Promoting State Budget Accountability Through Tax Expenditure Reporting

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I. Executive Summary

Each year states spend tens, maybe hundreds, of billions of dollars on “tax expenditures.” Tax expenditures are tax credits, deductions, and exemptions that reduce state revenue. They can include everything from poverty-reducing tax credits, to middle-class benefits, to corporate subsidies. Tax expenditures cost state treasuries money in much the same way as direct spending for schools, health care, or road construction. And like direct spending, tax expenditures are a tool states can use to accomplish policy goals.

There is a key difference, however, between direct spending and tax expenditures. States typically require extensive documentation of how much direct spending they do each year, and their budget processes entail evaluation of each item. Tax expenditures usually receive far less scrutiny. For the most part, policymakers do not regularly examine tax expenditures, nor do states document their effectiveness the same way they do for on-budget expenditures.

This is a serious problem. Most tax expenditures are written into the tax code and thus will continue indefinitely — regardless of how costly they may become over time — unless the legislature acts to discontinue them. (Appropriated expenditures, by contrast, typically last only as long as the one- or two-year budget cycle.) Without information on a particular tax expenditure’s costs and benefits, lawmakers cannot make an informed decision on whether its continuation is in the state’s interest.

More broadly, if policymakers, the media, and the general public lack information about tax expenditures, they cannot fully participate in decisions about how to allocate state resources. In fact, in many states the policy debate encompasses little more than *half* of the state’s total expenditures because expenditures made through the tax code are not part of the conversation.

A state can address this lack of transparency by regularly publishing a *tax expenditure report*, also called a *tax expenditure budget*. A tax expenditure report lists the state’s tax breaks and how much each one costs, along with other relevant information that helps policymakers and others evaluate them.

If properly designed and implemented, a tax expenditure report makes tax expenditures more transparent by telling policymakers and the public how the state is spending its money and what it is accomplishing through those expenditures. A tax expenditure report also encourages accountability by enabling policymakers and voters to evaluate individual tax expenditures and decide whether to continue them. In addition, a tax expenditure report saves money by enabling policymakers to monitor the costs of tax expenditures and rein in their cost if necessary.

Forty-two states (counting the District of Columbia as a state) produce tax expenditure reports.[1] Unfortunately, many of these reports have significant shortcomings that limit their usefulness:

- Nine of the 42 states omit major taxes from their tax expenditure report, and three others fail to publish a report at least once every two years.

[1] All of the data in this report reflect tax expenditure documents released through June 2008.

Tax Expenditure Report Checklist

To achieve its goals of improving transparency, encouraging accountability, and saving money, a tax expenditure report should have the features listed below.

Accessibility. The report should be:

- ✓ Published regularly.
- ✓ Incorporated into the budget process.
- ✓ Available on the Web.

Scope. The report should include:

- ✓ Tax expenditures related to all taxes.
- ✓ All tax expenditures, including those with lower costs or those benefitting few taxpayers.
- ✓ Explicit and implicit tax expenditures.
- ✓ Tax expenditures enacted by the state that affect local government.

Detail. The report should include:

- ✓ The cost of the tax expenditure, using current data.
- ✓ The cost in future years, to allow comparison with other proposed expenditures.
- ✓ A description of the tax expenditure.
- ✓ The relevant legal citation and year of enactment.
- ✓ Detail on the taxpayers who benefit from the tax expenditure.
- ✓ Separate reporting for the state and local revenue losses, where applicable.

Analysis. The report should:

- ✓ Classify tax expenditures using the same categories as direct spending.
- ✓ State the purpose of each tax expenditure.
- ✓ Evaluate the extent to which that purpose has been accomplished.
- ✓ Analyze the distribution of benefits by income level and size of business.

- Almost every state's report omits some essential information, such as the law that mandates a given tax expenditure or the number of households or businesses that benefit. Some reports even omit the cost of many tax expenditures.

- Five states fail to make their report accessible to the public through means such as posting it on the Internet.

Some state tax expenditure reports are much better than others, but every state could improve its practices in this area. **Oregon**, **Minnesota**, and **Connecticut** publish relatively comprehensive and informative reports that could serve as a model for other states. Among the least useful reports are those issued by **Arkansas**, **Maryland**, and **Rhode Island**, because they omit major taxes, fail to provide cost estimates and other key information for many tax expenditures, and/or are not available online.

