Vermont Legislative Council

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MEMORANDUM

To: Senate Committee on Finance

From: Peter Griffin

Date: February 11, 2015

Subject: Evaluating tax expenditures in other states

This memorandum briefly summarizes the steps taken in selected other states to evaluate the effectiveness of tax expenditures.

Washington State:

Washington has a standing committee that provides auditing functions for the Legislature. The Joint Legislative Audit and Review Committee (JLARC) is a joint Committee made up of an equal number of Democrats and Republicans, and an equal number from each legislative body. The Committee has a nonpartisan staff that is headed by a legislative auditor. The Legislative Auditor and its nonpartisan staff conduct performance audits, program evaluations, sunset reviews, and other analyses. Assignments to conduct studies are made by the Legislature and the Committee itself.

Washington has also created a separate body to evaluate tax expenditures, using the staff from the JLARC. The Citizen's Commission for Performance Measurements of Tax Preferences has seven members: two from the House, two from the Senate, and one appointed by the Governor. There are also two nonvoting members, the State Auditor and the Chair of the Joint Legislative Audit and Review Committee.

The Commission has established a ten-year schedule for reviewing the performance of individual tax preferences. For each tax preference, JLARC staff evaluates whether the public policy objective is being met and provides recommendations to continue, modify, or terminate the preference.

In conducting its review, Washington statutes require the JLARC staff to consider the following questions:

Public Policy Objectives:

1. What are the public policy objectives that provide a justification for the tax preference? Is there any documentation on the purpose or intent of the tax preference?

2. What evidence exists to show that the tax preference has contributed to the achievement of any of these public policy objectives?
3. To what extent will continuation of the tax preference contribute to these public policy objectives?
4. If the public policy objectives are not being fulfilled, what is the feasibility of modifying the tax preference for adjustment of the tax benefits?

Beneficiaries:
5. Who are the entities whose state tax liabilities are directly affected by the tax preference? To what extent is the tax preference providing benefits to entities other than those the Legislature intended?

Revenue and Economic Impacts:
6. What are the past and future tax revenue and economic impacts of the tax preference to the taxpayer and to the government if it is continued? (This includes an analysis of the general effects of the tax preference on the overall state economy, including the effects on consumption and expenditures of persons and businesses within the state.)
7. If the tax preference were to be terminated, what would be the negative effects on the taxpayers who currently benefit from the tax preference and the extent to which the resulting higher taxes would have an effect on employment and the economy?
8. If the tax preference were to be terminated, what would be the effect on the distribution of liability for payment of state taxes?
9. For those preferences enacted for economic development purposes, what are the economic impacts of the tax preference compared to the economic impact of government activities funded by the tax?

Other States:
10. Do other states have a similar tax preference and what potential public policy benefits might be gained by incorporating a corresponding provision in Washington?

JLARC must report its findings and recommendations for scheduled tax preferences to the Commission on or before August 30th of each year. The Commission then reviews and comments on the JLARC report. The final JLARC reports are submitted to House and Senate fiscal committees for a joint hearing.

Connecticut

The Governor, by executive order, established a task force in 2012 to evaluate the effectiveness of certain business tax credits and other expenditures. The Task Force is composed of the heads of four executive agencies, and three private citizens from the business community.

Using executive staff, the task force is required to conduct a cost/benefit analysis of various business tax expenditures. Specifically, the task force is to "evaluate the cost, benefit, efficiency, effectiveness, and measurable performance of the current business tax credit structure with respect to economic development, business retention and growth, and employment retention and growth."

The task force issued a report in late 2012 that included a host of specific recommendations for legislative and executive action.

New Hampshire

In 2014, the New Hampshire Legislature established a standing Joint Committee for Tax Expenditure Review. The Committee is made up of two senators and three representatives.

The Committee, using legislative staff, is charged with developing a report that is similar to Vermont's biennial tax expenditure report. But in addition, the Committee is responsible for determining the goals of each tax expenditure, and establishing general criteria for evaluating the effectiveness of tax expenditures.

Nebraska

Nebraska contracted with the Pew Charitable Trusts for a report making specific recommendations about how Nebraska could evaluate the effectiveness of its tax expenditures. The report, published in 2014, covers how Nebraska could develop an evaluation schedule, the types of metrics it could use, the types of data systems that would be required, and the pros and cons of using economic models for evaluation purposes.