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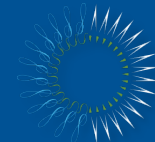
How to Measure the Results of Tax Incentives: Promising Practices and a Proposal for Nebraska

A Presentation to the Nebraska Tax Incentive Evaluation Committee

Robert Zahradnik

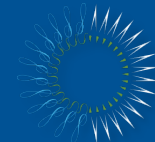
Tax Incentive Evaluation – Key Issues

- 1) **Design a strategic evaluation schedule**
- 2) Identify metrics
- 3) Collect and assess relevant data
- 4) Determine what office should conduct the evaluation
- 5) Measure the economic impact with and without economic models
- 6) Ensure the evaluations inform the policy process



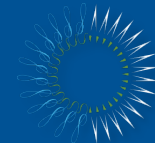
Design an evaluation schedule – How other states have done it

- Require all tax incentives be evaluated every three to five years.
- Develop a multi-year review schedule.
- Evaluate tax incentives with similar goals in the same year.
- Schedule evaluations to take place prior to sunset dates.



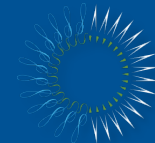
Design an evaluation schedule – How Nebraska could do it

- Evaluate each tax incentive once every three years on a multi-year schedule.
- Organize schedule so that incentives with similar goals are reviewed at the same time.
- Based on legislative findings, Nebraska's tax incentives designed to achieve three broad goals:
 1. To strengthen the state's economy overall (such as by attracting new businesses to the state, increasing employment, creating high-quality jobs, and increasing business investment).
 2. To revitalize rural areas and other distressed areas of the state.
 3. To stimulate entrepreneurial, high-tech, and renewable energy firms to diversify the state's economy and position Nebraska for the future.



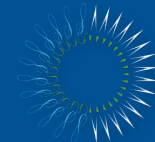
Design an evaluation schedule – How Nebraska could do it

Schedule	Goal	Incentives
2016, 2019, 2022, etc.	Strengthen state's economy overall	<ul style="list-style-type: none"> • Tiers 1-6 of the Advantage Act <ul style="list-style-type: none"> ○ <u>Except</u> Tier 2 and Tier 5 targeted to entrepreneurial, high-tech, and renewable energy firms.
2017, 2020, 2023, etc.	To stimulate entrepreneurial, high-tech, and renewable energy firms	<ul style="list-style-type: none"> • Angel Investment Tax Credit • Research and Development Tax Credit • Tier 2 and Tier 5 of Advantage Act targeted to entrepreneurial, high-tech, and renewable energy firms.
2018, 2021, 2024, etc.	Benefit rural areas or other distressed areas of the state	<ul style="list-style-type: none"> • Nebraska Advantage Rural Development Act • Beginning Farmer Tax Credit • Nebraska Advantage Microenterprise Tax Credit



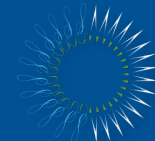
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Identify Metrics – Upfront Considerations

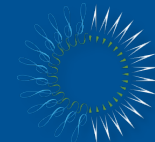
- Effective evaluations answer a key question: Have tax incentives achieved their goals?
 - Metrics help answer this question.
- Proposed process for determining metrics:
 1. Legislators agree on a set of guidelines for determining what metrics are appropriate.
 2. Prior to conducting the evaluation, evaluators propose metrics that follow the guidelines.
 3. Legislative committee overseeing the evaluation has opportunity to provide feedback.



Identify Metrics – Metrics used in other states

Strengthening the overall economy

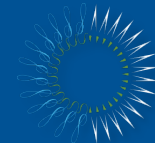
- Focus on outcomes that affect the economic well-being of state residents.
- Calculate fiscal impacts, but not to the exclusion of economic metrics.
- Go beyond wages when measuring job quality.



Identify Metrics – Metrics used in other states

Revitalizing rural and distressed areas

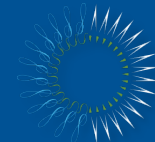
- Consider to what extent the incentives are reaching their target areas.
- Assess whether people living in the areas are benefitting.
- When comparing different geographic areas, use broad indicators with caution.



Identify Metrics – Metrics used in other states

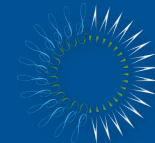
Stimulating entrepreneurial, high-tech, and renewable energy firms

- Measure the incentives' effect on business outputs.
- Study whether state incentives help businesses to receive financing from other sources.
- Consider job creation, while understanding that programs are designed to work over the long-term.