Nine states fail to publish a tax expenditure report at all, meaning that citizens have no way of knowing on an ongoing basis what the state is spending or what policies it is pursuing through the tax code. These states are: **Alabama, Alaska, Georgia, Indiana, Nevada, New Jersey, New Mexico, South Dakota,** and **Wyoming**.

This report lays out best practices for tax expenditure reports — ways to make the reports maximally useful to policymakers and to the public. (For a list of the features a report should contain, see the box on page 2.) The goal is not to eliminate tax expenditures, which are neither good policy nor bad policy per se. Tax expenditures are one of a policymaker's tools for achieving policy goals; like other tools, they can be put to good use or abused, and like other tools, they should be transparent and accountable. A well-designed and well-implemented tax expenditure report can accomplish that.

II. Tax Expenditures: Spending by Another Name

Tax expenditures are "reductions in tax liabilities that result from preferential provisions" in tax law.[2] They include tax exemptions, credits, deductions, preferential rates, and abatements. Policymakers generally enact tax expenditures to accomplish a policy goal. The goal may be as simple as conforming with the federal tax code, such as when a state adopts the same itemized deductions as the federal tax code. Or it may be complicated and difficult to evaluate, such as the use of tax breaks to encourage economic development.

Some tax expenditures benefit many taxpayers; others benefit just a few. For example, most states allow income tax filers to claim a personal exemption against their reported income, which reduces most taxpayers' tax liability. By contrast, some tax expenditures benefit only a single industry (Rhode Island exempts aircraft makers from its sales tax, for example), or even a single company (such as an auto company a state hopes will locate a plant there).

Tax expenditures are popular with policymakers for a number of reasons. They can achieve certain policy goals more efficiently than on-budget spending can. (Imagine the number of government employees that would be required to operate a program through which taxpayers applied for a subsidy for each child, rather than deducting from their income a personal exemption for each child.) This is particularly true of policies that are "means tested," that is, limited to individuals or families below a certain income level. Since completed tax forms contain income information, it can be efficient to use the tax system to deliver means-tested subsidies such as the Earned Income Tax Credit.[3]

Another reason policymakers may prefer tax expenditures is that a new tax expenditure usually is categorized as a tax cut, while a new on-budget program is considered an expenditure increase. Particularly in states in which expenditure increases are limited in some way or politically unpopular, a tax expenditure may be the only way to accomplish a goal.

Despite these advantages, tax expenditures — which can cost states tens, perhaps hundreds, of billions of dollars per year in forgone revenue — are likely to cause fiscal problems if they are not treated in ways that are parallel to direct expenditures.

Public finance experts generally agree that tax expenditures should be viewed in much the same light as direct spending. Indeed, tax expenditures are often said to be spending masquerading as tax cuts.[4] The reason is that, in many ways, tax expenditures operate just like direct expenditures. Tax expenditures:

