

Opinion

Indianapolis Star: How Effective Are Tax Incentives? Indiana May Soon Find Out

[Economic Development Tax Incentives](#) | [Contact Jeremy Ratner](mailto:jratner@pewtrusts.org) | [Source The Indianapolis Star](#)
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Creating jobs and boosting local economies are of primary importance to legislators in virtually every state. Yet lawmakers too often rely on incomplete, conflicting or anecdotal evidence when deciding whether to adopt and maintain tax incentives to spur economic development. Indiana is poised to take a major step toward ensuring effective evaluation of the state's tax incentives with the Indiana Economic Development Tax Incentives Evaluation Act (House Bill 1020).

Tax incentives — which include credits, exemptions and deductions — are designed to encourage businesses to locate, hire, expand and invest within a state. HB 1020 continues a commitment by the legislature and by the Indiana Economic Development Corporation to enhance the quality of information available to determine which incentives work, which do not, and how these programs can be improved.

All of this represents real progress for the Hoosier State. A [study](#) by The Pew Charitable Trusts showed that until 2012, Indiana was one of the states that did not take the basic steps necessary to assess the results of its tax incentives.

HB 1020, which passed the House and Senate by wide margins, cements recent efforts into law, borrowing proven practices and tools from other states. For example, it would establish regular evaluations of all economic development incentives, requiring that each program be reviewed every five years to determine whether it is meeting the state's goals and how it can be refined.

But conducting evaluations is not enough, because evidence produced in studies is often not given substantive consideration in policy and budget discussions. HB 1020 would ensure that lawmakers are directly involved in the evaluation process by holding public hearings to examine the data. The Rhode Island legislature passed a similar proposal last year with only a single dissenting vote. This year, Indiana is one of a number of states considering following suit, along with Maine, Mississippi, Nebraska and North Dakota.

When the state of Washington adopted a comprehensive evaluation process in 2006, it established a schedule to review each tax incentive at least every 10 years. Nonpartisan analysts work with a citizen commission to examine a set of incentives annually and make recommendations to the legislature on whether to continue, reform or end them.

Pew's research shows that evaluators should ask the right questions and draw clear conclusions about what policy changes a state should consider. HB 1020 follows best practices by guaranteeing that programs are evaluated based on how well they reflect state priorities. And it requires rigorous analysis to measure the economic impact of incentives.

This type of evaluation can yield useful results. In Louisiana, businesses benefiting from the state's Enterprise Zone program reported creating 9,000 jobs. An evaluation by the state's economic development department found, however, that the new jobs in hotels, restaurants, retail and health care mostly displaced existing jobs. The agency estimated that the program netted only 3,000 new jobs and identified several ways the incentive could be strengthened. The Louisiana legislature now has adopted many of the suggestions.

In Indiana, HB 1020 would give lawmakers the evidence they need to ensure that Hoosier taxpayers get a good return on the millions of state tax dollars spent each year on economic development incentives. This will improve their ability to encourage businesses to create jobs, increase investment, and enhance the state's quality of life.

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