EVIDENCE COUNTS
Evaluating State Tax Incentives for Jobs and Growth

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Trade-offs
Nebraska’s Tax Incentive Evaluation Committee

Tasked with developing legislative recommendations on:

• Specific and measurable goals for tax incentive programs.
• Process for regular evaluations of tax incentives.
• Who should conduct the evaluations and what types of metrics should be used.
• How often should the evaluations be conducted.
Four Principles to Ensure Tax Incentives Deliver a Strong Return on Investment

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<th>Principle</th>
<th>Description</th>
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<td>1</td>
<td>All tax incentives will be reviewed regularly according to a strategic schedule.</td>
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<td>Evaluations will draw clear conclusions based on measurable goals.</td>
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<td>Rigorous evaluation will determine the benefits and costs.</td>
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<td>Evidence from evaluations will inform policy choices.</td>
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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.
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.
Evaluations will draw clear conclusions based on measurable goals.

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

**Some ideas:**

- Metrics should reflect the goals of the incentive and place the benefits in the context of their costs.
- Require legislative guidance for new, expanded, or extended tax expenditures.
- Absolute benchmarks are challenging, a comparison approach to benchmarks is preferable.
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?
Rigorous evaluation will determine the benefits and costs.

Decision points:

- Who will provide the analysis?
- What methodologies will be used?
- How can the necessary data be collected and made available?
Rigorous evaluation will determine the benefits and costs.

**Approaches to gathering data**

- Create access for evaluators to analyze existing information.
- Ensure agencies are working together to collect and analyze information.
- Require businesses to provide data as a condition of getting the benefit.
Evaluations will inform policy choices.

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

Some ideas:

• Oregon’s sunset approach.

• Rhode Island requires recommendations in the Governor’s budget.

• Legislative hearings, e.g. Washington, Iowa, and Arizona.
Rhode Island’s Plan for Evaluating Tax Incentives

1. Create a strategic evaluation schedule
2. Measure benefits and costs
3. Use evidence to inform recommendations
4. Decide to continue, change, or end programs
5. Repeat steps 1-4
Growing momentum in 2013 and 2014

Took steps toward…
- Effective evaluation
- Clearer goals

States:
- OR
- WA
- NE
- IN
- NJ
- RI
- VT
- ME
- LA
- GA
- FL
pewstates.org/taxincentives

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