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### **Re: Legislative Auditor's Report on Guidance for Tax Preference Performance Statements**

I am pleased to submit to you this report on tax preference performance statements. In legislation passed in 2013 (ESSB 5882), the Legislature established new requirements to improve the clarity of tax preference policy purposes and performance expectations. The Legislature also directed me to prepare this report, with the goal of recommending appropriate data and metrics to improve evaluations of new tax preferences.

The report contains three parts:

1. A **conceptual framework** to help develop the purpose, data, and metrics for tax preferences. This framework is built on the concept of a **"logic chain."** A logic chain is an established performance management tool that seeks to identify, in concept, the sequence of steps that would logically link a tax preference to its ultimate policy purpose.
2. A **bill drafting guide** to help put the concepts and expectations developed from a logic chain into statutory language for a tax preference performance statement.
3. Eight **additional observations** for legislators to consider when establishing a new tax preference.

In preparing this report, I drew upon the many experiences my staff have accumulated while conducting evaluations of 180 separate tax preferences over the last seven years. I consulted with economists and with experts who have researched practices used by other states. I also sought advice from a task force of representatives from the Department of Revenue, the Office of Financial Management, the State Treasurer, and the Association of Washington Business. The task force met three times between August and October this year, and task force members provided invaluable insights into many administrative and policy issues. However, the report itself solely reflects my views.

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Finally, I would like to point out that both the Legislative Auditor and the Department of Revenue were separately tasked in ESSB 5882 with recommending ways to improve information for evaluating tax preferences. This report recommends ways to improve the information to evaluate new tax preferences established in the future. A similar but different challenge is addressed in a separate report prepared by the Department of Revenue: how to improve information for tax preferences that already exist, specifically those where statute requires taxpayers to submit an accountability report or survey. Our two offices have worked together to ensure the reports complement one another. Please contact the Department of Revenue to obtain a copy of their report's recommendations to revise existing taxpayer accountability reports and surveys.

I hope you find this report helpful as the Legislature continues its efforts to improve evaluations of the effectiveness of tax preferences. If you have any questions or would like to discuss this report in more detail, please do not hesitate to contact me.

Sincerely,



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**Legislative Auditor Report to the Legislature:**

**Guidance for Drafting  
Performance Statements in  
Tax Preference Legislation**

**January 2014**



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# Guidance for Drafting Performance Statements in Tax Preference Legislation

## What Is This Report About?

This report provides guidance and recommendations for drafting performance statements in tax preference legislation. It is intended to:

- Improve the clarity and transparency of tax preference policy purposes for legislators, stakeholders, the public, and evaluators; and
- Improve the likelihood that legislators, stakeholders, the public, and evaluators can conclude whether policy purposes have been achieved.

The report contains three parts:

1. A **conceptual framework** to help develop the purpose, data, and metrics for tax preferences. This framework is built on the concept of a “**logic chain**.” A logic chain is an established performance management tool that seeks to identify, in concept, the sequence of steps that would logically link a tax preference to its ultimate policy purpose.
2. A **bill drafting guide** to help put the concepts and expectations developed from a logic chain into statutory language for a tax preference performance statement.
3. **Additional observations** that legislators should consider when establishing a new tax preference.

## Why a Report?

The Washington State Legislature passed legislation in 2013 (ESSB 5882), which set requirements to include **performance statements** in legislation that establishes, expands, or extends a tax preference. A performance statement must be included within a tax preference bill and must meet certain statutory requirements. The 2013 legislation directed the Legislative Auditor to provide recommendations on data and metrics to include in performance statements for improving evaluations of tax preferences. This report is provided in response to that directive.

In preparing this report, the Legislative Auditor reflected upon the efforts of the staff of the Joint Legislative Audit and Review Committee (JLARC), who have evaluated 180 tax preferences over the last seven years. The Legislative Auditor also benefitted from the advice of a task force of representatives from the Office of Financial Management (OFM), Department of Revenue (DOR), State Treasurer, and Association of Washington Business. In addition, the Legislative Auditor consulted with economists and experts who have researched practices used by other states. However, this report itself solely reflects the views of the Legislative Auditor.

## Conceptual Framework – the Logic Chain

Tax preferences vary widely in their objectives. Experience shows that providing a one-size-fits-all measure of effectiveness will not work. The report recommends a process (the use of a logic chain) to identify preference-specific data and metrics: this will facilitate preference performance evaluation.

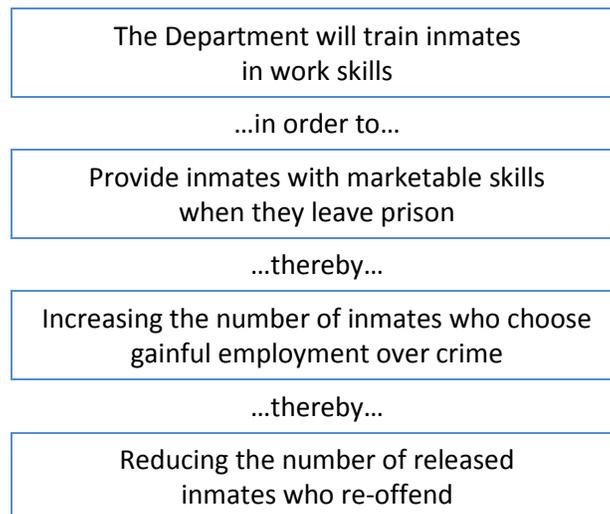
A clear statement by policy makers of the public policy purpose of a preference is key to effective performance evaluation. The first and necessary step is for policy makers to state the public policy purpose and how the tax preference is intended to achieve it. To accomplish this, the Legislative Auditor recommends using the concept of a **logic chain** before drafting a performance statement for a particular tax preference.

Establishing a logic chain BEFORE drafting a statutory tax preference performance statement is valuable because it:

- Transparently identifies for all parties what the tax preference is intended to achieve;
- Provides a vehicle for legislators to agree on what assumptions and outcomes would need to be achieved to determine if a preference will be successful, before it is enacted;
- Makes clear, for both taxpayers and legislators, what data is needed; and
- Provides an opportunity to assess whether a change in tax policy is the most appropriate tool to achieve the intended policy purpose. Other alternatives to modifying the tax system include direct expenditure programs or regulatory approaches.

A logic chain is an established performance management tool that identifies, in concept, the sequence of steps or conditions a program should follow in order to achieve an ultimate policy outcome. Logic chains are commonly used for performance management purposes, such as developing a strategic plan, identifying performance measures, or establishing a model to evaluate a program.

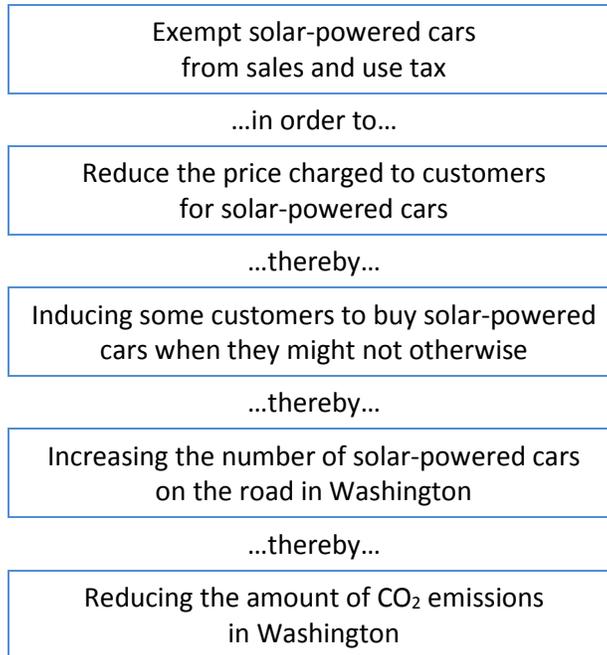
For example, a correctional agency seeking to reduce offender recidivism rates might propose a program to train inmates in work skills. The relationship between the proposed policy (work training) and the intended outcome (reduced re-offender rates) might not be obvious for policymakers unfamiliar with this topic. In this case, a hypothetical logic chain might fill in the “missing links” between the policy and the outcome:



With the logic chain model in place, policymakers and evaluators have a clear understanding of how a program intends to get results.

