frequently each incentive will be evaluated requires finding a balance between the need for up-to-date information and the time required to produce rigorous, detailed studies. Some states study incentives with similar goals in the same year to help facilitate comparisons between the programs.

How often all tax incentives will be evaluated

5 Years — Indiana

4 Years — Mississippi

3 Years — Rhode Island



2. Measure the results

High-quality evaluations help states answer important questions. They study the extent to which the incentives encouraged businesses to create jobs and make investments that they otherwise would not have made. They measure how the state's economy as a whole—not just the companies receiving incentives—has been affected. Ideally, an agency that reviews tax incentives has experience with program evaluation or economic analysis, access to relevant data, and a willingness to make impartial, nonpartisan policy recommendations.

Who evaluates

Indiana: the nonpartisan research staff of the General Assembly.

Mississippi: a state university-based research center.

Rhode Island: the state's Department of Revenue.

3. Inform policymakers

The primary reason to evaluate tax incentives is to help policymakers make better-informed decisions. With this goal in mind, elected officials need to consider the results of evaluations and use them to improve economic development policy. Indiana, Mississippi, and Rhode Island will hold legislative hearings to help provide these opportunities.

Indiana: The Legislature's Commission on State Tax and Financing Policy will hold public hearings on incentives and make recommendations for the full Legislature to consider.

Mississippi: The chairs of the tax policy committees in the Senate and House of Representatives will hold at least one public hearing each year to consider the results of the evaluations.

Rhode Island: The governor's budget proposal must include a recommendation on whether to continue, reform, or end a tax incentive after each evaluation. Budget hearings in the Legislature will allow lawmakers to consider the governor's recommendations and examine the cost of each tax incentive alongside other state spending.

For further information, please visit:

pewstates.org/taxincentives

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