Tax Expenditure Analysis Overview

- ## Potential Criteria

Below is a set of criteria to make judgments about the adoption, modification, or continuation of tax expenditures. A tax expenditure is any law that allows a special exclusion, exemption, or deduction; special valuation; special credit, preferential tax rate, or deferral of tax.

Below each criterion are possible indicators of whether the criterion is being met. Some indicators may be better than others and some may give contradictory results. No one criterion or indicator below is meant to be applied single-mindedly. They are meant to be one element to consider when making an overall judgment.

1. Rational part of a strategy to achieve a priority goal
   - Clear statement of goal and benchmarks
   - Integration with other programs designed to achieve the same goal
2. Most efficient way to achieve the goal
   - More efficient than a direct spending program
   - Minimizes reward for activity that would have occurred anyway
3. Minimizes distortion of other decisions
   - Minimizes incentive to restructure business relationships
   - Does not favor one business/industry over competitors in same market
4. Required by federal constitution or law
5. Structured to respond to change
   - Adequate method to review success and continuing need
   - Controls to limit costs
6. Structured to be adequately and efficiently administered
   - Clear standards for qualification
   - Minimizes compliance and administrative costs

- ## Sample Policy Questions

1. What is the public policy purpose of this credit? Is there an expected timeline for achieving this goal?
2. Who (groups of individuals, types of organizations or businesses) directly benefits from this credit? Does this credit target a specific group? If so, is it effectively reaching this group?
3. What is expected to happen if this credit fully sunsets? Could adequate results be achieved with a scaled down version of the credit? What would be the effect of reducing the credit by 50%?

4. What background information on the effectiveness of this type of credit is available from other states?
5. Is use of a tax credit an effective and efficient way to achieve this policy goal? What are the administrative and compliance costs associated with this credit? Would a direct appropriation achieve the goal of this credit more efficiently?
6. What other incentives (including state or local subsides, federal tax expenditures or subsidies) are available that attempt to achieve a similar policy goal?
7. Could this credit be modified to make it more effective and/or efficient? If so, how?

- ## Recent Tax Credit Review Process

    1. Interim Process
        - Pre-session file bills with 6-year extensions
        - Assign sunset extension bills to relevant policy committee
            - Subsequent referral to revenue committee
        - Pre-session file and allocate to relevant policy committee extension for those credits with 2018 sunset date that meet criteria for early consideration
    2. Policy Committee Process
        - Review goal or purpose of credit
        - Evaluate effectiveness of credit in achieving goal/purpose
        - Consider modifications
        - Prioritize credits based on evaluation.
        - Decide on action:
            - Simple extension
            - Extension with modifications
            - Allow credit to sunset (take no action)
            - Replace existing credit with new more effective credit
    3. Joint Tax Credit Committee Process
        - Determine credit revenue base
            - Revenue impact of straight extensions
            - Overall revenue and budget situation
            - Consultations with leadership and Ways & Means
        - Evaluate individual credits based on:
            - Policy committee recommendations
            - Sound overall tax policy criteria such as equity and administration
            - Prioritization of credits within overall credit "budget"