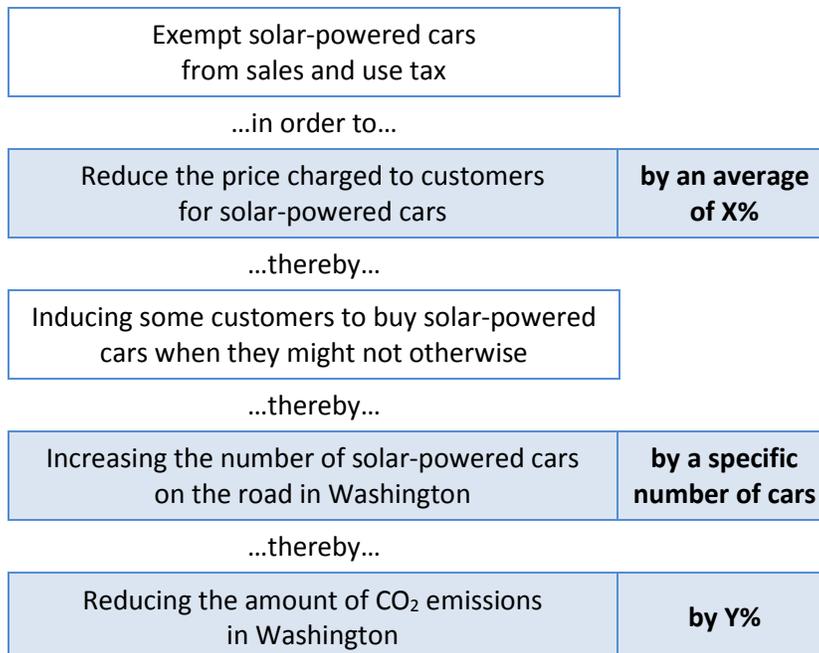
## Applying the Logic Chain to Tax Preferences

The logic chain concept can be applied to tax preferences as well. For example, if a hypothetical tax preference for solar-powered cars was proposed, and the purpose was to ultimately reduce carbon dioxide emissions, a logic chain could look like:



Once a logic chain is established, it becomes clear what the tax preference is intended to accomplish and how the Legislature expects it to do so.

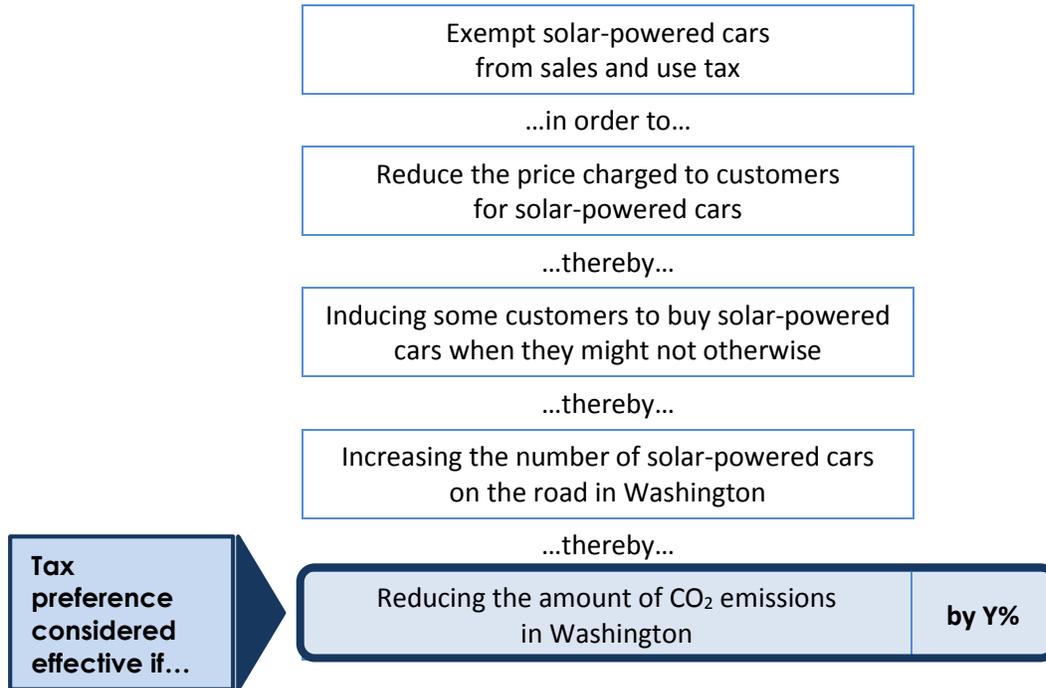
Having established the logic chain, the next step is to identify specific data measurements that might be assumed for any given step in the chain. For example, building upon the hypothetical example above for solar powered cars, assumptions for data measures could be:



The next step is to determine how to evaluate the effectiveness of the tax preference. There are several options available to the Legislature regarding what should be measured in order to determine whether a tax preference is “effective” in meeting the policy purpose:

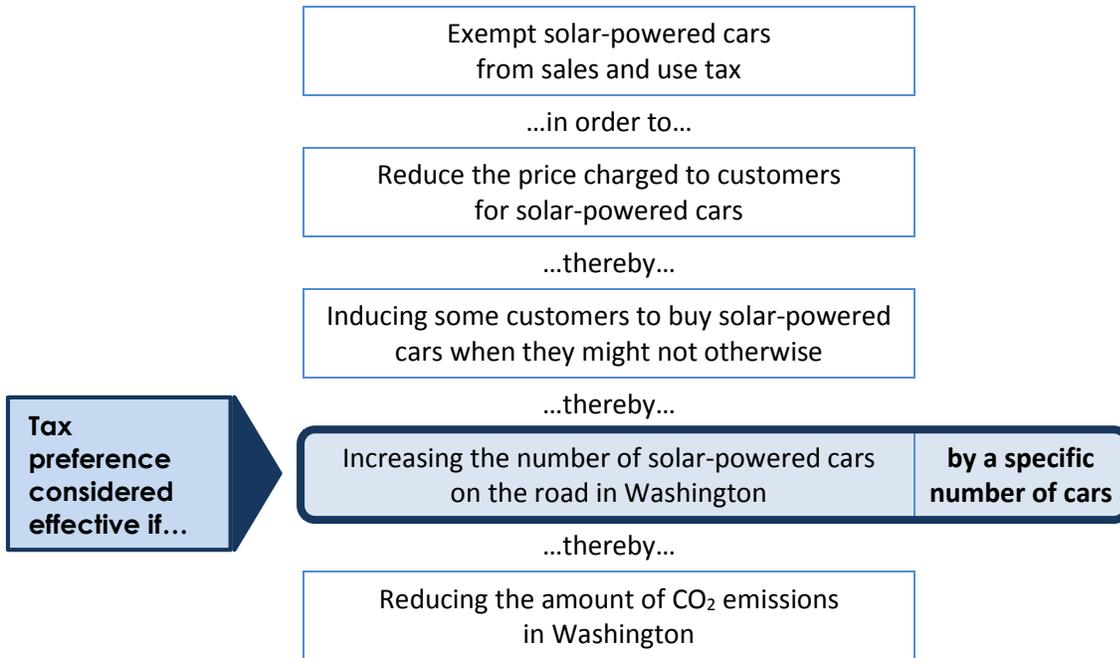
**OPTION: Use the Ultimate Public Policy Purpose**

Building upon the hypothetical example above, the Legislature could assign a specific target level of CO<sub>2</sub> emissions to measure. Adding this specific data measure to the logic chain might be visualized like this:



**OPTION: Use an Intermediary Step in the Logic Chain**

The Legislature could instead decide to evaluate effectiveness based on a target for one of the intermediate steps in the logic chain. It could then legislatively presume that the tax preference is effective if that target is met. For example, the Legislature could decide to measure the increase in the number of solar-powered cars instead of measuring CO<sub>2</sub> emissions. On the logic chain, it might be visualized like this:



**OPTION: Use a Target Not Directly Related to the Ultimate Policy Purpose or the Logic Chain**

The Legislature could also legislatively presume that the tax preference is effective if it meets some target that is in addition to the logic chain. For example, the Legislature might determine that the tax preference is effective if its actual fiscal impact does not exceed the estimated impact in the fiscal note.

Nothing precludes the Legislature from identifying more than one way to measure effectiveness, using a combination of these options.

Finally, with a logic chain established and measurable targets identified, it is necessary to determine whether a source of data is available to measure the targets. If a data source does not exist, then the Legislature may need to establish additional requirements for reporting, monitoring, or collecting such data. Using the logic chain example, a data source question would be: Does someone currently measure CO<sub>2</sub> emissions in the state?

## Bill Drafting Guide – Putting the Logic Chain Concept into Statutory Language

The Legislative Auditor recommends the following steps to construct a tax preference performance statement from a conceptual logic chain:

1. Identify the ultimate policy purpose for the tax preference
2. Develop a logic chain for the tax preference that identifies the sequence of steps that logically link the tax preference to its ultimate policy purpose
3. Populate relevant steps in the logic chain with specific data measures and assumptions
  - a. What type of data is necessary for each relevant step?
  - b. What is the assumed measurement or condition for that step?
4. Identify what specific measures should be used to determine whether the preference is effective
  - a. What will policy makers expect up-front for determining success?
  - b. Is the measure related to the ultimate policy purpose, an intermediary step in the logic chain, or some other condition?
  - c. What is the specific target that must be achieved by that step (or other condition)?
5. Identify what specific data should be used to measure those targets
  - a. What type of data will be required?
  - b. Is the data currently available, or does the Legislature need to establish new data collection requirements?

