Creating Fiscally Sound and Economically Effective Tax incentives

Presentation to the D.C. Tax Revision Commission
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Pew’s tax incentives research

Evidence Counts
Evaluating State Tax Incentives for Jobs and Growth

Avoiding Blank Checks
Creating Fiscally Sound State Tax Incentives

www.pewstates.org
Careful Planning

Reliable cost estimates + Annual cost controls
## Costs Can Grow Quickly

### Growing Fiscal Impact

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

<table>
<thead>
<tr>
<th>State</th>
<th>FY2011</th>
<th>FY2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Mexico</td>
<td>$9.3M</td>
<td>$48M</td>
</tr>
<tr>
<td>High-Wage Jobs Tax Credit</td>
<td></td>
<td></td>
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<tr>
<td>Louisiana</td>
<td>$285K</td>
<td>$239M</td>
</tr>
<tr>
<td>Severance tax exemption for horizontal drilling</td>
<td></td>
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</tr>
<tr>
<td>Hawaii</td>
<td>$34M</td>
<td>$260M</td>
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<tr>
<td>Renewable energy tax credits</td>
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</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Policy or Practice</th>
<th>District of Columbia Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Careful Planning</td>
<td>OCFO produces Fiscal Impact Statement on proposed legislation. DC does not consistently cap tax incentives.</td>
</tr>
<tr>
<td>Evaluate All Incentives</td>
<td>None</td>
</tr>
<tr>
<td>Link Results to Decision-Making</td>
<td>None</td>
</tr>
</tbody>
</table>