

Accountability

Recent Trends in Tax Incentives

Western States Association
of Tax Administrators

September 2007

Washington State's Experience

General Background:

- 2004 – Introduction of accountability
- Accountability routinely added to existing and new incentives
- Currently Washington has 37 tax incentive programs requiring reports/surveys

Policy Objectives

- Job creation or retention
 - emphasis on family wage jobs
- Diversification of the economy
 - emphasis on High Tech industries
- Capital investment
 - generally related to increased employment

Measuring Effectiveness

The Process:

- Businesses provide data through a report or survey
- Department provides summarized data to the legislature
- Legislature periodically analyzes program effectiveness

The Annual Survey

Deferrals, Credits, Other

Survey Components:

- Dollar benefit
 - Disclosable except under \$10K
- Employment information
 - Not disclosable
- Product information
 - Not disclosable

DOR provides statistical report to Legislature

The Annual Report

Primarily Aerospace Industry

Report Components:

- Employment information
 - Disclosable
- Product information
 - Disclosable

DOR provides statistical report to Legislature

What Do Studies Show?

- Number of studies are limited
- Results are mixed – examples:
 - Link between high tech incentives and R&D spending
 - No link found between rural county incentives and jobs
 - Difficult to know if incentives kept us from losing jobs where no increase was shown

Political Dynamics

- Two Trains of Thought:
 - Some believe any business tax reduction is a benefit to the State
 - Others want to show a direct correlation between incentives and jobs
- The accountability requirements, and the incentives themselves, are a compromise between these two general philosophies.

Problems

- Confusion within the law
- Taxpayer confusion = soft data
- Limited DOR resources to verify data
- Limited time for taxpayers to file
- Limited time for DOR to summarize data
- Disclosability issues

Next Steps

- Analyzing current statutes
- Raising awareness of State Legislators
- Drafting a simplification bill
- Advocating uniformity in future programs