After these steps are mapped out, the bill drafting guide included in this report will identify how to place the elements from the logic chain into statutory language. The bill drafting guide was developed with the goal of ensuring that all the elements of a tax preference performance statement required under ESSB 5882 are specifically addressed.

If tax preference bills are drafted using this approach and drafting guide, it will improve the Legislative Auditor's ability to determine whether the bill meets the performance statement requirements of ESSB 5882.

The tax preference bill drafting guide is included in Appendix A to this report.

## Additional Observations – Consider These Issues When Establishing a Tax Preference

To improve the ability to evaluate the effectiveness of tax preferences, the Legislative Auditor identified eight issues for legislators to consider when establishing a tax preference. In addition, a **recommendation** is included related to improving data related to employment and jobs.

### 1. Key to ensuring clarity in evaluation: choose between evaluating effectiveness based on determining causality or achieving targets

Determining whether the behavior of private individuals and organizations was caused by a tax preference is an extremely complicated exercise.

It is much more likely that an evaluation will have a conclusive answer to whether a target was achieved than an answer to whether there was a causal relationship between a tax preference and a target.

Measuring a change in a certain factor, such as employment, may reveal little about what caused this change. A myriad of factors can play into why decisions are made by individuals and organizations. Isolating whether or how much a tax preference influenced these decisions, in an objective and evidence-based manner, is rarely possible. This is often referred to as the “but for” dilemma.

Statistical models can sometimes yield insight into how much a tax preference influenced behavior of a beneficiary. Successfully conducting this type of analysis of behavior is rare: often the number of individuals or firms is too small to attempt such an analysis, with too little variation in the data for statistical comparisons. In addition, controlled experiments with tax preferences are not practical. There will also be limited access to data on all the factors and circumstances that influence outcomes.

JLARC staff must make their conclusions consistent with government performance audit standards. Those standards require auditors’ conclusions to be objective, independent of bias, and evidence-based. Due to the difficulties discussed above, if JLARC staff are asked whether any given tax preference had a causal relationship on behavior under our audit standards, more often than not our answer will be inconclusive.

As an alternative to seeking a causal analysis, the Legislature can ask whether a certain outcome met a target level. Then the Legislature could explicitly instruct the JLARC staff to find that the tax preference was effective if that target level was achieved.

The consequence of a conclusive versus inconclusive evaluation has a bearing on the type of audit recommendation the Legislature can expect from the Legislative Auditor.

Conclusive evaluations will more likely be accompanied by unambiguous audit recommendations for a tax preference to either “continue” or “expire.” Inconclusive evaluations will tend to be accompanied by an audit recommendation to keep the current law in place (such as, “allow to expire”), or to “review and clarify” future expectations if there is no expiration date in law.

The bill drafting guide acknowledges the choice between determining causality and achieving targets when deciding how to measure the effectiveness of a new tax preference. The drafting guide provides direction on what language can be used to adopt either option.

If the legislation does not use the drafting guide’s suggested language, it will be difficult for JLARC staff to determine the Legislature’s intent regarding causality. In such cases, JLARC staff will generally assume that the Legislature intended the evaluation to identify a causal relationship between the tax preference and the desired measurement of effectiveness. As noted above, attempts to analyze causal relationships may often yield inconclusive answers.

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## **2. For metrics specific to preferences intended to “create or retain jobs,” consider using unemployment insurance records to measure jobs**

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The 2013 legislation requires tax preferences to categorize the purpose of the proposed preference using six options and to specify the data sources for measuring effectiveness. One of the six categories is “create or retain jobs.” For this category, the Legislature should consider specifying that the evaluators use data from unemployment insurance records.

Data from unemployment insurance records includes employment and wage information. The information is already collected from businesses and includes most employees in the state. Since it is already collected, using this data source does not impose an additional reporting requirement on businesses.

Since the data is used for managing the state-regulated unemployment insurance system, there are controls that help ensure the data is accurate. The state monitors the system to ensure employees are protected, and businesses monitor it to ensure their taxes are calculated correctly. These controls help balance the possibility of bias in either overstating or understating employment.

While unemployment insurance data is confidential, JLARC staff can access it for evaluation purposes. However, JLARC staff cannot disclose information from their analyses in a way that would identify individuals or employment at specific firms.

### **Recommendation:**

While unemployment insurance data is generally reliable, it is not maintained for the purpose of interfacing with other taxpayer data. Improvements are needed to more accurately link the DOR's taxpayer data with the Employment Security Department's (ESD) unemployment insurance records.

The Legislative Auditor recommends a staff workgroup be convened to explore how this information could be aligned and improved for the purpose of tax preference reviews, with representatives from the ESD, the DOR, the OFM, JLARC staff, and other legislative staff. The workgroup should report back to the Legislature on whether such improvements would require additional resources or statutory changes.

In addition, a practice used in other states is to compare the number of jobs that policy makers expect from a tax preference to alternative uses of the same level of resources (e.g., a comparably sized statewide reduction in business taxes or a comparably sized increase in state government spending). In these cases, statewide economic models, if available and valid, could be used to simulate alternative job impacts of a general tax decrease or a state government spending increase.

JLARC staff are currently exploring the feasibility and cost of using statewide economic models as a pilot in our 2014 tax preference reviews, and consulting with the OFM on options. The JLARC staff will provide the Legislature with an update on this pilot when our 2014 tax preference report is completed in July 2014.

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### **3. For metrics for preferences intended to “improve industry competitiveness,” consider specifying either (a) measuring changes in the number of industry firms in the state, or (b) measuring our state’s share of the industry.**

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One of the six categories of purposes is “improve industry competitiveness.” Business stakeholders noted there is no standardized way to measure an improvement in industry competitiveness, since the nature of competition varies for unique industries, issues, and markets.

However, there are two concepts that legislators can consider: whether firms may have proven to be competitive by surviving or increasing in number, or whether our state’s share of an industry has been sustained or improved.

The first measure (existence of firms) can be as simple in concept as counting the number of firms in an industry. While this sounds straightforward, in practice there are some important issues to consider – such as whether the number of firms changed due to closures, divestitures or mergers. These concepts should be explored in an evaluation. Nonetheless, this measure can provide insight into competitiveness, especially in niche areas that involve few companies.

For the second option, “location quotients” are an approach used by economists to measure whether a particular geographic region, such as a state, has a proportionally larger or smaller share of an industry than other areas. One common method for comparing industry share across each of the states is to use industry employment location quotients published by the federal Bureau of Labor Statistics. A limitation to this method is that the data may not be available for smaller industries or for comparisons to regions outside of the United States.

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**4. For evaluation purposes, it is essential for evaluators to have information that identifies which taxpayers received a specific tax preference and how much they claimed. If additional information is needed from taxpayers, the Legislature needs to ensure it clearly identifies what data is required and ensure a mechanism is available to report it.**

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ESSB 5882 provided a mechanism for obtaining information on the amount claimed for new tax preferences by requiring taxpayers to directly report this amount on their tax forms.

If additional data is needed for evaluating whether a preference achieved its policy purpose, first consider whether there are currently available data sources that do not require additional taxpayer reporting. A list of potential data sources, identified by task force members, is included in Appendix B.

If additional data is needed from taxpayers, it could be collected from them in an addendum to taxpayers’ tax forms.

Using tax form addenda for new preferences may be preferable to the use of the existing “accountability reports” (RCW 82.32.534) or “accountability surveys” (RCW 82.32.585) currently required for some existing tax preferences. This is because the need for addenda could be automatically flagged for on-line tax filers to improve compliance. Further, it could be customized for each tax preference to focus only on the unique data needed for that preference. This would reduce the burden on taxpayers by dispensing with the collection of unnecessary or unused data that is currently collected from all taxpayers required to use the existing accountability reports and accountability surveys.

NOTE: Adding new tax form addenda would require resources for system programming changes at the DOR.

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**5. If the Legislature wants periodic monitoring of tax preferences before they are reviewed by JLARC staff, then the Legislature needs to identify the parties responsible for this monitoring.**

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Most preferences are only evaluated by JLARC staff once every ten years. Other preferences, especially smaller ones, may be subject to review by the Citizen Commission for Performance Measurement of Tax Preferences, but not subject to a full review by JLARC staff.

If the Legislature wants information about a preference more frequently (e.g., number of claimants, data required to be reported annually by taxpayers, other data related to a tax preference, etc.), it will need to assign this monitoring responsibility to a state agency. Depending upon the number of preferences monitored, these responsibilities may require additional resources in the long term.

