Strategies for improving economic development tax incentives

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Overview

- Introduction to incentive evaluation
- Attributes of a successful evaluation process
- Steps for designing effective tax incentives
With evaluations, states can...

- Identify programs that are working well, so that the state can invest in them with confidence
- Make subtle changes to incentives to increase their return on investment
- Repeal or replace ineffective or obsolete incentives
- Analyze whether incentives are serving the needs of businesses
- Have a more constructive conversation about incentives
The Changing Landscape of Incentive Evaluation – Pre-2013
The Changing Landscape of Incentive Evaluation – 2018
Scope of evaluation processes

- Tax and cash incentives
- Tax expenditures
- Tax incentives

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Key questions when designing a tax incentive evaluation plan

- What professional staff office should conduct the evaluations?
- What programs will be evaluated?
- How will we collect relevant data?
- How can we design a strategic review schedule?
- How will the results be connected to the policymaking process?
Key incentive review questions

- Is the program effectively targeted to achieve its intended goal?
- Is the program being administered efficiently?
- To what extent did the incentive change business behavior?
- What are the net results for the state economy?
- How does the incentive compare to alternative policies for achieving the same goals?
- Is the incentive a source of fiscal risk?
Evaluation success stories

- Alabama Historic Rehabilitation Tax Credit
- Minnesota Research Tax Credit
- Florida Enterprise Zone Program
Three questions to answer before creating new tax incentives

- Does the incentive have a clear and measurable goal?
- Is the incentive designed to meet the goal?
- How will we know if we are making progress toward the goal?
#1: Does the incentive have a clear and measurable goal? Goals should...

- Be placed in the context of existing incentives
- Be placed in the context of the state’s economic development strategy
- Explain the logical link between the tax incentive and the desired economic outcomes
#2: Is the incentive designed to meet the goal? Considerations include...

- Whether the overall impact to the economy is positive
- Fiscal protections
- Performance standards, monitoring, and enforcement
#3: How will we know if we are making progress toward the goal? Lawmakers can...

- Require that the incentive be examined regularly
- Ensure evaluators have data and other resources
- Establish legislative hearings on evaluations
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