

Tax Expenditures: Exemptions and Credits



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TRENDS AND BEST PRACTICES IN STATE TAX EXPENDITURES

32ND BIENNIAL INSTITUTE FOR GEORGIA LEGISLATORS

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TRENDING AREAS IN STATE TAX EXPENDITURES

- **Sales Taxes:** Including more services and digital goods in the sales tax base
- **Personal Income Taxes:** Earned income tax credits, property tax relief through income tax code, conformity decisions around CARES ACT/TCJA
- **Corporate Income Taxes:** Conformity decisions around CARES ACT/TCJA, more evaluation of business tax incentives

NCSL SALT TASK FORCE BEST PRACTICES FOR TAX EXPENDITURE REPORTS

- Be easily accessible and available on-line
- Be completed in time for budget and policy decisions
- Define or describe the normal tax structure for each tax included in the report and identify deviations, both those that benefit and those that penalize a class of taxpayers
- Include, for each tax expenditure
 - The date the tax expenditure was enacted and the statutory citation or federal law reference
 - The tax policy rationale and desired outcome, including, where specified in law and as appropriate for each tax expenditure, clearly identified metrics for assessing the effectiveness of the expenditure
 - Information regarding the categories of taxpayers that benefit
 - An updated estimate of the revenue impact (positive or negative) of the tax expenditure
 - Categorization of tax expenditures both by tax type and, as appropriate, budget category
 - A review schedule and/or, as desired or specified in law, an expiration or sunset date
- Make clear the methodology and limits of estimates provided in the report.

BEST PRACTICES FOR EVALUATING TAX EXPENDITURES

- Tax expenditures should be an integral part of the state's budgeting process, subject to a comparable regular review and approval process as other expenditures. Each tax expenditure should be reviewed regularly, with a frequency of review taking into account the trade-off between available resources to undertake the review and the cost of the tax expenditure.
- There should be clarity about who is responsible for this review. Should it be done by a special legislative committee, a created commission, or some other authority (such as the executive branch)
- Evaluations should be based on measurable goals and draw clear conclusions on the effectiveness of each tax expenditure.
- The Governor and appropriate legislative committees should review the reports to determine whether tax expenditures should be continued, modified or eliminated. This should be part of the state's normal budgeting process.

BEST PRACTICES FOR EVALUATING TAX EXPENDITURES CONT.

- Rigorous evaluations should determine costs and benefits of each tax expenditure, and allow policymakers to ask critical questions, including:
 - Is the purpose, cost and benefit of each tax expenditure clear?
 - Are there clear metrics to determine the tax expenditure's effectiveness?
 - If no readily available data exists to measure a tax expenditure, how should it be evaluated?
 - To what extent did the tax expenditure affect choices made by taxpayers?
 - Did the expenditure achieve its purpose?
 - Who was affected by the tax expenditure?
 - Did the benefits of the tax expenditure outweigh the effects of the tax increases or spending cuts needed to offset it?

RESOURCES

- Tax Expenditure Budgets and Reports: Best Practices. NCSL SALT Task Force (2017): [https://www.ncsl.org/documents/statefed/NCSL Tax Expenditures Best Practices.pdf](https://www.ncsl.org/documents/statefed/NCSL_Tax_Expenditures_Best_Practices.pdf)

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