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**6. The Legislature specified in ESSB 5882 that the amount claimed by a taxpayer for each new preference is subject to public disclosure. Whether other information related to evaluating a tax preference (e.g., the number of employees at each firm) should be disclosed for individual taxpayers remains a policy choice for the Legislature.**

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Because JLARC staff have the statutory power to obtain confidential taxpayer information, public disclosure isn't typically necessary for JLARC staff to conduct evaluations. However, due to taxpayer confidentiality rules, it may not be possible for JLARC staff to publish information specific to a taxpayer. This is the case when the number of taxpayers is small or the preference is highly concentrated in one firm.

Disclosure practices in other states vary – some information on other states' practices is included in Appendix C.

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**7. Policy makers have a choice as to whether they expect performance to be measured on an individual taxpayer basis, or across an entire industry or class of organizations.**

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If a hypothetical tax preference states that a ten percent growth in employment is expected, does the Legislature expect that *every* firm should grow by at least ten percent, or that the *industry as a whole* should grow by at least ten percent (i.e., some firms might grow more and some less)?

There is no wrong or right approach to this – it is a policy choice for the Legislature. But if legislators want performance on an individual taxpayer basis, they should make that expectation clear when drafting the tax preference performance statement.

If the legislation is silent on this expectation, JLARC staff will assume the Legislature wants the evaluation to be based on industry-wide averages.

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**8. Training on the use of the bill drafting guide will be critical to ensuring it is used in the legislative process.**

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Stakeholders and legislative staff will require training in using the drafting guidelines.

# Appendix A: Tax Preference Performance Statements Drafting Guide

## Introduction

In 2013, the Legislature enacted ESSB 5882, which added transparency and accountability requirements for all new tax preferences. Tax preferences are defined as:

- Exemptions, exclusions, or deductions from the base of a state tax;
- Credits against a state tax;
- Deferrals of a state tax; or
- Preferential state tax rates.

Starting in August 2013, all bills that enact, extend, or expand a tax preference must include a performance statement. If a bill does not include a complete performance statement, then it is presumed that the Legislature intended the tax preference to be temporary.

The Legislature directed the Legislative Auditor to report on what should be included in a tax preference performance statement in order to comply with the requirements in ESSB 5882. This document will provide guidance on how to draft a complete performance statement.

In general, a performance statement should:

- Be included in the same bill as the tax preference to which it relates;
- Be contained in its own separate uncodified section (similar to an intent section);
- Not be included in the same section of the bill as legislative findings, other statements of legislative intent, or the operative language of the tax preference; and
- Reference, if necessary, other sections of the bill or supplementary documents that provide more detail.

The performance statement should have a preamble that clearly identifies it as a performance statement, as well as clearly identifying the tax preference to which it relates. The preamble should make clear that the performance statement is not intended to create a cause of action or determine eligibility for preferential tax treatment.

### **Suggested Language**

- “This section is the tax preference performance statement for the tax preference contained in [reference to RCW or bill section]. This performance statement is only intended to be used for subsequent evaluation of the tax preference. It is not intended to create a private right of action by any party or be used to determine eligibility for preferential tax treatment.”

In addition to the preamble, a complete performance statement has four parts:

1. **General Category**
2. **Legislative Purpose**
3. **Measurement of Effectiveness**
4. **Data Source**

Each of these four parts should have its own separate subsection in order to clearly distinguish one from the other. The remainder of this document will provide guidance on drafting these four parts, as well as provide six hypothetical examples of six complete performance statements.

## Part 1: General Category

RCW 82.32.808(2) requires a performance statement to categorize the purpose of a new tax preference under one or more of a list of six choices. The performance statement must explicitly reference which subsections in RCW 82.32.808(2) the new tax preference falls into. The six choices are:

- a. To induce certain designated behavior by taxpayers;
- b. To improve industry competitiveness;
- c. To create or retain jobs;
- d. To reduce structural inefficiencies in the tax structure;
- e. To provide tax relief for certain businesses or individuals; or
- f. A general purpose not identified above, in which case a custom description is necessary.

### Suggested Language

- “(1) The Legislature categorizes this tax preference as one intended to **[select one or more of the category descriptions]**, as indicated in RCW 82.32.808(2)**[select (a) through (f) as appropriate]**.”

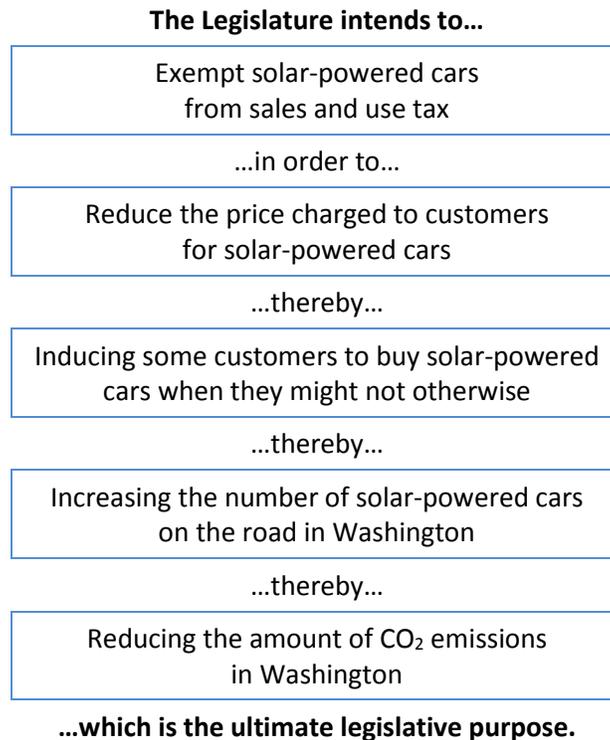
### Examples

- “(1) The Legislature categorizes this tax preference as one intended to **induce certain designated behavior by taxpayers**, as indicated in RCW 82.32.808(2)(a).”
- “(1) The Legislature categorizes this tax preference as one intended to **improve industry competitiveness and create or retain jobs**, as indicated in RCW 82.32.808(2)(b) and (c).”
- “(1) The Legislature categorizes this tax preference as one intended to **bring the tax code into compliance with federal law**, as indicated in RCW 82.32.808(2)(f).”

## Part 2: Legislative Purpose

RCW 82.32.808(3) requires a performance statement to include detailed information regarding the legislative purpose of the new tax preference. The performance statement should indicate the ultimate public policy objective of the preference, as well as a description of how the Legislature expects the preference to bring about that objective. To accomplish this, it may be helpful to use a “logic chain,” which is an established performance management tool that identifies, in concept, the sequence of steps or conditions a program should follow in order to achieve an ultimate policy outcome. See the Legislative Auditor’s report on data and metrics for more details on the concept of logic chains.

For example, if a hypothetical tax preference exempted solar-powered cars from the sales and use tax, and the ultimate legislative purpose is to reduce CO<sub>2</sub> emission in Washington, then a logic chain might be visualized like this:



The number of steps in the logic chain will depend on how closely the tax preference is related to the ultimate purpose. Some simple tax preferences may only have a single step; for example, any tax preference will accomplish the purpose of providing tax relief without any intermediary steps. More indirect tax preferences, on the other hand, may have several intermediary steps (e.g., when the purpose is to induce a certain behavior indirectly by altering economic incentives).

To the extent practicable, each step of this logic chain should be included in the performance statement. Short logic chains might be contained in a single sentence, while longer chains might require subsections to make each step clear.

### **Suggested Language**

*The legislative purpose could be drafted as a single paragraph:*

- “(2) It is the Legislature’s specific public policy objective to **[insert the ultimate purpose]**. It is the Legislature’s intent to **[describe what the tax preference does in the tax code]**, in order to **[insert intermediary steps as necessary]**, thereby **[insert the ultimate purpose]**.”

*Alternatively, for more complex logic chains, the legislative purpose could be drafted with subsections to clearly identify each intermediary step:*

- “(2) It is the Legislature’s specific public policy objective to **[insert the ultimate purpose]**. It is the Legislature’s intent to **[describe what the tax preference does in the tax code]**, in order to:
  - (a) **[insert intermediary step]**;
  - (b) Thereby **[insert other intermediary steps as necessary]**;
  - ...
  - (n) Thereby **[insert the ultimate purpose]**.”

### Examples

- “(2) It is the Legislature’s specific public policy objective to **reduce the amount of carbon dioxide emissions in Washington**. It is the Legislature’s intent to **exempt solar-powered cars from sales and use tax**, in order to **reduce the price charged to customers for solar-powered cars**, thereby **inducing some customers to buy solar-powered cars when they might not otherwise**, thereby **increasing the number of solar-powered cars on the road in Washington**, thereby **reducing the amount of carbon dioxide emissions in Washington**.
- “(2) It is the Legislature’s specific public policy objective to **reduce the amount of carbon dioxide emissions in Washington**. It is the Legislature’s intent to **exempt solar-powered cars from sales and use tax**, in order to:
  - (a) **Reduce the price charged to customers for solar-powered cars**;
  - (b) Thereby **inducing customers to buy solar-powered cars when they might not otherwise**;
  - (c) Thereby **increasing the number of solar-powered cars on the road in Washington**;
  - (d) Thereby **reducing the amount of carbon dioxide emissions in Washington**.”