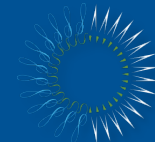
Identify Metrics – Proposed process for Nebraska

- Adopt guidelines for setting metrics for tax incentives.
- Before beginning evaluations each year, require the analysts conducting the evaluations to develop an evaluation plan, including the metrics they plan to use.
- Offer legislators an opportunity for input through committee hearings.



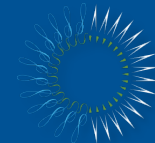
Identify Metrics – Potential guidelines for Nebraska's tax incentive metrics

1. Select metrics that reflect the goals of incentives.
2. Consider what data is available.
3. Use clear and consistent definitions.
4. Coordinate to allow for comparisons between programs with similar goals.
5. Choose and define metrics to rigorously measure the economic impact.



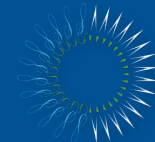
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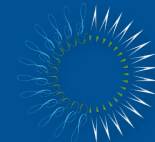
Collect and assess relevant data – How other states have done it

- Ensure evaluators have access to existing state information (while protecting confidential information).
- Require businesses to provide data as a condition of getting the benefit.
- Ensure state agencies collaborate and share relevant information.
- Conduct a comprehensive review of business reporting requirements.



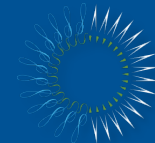
Collect and assess relevant data – How Nebraska could do it

- Develop a plan to collect the data needed to measure each tax incentive's success at the same time metrics are developed for each incentive.
- Consider whether a comprehensive review of tax incentive reporting requirements for businesses and state agencies would be valuable.



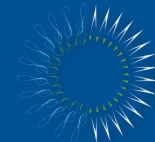
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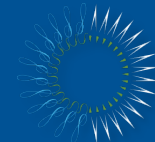
Who should conduct the evaluation – Key characteristics of effective evaluation offices

- Experience at program evaluation
- Experience measuring economic impact
- An impartial, non-partisan perspective
- A willingness to make policy recommendations



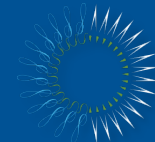
Who should conduct the evaluation – Who evaluates in other states

- Legislative staff
- Tax-collecting agency
- Economic development agency
- Outside experts
- Hybrid approach



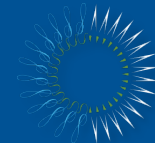
Who should conduct the evaluation – How Nebraska could do it

- Legislative Audit Office takes the lead.
- Other agencies play a role in data collection and sharing.
- Options for measuring economic impact:
 1. The Legislative Audit Office develops internal expertise.
 2. The office partners with the Department of Revenue.
 3. The office partners with a university or consulting firm.



Tax Incentive Evaluation – Key Issues

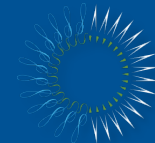
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Measuring impact with and without economic models

– Pros and cons of economic models

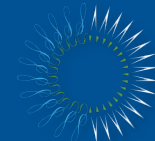
- Pro: Use a series of equations to calculate the effects of government policies, including tax incentives, on a state's economy.
- Pro: Can be customized for Nebraska's tax structure and major industries, improving accuracy.
- Con: Require extensive training for users to understand the assumptions and calculations.
- Con: Highly technical, creates challenges when analysts try to communicate the finding to policymakers.



Measuring impact with and without economic models

– Key questions to measuring impact

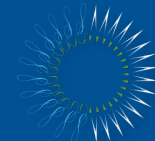
1. To what extent did the incentive change businesses' behavior?
2. Will the incentive produce a net economic benefit?
3. Is the tax incentive an effective approach to achieving its goals compared to alternative policies?



Measuring impact with and without economic models

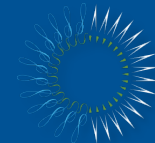
– How Nebraska might do it

- Ensure that the office in charge of conducting the evaluations has access to TRAIN or another economic model.
- Provide the evaluators with flexibility on whether and how to use the model for each evaluation.
- What specific model is used may depend on which office is selected to lead the evaluations.



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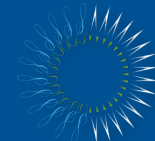
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Ensuring evaluations inform the policymaking process

– How other states have done it

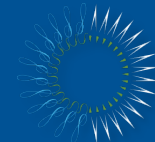
- Hold legislative hearings on evaluations
- Require legislative recommendations
- Incorporate the results of evaluations into the budget process



Ensuring evaluations inform the policymaking process

– How Nebraska could do it

- Create a new legislative committee to oversee tax incentive policy, with a composition similar to the Tax Incentive Evaluation Committee.
- Have the new committee hold hearings on evaluations.
- Have the new committee make recommendations to the full legislature.





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