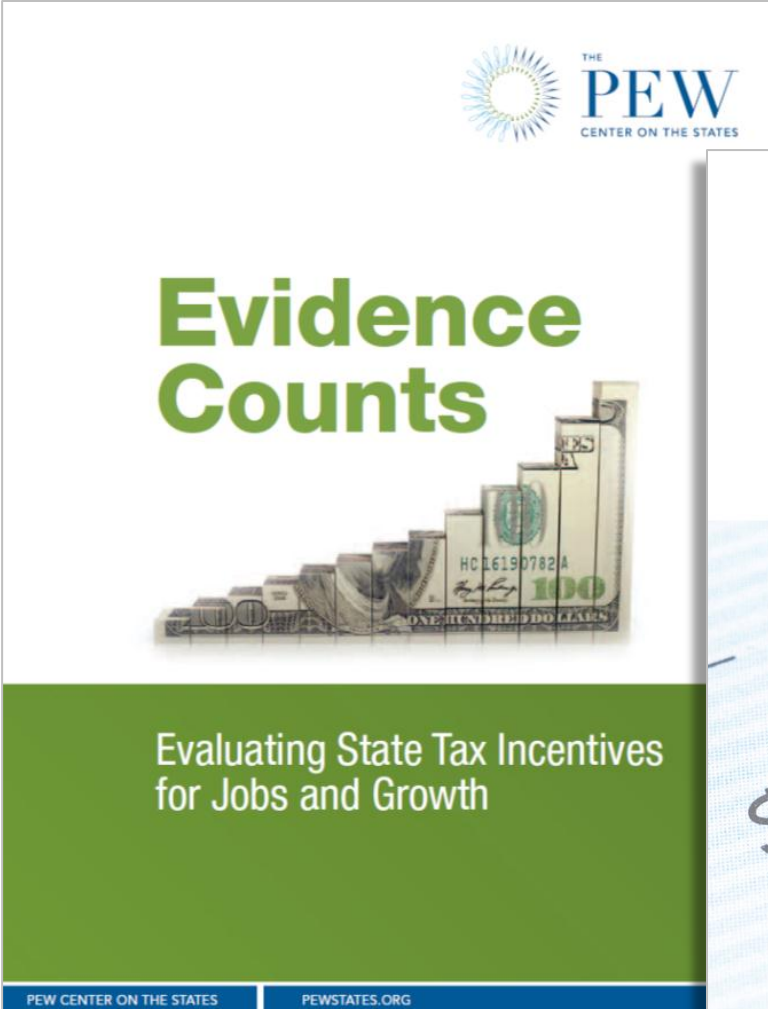


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# Creating Fiscally Sound and Economically Effective Tax incentives

Presentation to the D.C. Tax Revision Commission  
Bob Zahradnik, Director of Research  
February 4, 2013



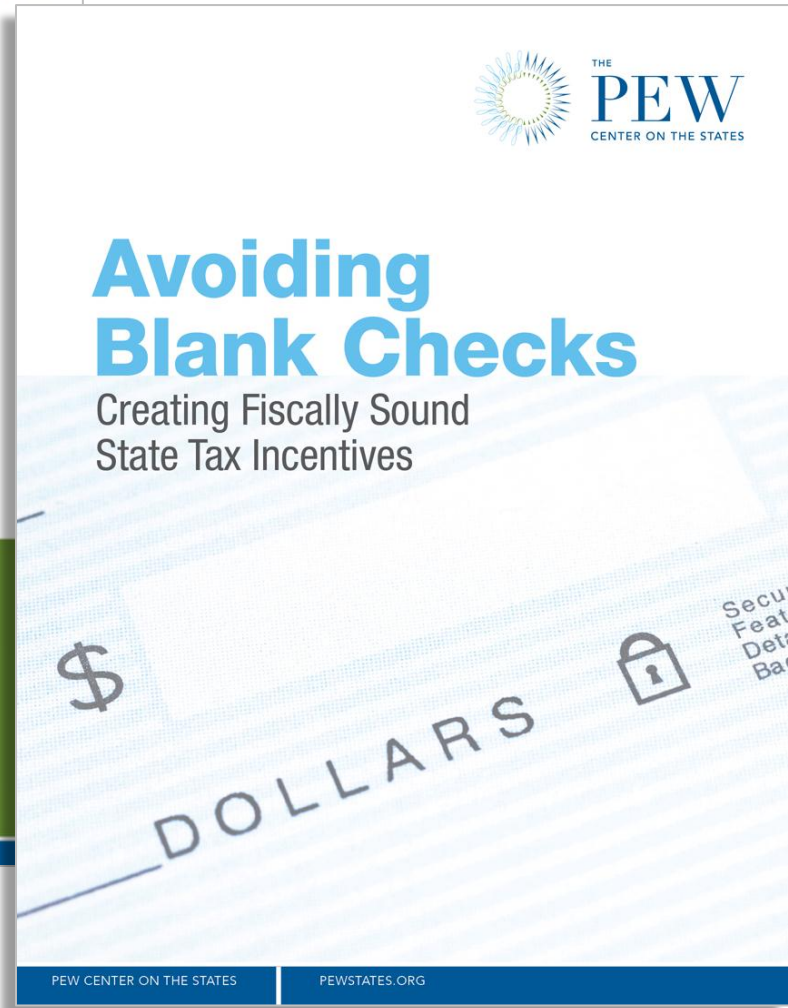
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## Evidence Counts



Evaluating State Tax Incentives for Jobs and Growth


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## Avoiding Blank Checks

Creating Fiscally Sound State Tax Incentives



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**Reliable  
cost  
estimates**



**Annual  
cost  
controls**

## GROWING FISCAL IMPACT

States' tax incentive costs can grow quickly and unexpectedly without any explicit choices by policy makers.



**New Mexico**  
High-Wage  
Jobs Tax  
Credit

FY2011  
**\$9.3M**

FY2012  
**\$48M**



**Louisiana**  
Severance tax  
exemption for  
horizontal  
drilling

FY2007  
**\$285K**

FY2010  
**\$239M**



**Hawaii**  
Renewable  
energy tax  
credits

FY2010  
**\$34M**

FY2013 (est.)  
**\$260M**

SOURCE: The Pew Charitable Trusts, 2012.



## **Measure economic impact**

Ask and answer the right questions  
using good data and analysis.

## “But for”

To what extent did tax incentives change businesses’ decisions, and how much did they reward what would have happened anyway?



## Displacement

To what extent did the incentive benefit some businesses or individuals at the expense of others?



## Opportunity Costs

What were the adverse economic impacts of the tax increases or spending cuts made to fund the incentive? Do the benefits of the incentive outweigh those impacts?







## **Draw clear conclusions**

Determine whether tax incentives are achieving the state's goals.



## **Include all major tax incentives**

Establish a strategic and ongoing schedule to review all tax incentives for economic development.



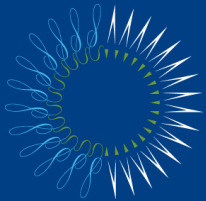
## **Inform policy choices**

Build evaluation of incentives into policy and budget deliberations to ensure lawmakers use the results.

# Potential Tax Incentive Reforms



Policy or Practice	District of Columbia Status
Careful Planning	OCFO produces Fiscal Impact Statement on proposed legislation. DC does not consistently cap tax incentives.
Evaluate All Incentives	None
Link Results to Decision-Making	None



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