## Part 3: Measurements of Effectiveness

RCW 82.32.808(4) requires performance statements to specify clear, relevant, and ascertainable metrics that allow JLARC staff to measure the effectiveness of the tax preference. Identifying how the Legislature intends to measure effectiveness is important, since statute now provides that all new tax preferences will have an expiration date (see RCW 82.32.805). Without sufficient evidence that the Legislature intended to extend the tax preference, the Legislative Auditor will likely recommend the preference be allowed to expire. Therefore, this part of the performance statement should explicitly identify what *conditions* the Legislature considers to be sufficient in order to extend the expiration date of the tax preference.

Please remember that these conditions must be something that JLARC can *measure*. For example, a measurable condition could include a specific number of jobs in an industry, a specific percentage increase in average wages, or a specific reduction in fuel prices.

In order for JLARC to measure the condition, the condition must also have *clear and specific targets*. For example, “an increase in family-wage jobs” is neither clear nor specific. To make this a measurable condition, the performance statement would need to indicate *how much* of an increase is desired and also *define* what “family-wage” means. An example of a more clear

and specific condition might be “an average increase in family-wage jobs by 10 percent among companies taking the tax preference, where ‘family-wage’ is defined as above the median household income in Washington.”

Depending on how the Legislature intends to determine effectiveness, measurable conditions might be based on:

1. The ultimate public policy objective of the tax preference (e.g., whether there has been a specific reduction in CO<sub>2</sub> emissions, to use the example in Part 2 of this guide); or
2. Some intermediary step in the logic chain explaining the legislative purpose (e.g., whether there has been a specific increase in the number of solar-powered cars); or
3. Factors unrelated to the policy objective (e.g., whether the actual cost of the preference has been less than the estimated cost in the fiscal note).

NOTE: Use caution when including **causal language** when describing the measurable condition. Even with sufficient data and rigorous analysis, it is often not possible to conclude whether a tax preference actually **caused** a particular condition. In cases where the condition requires a causal relationship that cannot be determined, the Legislative Auditor would likely recommend that the tax preference expire. For example, whether “employment increased by 15 percent” (achieving a target) is easier to determine than whether “the tax preference increased employment by 15 percent” (determining causality). The former only requires a comparison of current employment to prior employment; the latter requires an econometric analysis that isolates the impact of the tax preference and accounts for other factors that might reasonably contribute to increased or decreased employment. Therefore, requiring evidence of a causal relationship is a very stringent condition that would not often be possible to determine.

### **Suggested Language**

- “(3) If a review finds that **[insert measurable condition]**, then the Legislature intends to extend the expiration date of the tax preference.”

### **Examples**

*A condition that only requires evidence of achieving a target, without determining causality:*

- “(3) If a review finds that average employment at solar-powered car manufacturing plants increased by 15 percent in the five years following enactment of this tax preference, then the Legislature intends to extend the expiration date of the tax preference.”

*A similar condition that requires evidence of causation:*

- “(3) If a review finds that the tax preference increased average employment at solar-powered car manufacturing plants by 15 percent in the five years following enactment of this tax preference, then the Legislature intends to extend the expiration date of the tax preference.”

*A condition that is not related to a hypothetical public policy objective of lower CO<sub>2</sub> emissions:*

- “(3) If a review finds that **the average price of solar-powered cars remains higher than the average price of gasoline-powered cars**, then the Legislature intends to extend the expiration date of the tax preference.

## Part 4: Data Source

RCW 82.32.808(4) requires performance statements to specify potential data sources that would allow JLARC staff to measure the effectiveness of the tax preference. For instance, after the measurable condition is selected (see Part 3 of this guide), the performance statement should identify what data could be used to measure that condition, as well as a source for this data.

If such data does not currently exist, it might be necessary for the legislation to require additional reporting by state agencies or the taxpayers taking the preference. Any new reporting requirements should be located in a codified section of the bill, not in the performance statement. However, the performance statement should still contain a reference to these new reporting requirements, since they would be the source of data for evaluation.

Note that RCW 82.32.808(6)-(7) contains provisions about data reporting and disclosure. For example, if a tax preference is categorized as one intended to increase competitiveness or create jobs, then the taxpayer will be required to complete an annual survey. For all categories, the amount of tax preference claimed, if reported, is subject to public disclosure unless such disclosure may reasonably lead to economic harm.

When adding new data reporting requirements, the Legislature must balance the benefit of the new information with the potential cost of collecting it. In general, more specific data requirements aid in evaluation and let businesses and the DOR have a common understanding of what is required. Conversely, state agencies or taxpayers may need to expend additional resources in order to comply with new reporting requirements.

### Suggested Language

- “(4) In order to obtain the data necessary to perform the review in subsection (3), the Joint Legislative Audit and Review Committee may refer to **[existing data and its source and/or new data requirements created elsewhere in the bill]**.”

### Examples

- “(4) In order to obtain the data necessary to perform the review in subsection (3), the Joint Legislative Audit and Review Committee may refer to **the employment and wage data available from the employment security department.**”
- “(4) In order to obtain the data necessary to perform the review in subsection (3), the Joint Legislative Audit and Review Committee may refer to **the additional information required under section 102 of this act to be reported in an addendum to the tax return by taxpayers electing to take this preference.**”

## Examples: Complete Performance Statements

The following template demonstrates the suggested language for a complete tax preference performance statement:

**NEW SECTION. Sec. 101.** This section is the tax preference performance statement for the tax preference contained in [reference to RCW or bill section]. This performance statement is only intended to be used for subsequent evaluation of the tax preference. It is not intended to create a private right of action by any party or be used to determine eligibility for preferential tax treatment.

(1) The Legislature categorizes this tax preference as one intended to [select one or more of the category descriptions], as indicated in RCW 82.32.808(2)[select (a) through (f) as appropriate].

(2) It is the Legislature's specific public policy objective to [insert the ultimate purpose]. It is the Legislature's intent to [describe what the tax preference does in the tax code], in order to [insert intermediary steps as necessary], thereby [insert the ultimate purpose].

(3) If a review finds that [insert measurable condition], then the Legislature intends to extend the expiration date of the tax preference.

(4) In order to obtain the data necessary to perform the review in subsection (3), the Joint Legislative Audit and Review Committee may refer to [existing data and its source and/or new data requirements created elsewhere in the bill].

The following six fictional examples demonstrate the process of creating a complete performance statement for each of the six categories of tax preferences:

- A. Induce certain designated behavior by taxpayers
- B. Improve industry competitiveness
- C. Create or retain jobs
- D. Reduce structural inefficiencies in the tax structure
- E. Provide tax relief for certain businesses or individuals
- F. Accomplish a general purpose not identified above (custom description)

## **A. Induce Certain Designated Behavior by Taxpayers**

*Hypothetical example:* The Legislature intends to reduce the amount of carbon dioxide emissions by exempting solar-powered cars from sales and use taxes. It intends to measure the effectiveness of the tax preference by measuring the increase in the number of solar-powered cars, and therefore requires Department of Licensing to provide the necessary data to JLARC.

NEW SECTION. **Sec. 101.** This section is the tax preference performance statement for the tax preference contained in **section 102 of this act**. This performance statement is only intended to be used for subsequent evaluation of the tax preference. It is not intended to create a private right of action by any party or be used to determine eligibility for preferential tax treatment.

(1) The Legislature categorizes this tax preference as one intended to **induce certain designated behavior by taxpayers**, as indicated in RCW 82.32.808(2)(a).

(2) It is the Legislature's specific public policy objective to **reduce the amount of carbon dioxide emissions in Washington**. It is the Legislature's intent to **exempt solar-powered cars from sales and use taxes**, in order to **reduce the price charged to customers for solar-powered cars**, thereby **inducing some customers to buy solar-powered cars when they might not otherwise**, thereby **increasing the number of solar-powered cars on the road in Washington**, thereby **reducing the amount of carbon dioxide emissions in Washington**.

(3) If a review finds that **the number of solar-powered cars in Washington have increased by 50 percent compared to the number of cars at the time of enactment**, then the Legislature intends to extend the expiration date of the tax preference.

(4) In order to obtain the data necessary to perform the review in subsection (3), the Joint Legislative Audit and Review Committee may refer to **the number of solar-powered cars licensed in Washington according to the annual report required by the department of licensing under section 102 of this act**.

## **B. Improve Industry Competitiveness**

*Hypothetical example:* The Legislature intends to improve the competitiveness of the solar-powered car industry by reducing the B&O tax rate of solar-powered car dealers. It intends to measure the effectiveness of the tax preference by measuring the number of solar-powered car dealers in Washington, and therefore directs JLARC to use annual survey data to identify such dealers.

