A fact sheet from THE PEW CHARITABLE TRUSTS | Jan 2014

How to Gauge Progress Toward Goals

Evaluating State Tax Incentives

Tax incentive evaluations are most useful to state lawmakers when they help inform policy decisions. Such evaluations have done so by assessing whether incentives have achieved their purpose and comparing the results with other economic development strategies. The best evaluations also offer concrete ideas for improving an incentive's return on investment.

But many evaluations don't draw these kinds of conclusions, because lawmakers did not define specific, measurable goals for the programs when they created the incentives. It is difficult to conclude whether a program worked without knowing what it was intended to achieve.

In other cases, lawmakers have not given the agencies that are responsible for evaluations the legal authority to provide policy guidance, or they have not ensured that the agencies have the necessary information. Washington, Vermont, and Maryland have taken steps to address such obstacles to ensure that evaluations give policymakers the evidence they need to make better decisions. Specifically:

- Washington requires legislative proposals for new tax incentives to include plans for measuring whether goals have been achieved.
- Vermont is establishing goals for all of the state's tax incentives.
- A Maryland law requires that evidence from evaluations be translated into policy guidance for lawmakers.

Washington

In 2013, Washington state enacted a law designed to ensure that evaluations help lawmakers improve policy. The law requires a "performance statement" to accompany any bill proposing a tax incentive. The statement will identify what metrics the state should use to determine whether a program's goals have been met and what data evaluators need to produce these measurements.

The staff of Washington's Joint Legislative Audit and Review Committee already evaluates the state's tax incentives on a 10-year schedule. The performance statements are intended to offer the committee's analysts the guidance they need so that the evaluations will be able to conclude whether or not the programs succeeded.[1]

Vermont

A 2013 Vermont law takes a comprehensive approach to identifying the purpose of tax incentives, with the intention of assessing in future evaluations whether the goals have been achieved. Like several other states, proposals for tax incentives are now required to include a statement of purpose. Vermont's law also went a step further by setting up a process to identify the purposes of existing tax incentives.

After the law passed, legislative staff members drafted proposed goals for each of the state's existing tax incentives, using records to interpret lawmakers' intent when they created them. The Legislature will consider this year whether to formally adopt these goals.[2]

Maryland

When Maryland created a schedule for evaluating tax incentives in 2012, lawmakers made sure that the Legislature would receive direction on how to improve policy. Under the law, analysts in the Department of Legislative Services who conduct the evaluations use their research to conclude whether the programs have achieved their goals and whether more effective alternatives are available. With that evidence in hand, a special evaluation committee made up of legislators is responsible for recommending whether the incentives should be continued, changed, or ended. The committee converts these recommendations into legislation so that lawmakers can act on the findings.

Asking Policy-Relevant Questions

Under Maryland's 2012 tax incentive evaluation law, each analysis must answer specific questions about the program's goals and results, such as:

1. What was the purpose of the tax credit when it was established?
2. Is the original intent of the tax credit still appropriate?
3. Is the tax credit meeting its objectives?
4. Could the goals of the tax credit be more effectively carried out by some other means?
5. What is the cost of this tax credit to the state and local governments?

In the first year of evaluations under the law, analysts in the Department of Legislative Services included detailed recommendations in their reports on the One Maryland economic development tax credit and the Enterprise Zone tax credit, two incentives designed to help the state's economically distressed areas. Their proposals included changes designed to increase the economic effectiveness of the incentives, limit the programs' fiscal uncertainty, and improve the state's ability to measure the results of programs in the future.[3]

Endnotes

1 Engrossed Substitute Senate Bill 5882, State of Washington, 63rd Legislature, 2nd Special Session, S.B. 5882 (2013), http://apps.leg.wa.gov/documents/billdocs/2013-14/Pdf/Bills/Senate%20Passed%20Legislature/5882-S.PL.pdf; Joint Legislative Audit & Review Committee, "2013 Tax Preference Performance Reviews: Proposed Final Report," December 2013, http://www.leg.wa.gov/JLARC/AuditAndStudyReports/2013/Documents/2013TaxPreferenceReviewsProposedFinalReport.pdf.

2 An Act Relating to Technical Tax Changes, General Assembly of the State of Vermont, H. 295 (2013), http://www.leg.state.vt.us/docs/2014/bills/Passed/H-295C.pdf.

3 Tax Credit Evaluation Act of 2012, Chapters 568 and 569, Maryland General Assembly, http://mgaleg.maryland.gov/2012rs/chapters_noln/Ch_568_sb0739T.pdf; Maryland Department of Legislative Services, "Evaluation of the Enterprise Zone Grant" (November 2013), http://mgaleg.maryland.gov/Pubs/BudgetFiscal/2013-Evaluation-Enterprise-Zone-Tax-Credit-DRAFT.pdf; Maryland Department of Legislative Services, "Evaluation of the One Maryland Economic Development Tax Credit" (October 2013), http://mgaleg.maryland.gov/Pubs/BudgetFiscal/2013-Evaluation-One-Maryland-Economic-Development-Tax-Credit-DRAFT.pdf.

Contact: Jeff Chapman, manager, economic development tax incentives project, The Pew Charitable Trusts
Email: jchapman@pewtrusts.org **Phone:** 202-540-6567 **Project website:** pewstates.org/taxincentives