**NEW SECTION. Sec. 101.** This section is the tax preference performance statement for the tax preference contained in **section 102 of this act**. This performance statement is only intended to be used for subsequent evaluation of the tax preference. It is not intended to create a private right of action by any party or be used to determine eligibility for preferential tax treatment.

(1) The Legislature categorizes this tax preference as one intended to **improve industry competitiveness**, as indicated in RCW 82.32.808(2)(b).

(2) It is the Legislature's specific public policy objective to **improve the competitiveness of the solar-powered car industry in Washington**. It is the Legislature's intent to **reduce the business and occupation tax rate for solar-powered car retailers from 0.471 percent to 0.275 percent**, in order to **reduce the operating costs for solar-powered car retailers in Washington**, thereby **improving the competitiveness of the solar-powered car industry in Washington**.

(3) If a review finds that **the number of solar-powered cars retailers in Washington has increased by five percent compared to the number of those retailers at the time of enactment**, then the Legislature intends to extend the expiration date of the tax preference.

(4) In order to obtain the data necessary to perform the review in subsection (3), the Joint Legislative Audit and Review Committee may refer to **the annual survey a taxpayer reporting under the tax rate provided in section 102 of this act must file with the department of revenue per RCW 82.32.585**.

### C. Create or Retain Jobs

*Hypothetical example:* The Legislature intends to create or retain jobs in the solar-powered car manufacturing industry by reducing the B&O tax rate of solar-powered car manufacturers. It intends to measure the effectiveness of the tax preference by measuring the number of solar-powered car manufacturing jobs in Washington, and therefore directs JLARC to use annual survey data and existing employment data for such manufacturers.

**NEW SECTION. Sec. 101.** This section is the tax preference performance statement for the tax preference contained in **section 102 of this act**. This performance statement is only intended to be used for subsequent evaluation of the tax preference. It is not intended to create a private right of action by any party or be used to determine eligibility for preferential tax treatment.

(1) The Legislature categorizes this tax preference as one intended to **create or retain jobs**, as indicated in RCW 82.32.808(2)(c).

(2) It is the Legislature's specific public policy objective to **increase the number of manufacturing jobs in the solar-powered car industry in Washington**. It is the Legislature's intent to **reduce the business and occupation tax rate for solar-powered car manufacturers from 0.471 percent to 0.275 percent, in order to reduce the operating costs for solar-powered car manufacturers in Washington, thereby increasing the ability of these firms to expand their Washington operations, thereby increasing the number of manufacturing jobs in the solar-powered car industry in Washington**.

(3) If a review finds that **the number of jobs at solar-powered cars manufacturers in Washington has increased by 15 percent compared to the number of those jobs at the time of enactment**, then the Legislature intends to extend the expiration date of the tax preference.

(4) In order to obtain the data necessary to perform the review in subsection (3), the Joint Legislative Audit and Review Committee may refer to:

(a) **The annual survey a taxpayer reporting under the tax rate provided in section 102 of this act must file with the department of revenue per RCW 82.32.585; and**

(b) **Employment data available from the employment security department.**

## **D. Reduce Structural Inefficiencies in the Tax Structure**

*Hypothetical example:* The Legislature intends to remove the pyramiding effect of the B&O tax on subsidiary manufacturers of solar panels used exclusively for solar-powered cars by allowing those manufacturers to take a deduction from the B&O tax. It intends to measure the effectiveness of the tax preference by determining whether the pyramiding effect is removed, and therefore directs JLARC to use both annual survey and existing tax return data.

**NEW SECTION. Sec. 101.** This section is the tax preference performance statement for the tax preference contained in **section 102 of this act**. This performance statement is only intended to be used for subsequent evaluation of the tax preference. It is not intended to create a private right of action by any party or be used to determine eligibility for preferential tax treatment.

(1) The Legislature categorizes this tax preference as one intended to **reduce structural inefficiencies in the tax structure**, as indicated in RCW 82.32.808(2)(d).

(2) It is the Legislature's specific public policy objective to **remove the pyramiding effect of the business and occupation tax on subsidiary manufacturers of solar panels used exclusively for solar-powered cars**. It is the Legislature's intent to **allow solar panel manufacturers that are wholly owned subsidiaries of solar-powered car manufactures to deduct receipts from sales of solar panels used exclusively for solar-powered cars**, in order to ensure that the **manufacture of these solar panels are only taxed once under the business and occupation tax in Washington**, thereby **removing the pyramiding effect of the B&O tax on these subsidiary manufacturers**.

(3) If a review finds that **the tax preference removes the pyramiding effect for manufacturing of solar panels used exclusively in solar-powered cars**, then the Legislature intends to extend the expiration date of the tax preference.

(4) In order to obtain the data necessary to perform the review in subsection (3), the Joint Legislative Audit and Review Committee may refer to:

(a) **The annual survey that a taxpayer reporting under the tax rate provided in section 102 of this act must file with the department of revenue per RCW 82.32.585; and**

(b) **The amount of the business and occupation tax deduction taken under section 102 of this act as reported on the tax return form.**

### **E. Provide Tax Relief for Certain Businesses or Individuals**

*Hypothetical example:* The Legislature intends to provide tax relief to the solar-powered car manufacturing industry by allowing those manufacturers to take a deduction from the B&O tax. It intends to measure the effectiveness of the tax preference by determining whether the tax relief stays close to the amount estimated in the fiscal note, and therefore directs JLARC to use both annual survey and existing tax return data.

**NEW SECTION. Sec. 101.** This section is the tax preference performance statement for the tax preference contained in **section 102 of this act**. This performance statement is only intended to be used for subsequent evaluation of the tax preference. It is not intended to create a private right of action by any party or be used to determine eligibility for preferential tax treatment.

(1) The Legislature categorizes this tax preference as one intended to **provide tax relief for certain businesses or individuals**, as indicated in RCW 82.32.808(2)(e).

(2) It is the Legislature's specific public policy objective to **provide tax relief to the solar-powered car manufacturing industry**. It is the Legislature's intent to **allow solar-powered car manufacturers to deduct their gross receipts from the business and occupation tax**, in order to **provide tax relief**.

(3) If a review finds that **the actual fiscal cost of this tax preference has not exceeded the estimated cost in the fiscal note by more than ten percent in any of the initial three biennia**, then the Legislature intends to extend the expiration date of the tax preference.

(4) In order to obtain the data necessary to perform the review in subsection (3), the Joint Legislative Audit and Review Committee may refer to:

(a) **The annual survey that a taxpayer reporting under the tax rate provided in section 102 of this act must file with the department of revenue per RCW 82.32.585; and**

(b) **The amount of the business and occupation tax deduction taken under section 102 of this act as reported on the tax return form.**

## **F. General Purpose Not Identified Above (Custom Description)**

*Hypothetical example:* The Legislature intends to bring Washington's tax law into compliance with a (fictional) federal statute prohibiting state taxation of solar-powered cars by exempting sales of solar-powered cars from the sales and use tax. It intends to measure the effectiveness of the tax preference by determining whether federal law continues to prohibit state taxation of solar-powered cars, and therefore directs JLARC to refer to federal statutes.

**NEW SECTION. Sec. 101.** This section is the tax preference performance statement for the tax preference contained in **section 102 of this act**. This performance statement is only intended to be used for subsequent evaluation of the tax preference. It is not intended to create a private right of action by any party or be used to determine eligibility for preferential tax treatment.

(1) The Legislature categorizes this tax preference as one intended to **accomplish a general purpose**, as indicated in RCW 82.32.808(2)(f).

(2) It is the Legislature's specific public policy objective to **bring Washington's tax law into compliance with a federal statute prohibiting state taxation of solar-powered cars**. It is the Legislature's intent to **exempt sales of solar-powered cars from the sales and use tax**, in order to **comply with federal law**.

(3) If a review finds that **the federal law continues to prohibit state taxation of solar-powered cars**, then the Legislature intends to extend the expiration date of the tax preference.

(4) In order to obtain the data necessary to perform the review in subsection (3), the Joint Legislative Audit and Review Committee may refer to **current federal statutes**.



# Appendix B: Research on State Tax Preference/Economic Development Disclosure and Evaluation/Analysis Efforts

## Summary

In the fall of 2013, JLARC staff researched state tax preference or economic development beneficiary disclosure and evaluation practices. Because states vary widely in their tax structures and in how and to whom tax preferences/incentives or economic development programs are provided, JLARC staff looked at a broad array of incentives and programs. These included: tax exemptions, deductions or credits; grants; loans; tax reductions or deferrals; and other economic programs. A brief summary of what we found is noted below.

## State Disclosure of Tax Incentive/Economic Development Beneficiaries

JLARC staff found 27 of the 50 states disclose the beneficiary name, facility location, and varying levels of other details for at least three state tax incentive or economic development programs. Because of the breadth of the programs in other states, it was not possible to identify what proportion of all tax incentive and economic development programs have disclosure requirements.

When information is disclosed, it is generally provided through state government websites, by economic development organizations, or by a state tax department. Disclosed information is available through many formats, including: searchable databases or portals; published applications or annual reports submitted by participants; or information provided in annual reports or summaries produced by government entities such as governors' offices, state tax agencies, legislative organizations, etc.

Some states provide beneficiary disclosure through searchable databases, portals, or map features that drill down to specific programs, beneficiaries, and additional details.

- Florida's Economic Development Portal was recently changed and went live October 1, 2013. The new portal provides project information on beneficiaries, location, the maximum potential and confirmed state fund expenditure, projected and actual jobs created or retained, and projected and actual return on investment (ROI).
- Indiana's Economic Development Portal allows users to search various criteria, including recipient, county/city, fund type, contract status, and contract year. From the list generated by a search, you can drill down to the specific contract details, the current status of the project, and project performance details.
- Louisiana's "Fastlane" is a searchable database for economic development incentives that allows users to drill down to specific contract application or advancement data. The level of detail does not appear to provide updated data on actual performance.
- Oklahoma's OpenBooks Tax Credits search engine allows users to search by taxpayer name, tax year, and type of credit to provide details on tax credits granted by the state.

- Wisconsin’s “Impact Map!” is an interactive map that shows all individual economic investments made since July 2011. The map provides regional and individual detail including beneficiary name, award amounts, location, and projected jobs. The tool also generates summary reports.

Other states provide spreadsheets or detailed reports that disclose the beneficiary name, location of project, tax incentive or economic development program used, and other details.

- Iowa’s Economic Development Authority provides an online listing of all projects awarded or under contract since 2003. Users can drill down to view data on projects in numerous categories, such as those too new to report, those not proceeding, those in default, and closed projects that were successful, or where funds were recaptured partly or in full.
- Nebraska’s Department of Revenue publishes tax incentive annual reports on its website. The reports provide limited details on agreements and contracts signed in the most recent and in prior years under various incentive/economic development programs. These may include the beneficiary name, location, planned investment amount, and the estimated number of jobs on a project level, as well as aggregated performance information on some incentive programs.
- North Carolina’s Department of Revenue provides an online 2013 Economic Incentives Report with a spreadsheet listing all incentives, the number of taxpayers taking credits or claiming refunds under it, the total credits taken or refunds claimed, and additional information. For most credit or refund types, a link lists the taxpayers receiving funds and the amount each received.
- Oregon provides online detail on approved applications, performance agreements, or ongoing projects under four different economic development programs.
- Texas produces several reports detailing tax incentive/economic development programs that include beneficiary identities, the estimated value of the incentives/programs, locations, and other details.
- Vermont’s Agency of Commerce & Community Development publishes annual reports on three different tax incentive programs, noting incentive application information (and identity of applicant), status, the type and location of the proposed project, the maximum incentive considered, and the minimum net revenue benefit.
- Washington’s Department of Revenue provides a link to current and historical annual reports and annual surveys filed by beneficiaries of several tax incentives. Annual report details include the beneficiary name, business location, and job detail, but not the amount of tax incentive received; annual survey details provide the beneficiary name, the specific incentive used, and the incentive amount received only.

## State Evaluation of Effectiveness of Tax Incentive/Economic Development Programs

JLARC staff found that 17 states have produced at least one evaluation or analysis since 2010 examining whether an incentive or economic development program has effectively achieved its goal or stated purpose.

- Arizona’s Joint Legislative Income Tax Review committee has conducted an ongoing review of state income tax credits since 2002, looking at the purpose, fiscal impact, and performance measures of income tax credits and making recommendations to the Legislature on whether they should be continued or repealed.
- California’s Franchise Tax Board issued an evaluation of income tax expenditures in 2011 that discussed whether or not the expenditures were successful.
- Connecticut’s Department of Economic and Community Development published an evaluation of state credit and abatement programs in 2010; it appears to be a one-time product in response to legislation.
- Delaware published a comprehensive tax preference evaluation in 2011; these reports are scheduled to be issued biennially.
- Enterprise Florida publishes an “Annual Incentives Report,” providing an overview of the state’s economic development process and structure, and a summary of the various types of programs provided and their objectives. The report also details the specific performance of economic development incentive programs for the most recent fiscal year on an aggregated basis and lists the specific incentive agreements executed during the fiscal year.
- Indiana’s Legislative Services Agency reviewed 42 state income tax credits in 2012 and 2013 to determine the scope and purpose of the credits, identify the beneficiaries and the activities the credits promote, and determine how well the credit performed.
- Iowa evaluates each awarded or contracted economic development project annually to measure status and progress.
- Louisiana provides performance evaluations annually on several economic incentive programs.
- Oregon’s tax expenditure process requires an evaluation of tax preferences on a regular basis in order for the preference to be renewed. Additionally, every tax credit is scheduled to sunset in six years; the legislative Joint Committee on Tax Credits reviews each credit prior to its sunset.
- Pennsylvania’s Legislative Budget and Finance Committee issued a report in 2010 on the state’s tax credit programs that evaluated whether they achieved their intent.
- Texas’ Comptroller’s Office provides an annual analysis on economic development incentives.
- Washington’s Joint Legislative Audit and Review Committee conducts tax preference reviews annually, evaluating a number of tax preferences selected by a Citizen’s Commission to identify the public policy objective, determine if that objective has been achieved, estimate the beneficiary savings, and provide a recommendation to the Legislature as to whether the preference should be continued, reviewed, or repealed.

- West Virginia's 2012 Tax Credit Review and Accountability Report evaluated and provided information on the cost effectiveness of four tax credits.

## States Making Changes to Improve Tax Preference Evaluation Efforts

JLARC staff found several states took action in 2013 (unless otherwise noted) to improve their evaluation efforts for tax preferences and economic development programs.

- Arkansas – requires the Economic Development Commission's annual reports to put more emphasis on reviewing projects rather than programs, including the benefit accruing to the state.
- Florida – created a schedule for evaluating all economic development incentives once every three years. Evaluations will be conducted by two legislative offices.
- Georgia – the state tax expenditure report must include an analysis of direct beneficiaries of tax expenditures.
- Louisiana – agencies responsible for administering tax incentives must also evaluate them. The analysis will include whether the state receives a positive return on investment and other economic benefits produced.
- Maine – a budget proviso directed an appointed task force to develop a regular process for tax incentive evaluation.
- Massachusetts – a 2012 Tax Expenditure Commission report recommended efforts to identify policy objectives, as well as develop metrics to measure and schedules to analyze tax incentives.
- Nebraska – a September 2013 Legislative Auditor's Office report found the state did not currently evaluate tax incentives, nor provide benchmarks, goals, or metrics by which to measure their effectiveness. A report is scheduled for release in November 2013 to recommend metrics and data that would be helpful in evaluating tax incentives.
- Oregon – the Legislative Revenue Office is to produce a report with a variety of information on tax credits the year before a credit expires, including an assessment of the credits' effectiveness.
- Rhode Island – enacted the Economic Development Tax Incentives Act of 2013, requiring a review of its economic development tax incentives at least once every three years. The reviews will measure incentives' costs and benefits and make a recommendation to continue, reform, or end each incentive.
- Virginia – 2012 legislation created a Joint Subcommittee to Evaluate Tax Preferences in order to adopt a schedule, establish procedures and performance measures, and then perform a systematic review of the state's tax preferences.
- Washington – 2013 legislation requires all new or revised tax preference legislation to include performance statements, specify relevant and measurable metrics by which to measure the preference's effectiveness, and include expiration dates.

**Resources include:**

- Robert Zahradnik and Josh Goodman, The Pew Charitable Trust
- The Pew Center on the State’s “Excellence Counts” report (2012)
- Good Jobs First organization’s online “Accountability” database (<http://www.goodjobsfirst.org/accountable-development>)
- Connecticut Office of Legislative Research report, “Business Tax Credit Disclosure in Other States” (August 31, 2012)
- Nebraska Legislative Audit Office report “Comparison of Selected Nebraska Business Tax Incentives with Tax Incentives in Other States” (September 2013)
- Various web sites for all state tax administration departments, economic development departments, legislative agencies, transparency/sunshine web site, etc.

**Examples of Sources of Data for Evaluating Tax Preferences**

<b>Washington State Data Sources:</b>	
Office of Financial Management	<a href="http://www.ofm.wa.gov/forecasting/">http://www.ofm.wa.gov/forecasting/</a>
Department of Revenue	<a href="http://dor.wa.gov/Content/AboutUs/StatisticsAndReports/Default.aspx">http://dor.wa.gov/Content/AboutUs/StatisticsAndReports/Default.aspx</a>
Employment Security Department	<a href="https://fortress.wa.gov/esd/employmentdata/">https://fortress.wa.gov/esd/employmentdata/</a>
Municipal Research and Services Center	<a href="http://www.mrsc.org/">http://www.mrsc.org/</a>
Department of Ecology	<a href="http://www.ecy.wa.gov/database.html">http://www.ecy.wa.gov/database.html</a>
Insurance Commissioner	<a href="http://www.insurance.wa.gov/companies/financial-reporting-tax-requirements/annual-statements/">http://www.insurance.wa.gov/companies/financial-reporting-tax-requirements/annual-statements/</a>
Economic and Revenue Forecast Council	<a href="http://www.erfc.wa.gov/">http://www.erfc.wa.gov/</a>
Secretary of State Corporations Division	<a href="http://www.sos.wa.gov/corps/">http://www.sos.wa.gov/corps/</a>
Department Natural Resources	<a href="http://fortress.wa.gov/dnr/app1/dataweb/dmmatrix.html">http://fortress.wa.gov/dnr/app1/dataweb/dmmatrix.html</a>
Department of Transportation	<a href="http://www.wsdot.wa.gov/mapsdata.htm">http://www.wsdot.wa.gov/mapsdata.htm</a>
Department of Health	<a href="http://www.doh.wa.gov/DataandStatisticalReports.aspx">http://www.doh.wa.gov/DataandStatisticalReports.aspx</a>
Department of Licensing	<a href="http://www.dol.wa.gov/about/data.html?footer">http://www.dol.wa.gov/about/data.html?footer</a>
<b>Federal Data Sources:</b>	
USA.com	<a href="http://www.usa.gov/Topics/Reference-Shelf/Data.shtml">http://www.usa.gov/Topics/Reference-Shelf/Data.shtml</a>
Principal Statistical Agencies	<a href="http://www.fedstats.gov/agencies/agencies.html">http://www.fedstats.gov/agencies/agencies.html</a>
Bureau of Economic Analysis	<a href="http://www.fedstats.gov/key_stats/index.php?id=BEA">http://www.fedstats.gov/key_stats/index.php?id=BEA</a>
Bureau of Justice Statistics	<a href="http://www.fedstats.gov/key_stats/index.php?id=BJS">http://www.fedstats.gov/key_stats/index.php?id=BJS</a>
Bureau of Labor Statistics	<a href="http://www.fedstats.gov/key_stats/index.php?id=BLS">http://www.fedstats.gov/key_stats/index.php?id=BLS</a>
Bureau of Transportation Statistics	<a href="http://www.fedstats.gov/key_stats/index.php?id=BTS">http://www.fedstats.gov/key_stats/index.php?id=BTS</a>
Census Bureau	<a href="http://www.fedstats.gov/key_stats/index.php?id=CEN">http://www.fedstats.gov/key_stats/index.php?id=CEN</a>

Appendix B: Research on State Tax Preference/Economic Development Disclosure and Evaluation/Analysis Efforts

Economic Research Service, Department of Agriculture	<a href="http://www.fedstats.gov/key_stats/index.php?id=ERS">http://www.fedstats.gov/key_stats/index.php?id=ERS</a>
Energy Information Administration	<a href="http://www.fedstats.gov/key_stats/index.php?id=EIA">http://www.fedstats.gov/key_stats/index.php?id=EIA</a>
Environmental Protection Agency	<a href="http://www.fedstats.gov/key_stats/index.php?id=EPA">http://www.fedstats.gov/key_stats/index.php?id=EPA</a>
Internal Revenue Service, Statistics of Income	<a href="http://www.fedstats.gov/key_stats/index.php?id=SOI">http://www.fedstats.gov/key_stats/index.php?id=SOI</a>
National Agricultural Statistics Service	<a href="http://www.fedstats.gov/key_stats/index.php?id=NASS">http://www.fedstats.gov/key_stats/index.php?id=NASS</a>
National Center for Education Statistics	<a href="http://www.fedstats.gov/key_stats/index.php?id=NCES">http://www.fedstats.gov/key_stats/index.php?id=NCES</a>
National Center for Health Statistics	<a href="http://www.fedstats.gov/key_stats/index.php?id=NCHS">http://www.fedstats.gov/key_stats/index.php?id=NCHS</a>
National Science Foundation, Science Resources Statistics	<a href="http://www.fedstats.gov/key_stats/index.php?id=SRS">http://www.fedstats.gov/key_stats/index.php?id=SRS</a>
Office of Management and Budget	<a href="http://www.fedstats.gov/key_stats/index.php?id=OMB">http://www.fedstats.gov/key_stats/index.php?id=OMB</a>
Social Security Administration, Office of Policy	<a href="http://www.fedstats.gov/key_stats/index.php?id=SSA">http://www.fedstats.gov/key_stats/index.php?id=SSA</a>
A list of other Federal Agencies with data can be found at <a href="http://www.fedstats.gov/agencies/">http://www.fedstats.gov/agencies/</a>	
<b>Other Government Data Sources:</b>	
Federal Reserve System	<a href="http://www.federalreserve.gov/econresdata/default.htm">http://www.federalreserve.gov/econresdata/default.htm</a>
Federal Reserve Band of San Francisco	<a href="http://www.frbsf.org/economic-research/">http://www.frbsf.org/economic-research/</a>
Federal Reserve Bank of New York	<a href="http://www.newyorkfed.org/research/data_indicators/index.html">http://www.newyorkfed.org/research/data_indicators/index.html</a>
Federal Reserve Bank of St. Louis	<a href="http://research.stlouisfed.org/fred2/">http://research.stlouisfed.org/fred2/</a>
Security and Exchange Commission	<a href="http://www.sec.gov/cgi-bin/srch-edgar">http://www.sec.gov/cgi-bin/srch-edgar</a>
<b>Other Sources of Data:</b>	
National Bureau of Economic Research	<a href="http://www.nber.org/data/">http://www.nber.org/data/</a>
American Economic Association	<a href="http://rfe.org/showCat.php?cat_id=3">http://rfe.org/showCat.php?cat_id=3</a>
<b>Commercial Data Providers:</b>	
Moody's Analytics	<a href="https://www.economy.com/store/default.aspx">https://www.economy.com/store/default.aspx</a>
IHS	<a href="http://www.ihs.com/products/global-insight/data-analytics/index.aspx">http://www.ihs.com/products/global-insight/data-analytics/index.aspx</a>
S&P Dow Jones Indices	<a href="http://us.spindices.com/">http://us.spindices.com/</a>
Hoovers	<a href="http://www.hoovers.com/company-information.html">http://www.hoovers.com/company-information.html</a>

## Appendix C: JLARC Staff Research on Tax Incentive Disclosure and Evaluation

State	Beneficiary Disclosure (Minimum 3 Programs)			Evaluation of Effectiveness since 2010	2013 Action to Improve Evaluation
	Portal or Searchable Database	Spreadsheet or Report Issued by State	Beneficiary Application or Report Published		
Alabama					
Alaska					
Arizona				✓	
Arkansas				Partial	✓
California				✓	
Colorado		✓		Partial	
Connecticut		✓		✓	
Delaware				✓	
Florida	✓			✓	✓
Georgia					✓
Hawaii					
Idaho					
Illinois		✓			
Indiana	✓				
Iowa		✓		✓	
Kansas					
Kentucky			✓		
Louisiana	✓		✓	✓	✓
Maine					✓
Maryland		✓			
Massachusetts		✓		Partial	
Michigan	✓			Partial	
Minnesota		Partial		Partial	
Mississippi					
Missouri		✓		Partial	
Montana					
Nebraska		✓		✓	✓
Nevada					
New Hampshire					
New Jersey		✓			
New Mexico				Partial	
New York		Partial		✓	
North Carolina		✓			

State	Beneficiary Disclosure (Minimum 3 Programs)			Evaluation of Effectiveness since 2010	2013 Action to Improve Evaluation
	Portal or Searchable Database	Spreadsheet or Report Issued by State	Beneficiary Application or Report Published		
North Dakota					
Ohio		✓			
Oklahoma	✓				
Oregon		✓	✓	✓	✓
Pennsylvania	✓			✓	
Rhode Island		✓			✓
South Carolina					
South Dakota					
Tennessee	✓	✓		Partial	
Texas		✓		✓	
Utah	✓				
Vermont		✓	✓	Partial	
Virginia		Partial		✓	
Washington		✓	✓	✓	✓
West Virginia				✓	
Wisconsin	✓	✓		Partial	
Wyoming					

\* Resources used include Pew Center "Evidence Counts" report - 2012; Good Jobs First 50 State Accountability database and data; search of states' tax dept, economic development dept, leg review and other sites. Criteria for checkmark for disclosure: at least 3 incentive/preference programs with disclosure of recipients. Criteria for checkmark on evaluation: At least one study/evaluation/analysis since 2010 determining the effectiveness of incentives in meeting proposed goals or cost/benefit analysis.