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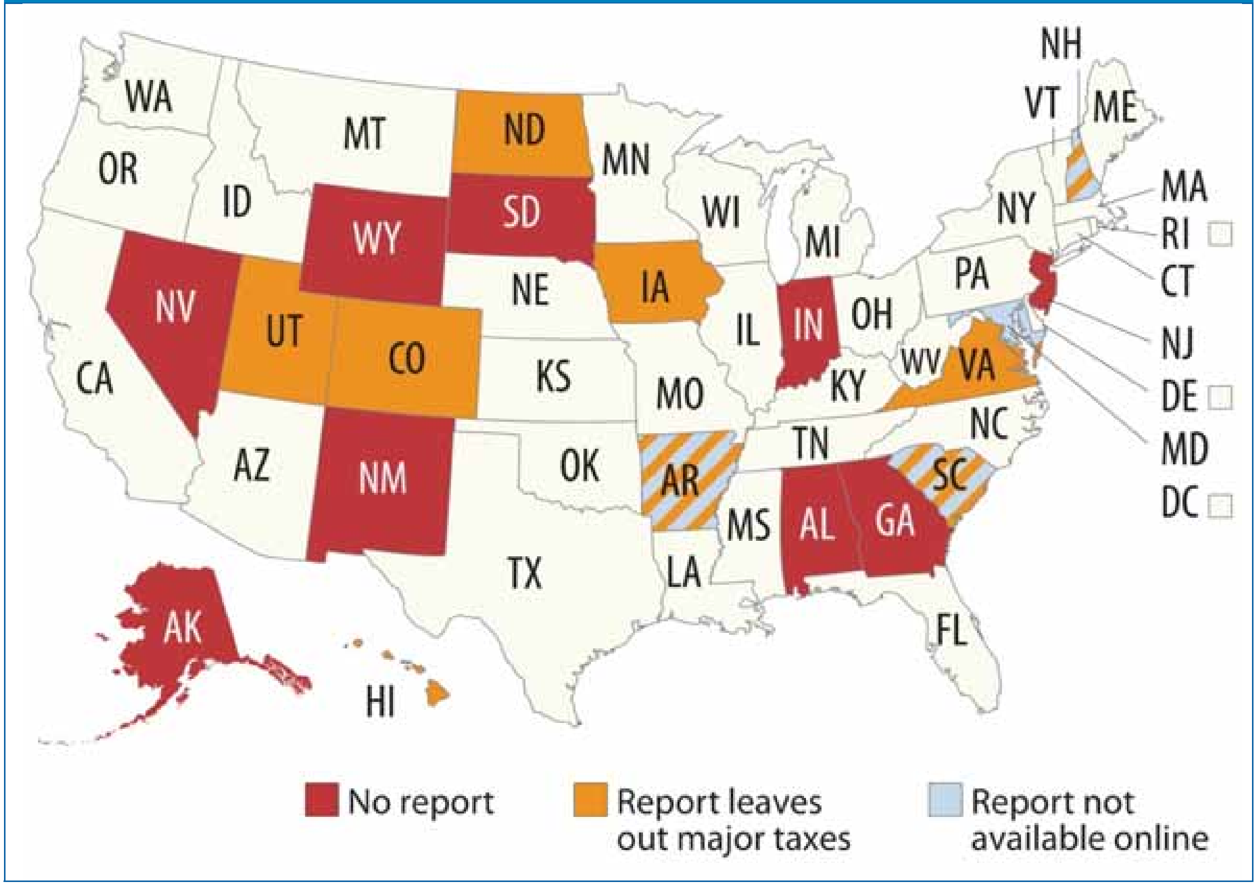
[2] "Tax Expenditures Represent a Substantial Federal Commitment and Need to Be Reexamined," Government Accountability Office, September 2005, page 7, www.gao.gov/new.items/d05690.pdf.

[3] If the intended recipients would not otherwise file a tax form, however, delivering a subsidy in this manner can require intensive outreach.

[4] For example, tax expert Eugene Steuerle has noted that tax expenditures "allow politicians to appear to be reducing the size of government (reducing taxes) while actually increasing it (increasing spending)." C. Eugene Steuerle, "Summers on Social Tax Expenditures: Where He's Wrong…or at Least Incomplete," *Tax Notes*, December 18, 2000, www.taxpolicycenter.org/publications/template.cfm?PubID=7927.

TAX EXPENDITURE REPORTING LAGGING IN MANY STATES



- **Impose a cost on state government**. The effect on the state treasury is the same whether the state appropriates $500,000 to fund research and development or authorizes $500,000 in research and development tax credits. Either way, the state must either spend $500,000 less in other areas or collect $500,000 more in taxes from other taxpayers.

- **Lead to higher taxation or lower expenditures elsewhere**. Every dollar the state forgoes in tax revenue is one less dollar it can spend on schools, law enforcement, or other priorities — or one more dollar it must raise through other taxes. Sometimes this connection is indirect, as when the exclusion of services from the sales tax may force a state to tax goods at a higher rate. Sometimes it is quite direct, as with targeted property tax exemptions. (Many jurisdictions set the property tax rate each year by dividing a revenue target by the amount of taxable property; the exemption of certain property from the tax directly raises other taxpayers' tax bills.) Whether directly or indirectly, providing tax preferences for some taxpayers may mean imposing higher taxes on other taxpayers — or forgoing public services such as better public schools or access to health care.

- **Can be used to achieve policy goals**. For example, a state can make higher education more affordable either through direct expenditures (e.g., the appropriation of funds for scholarships) or through tax expenditures (e.g., a tuition tax credit).

- **Can be used to direct state funds into select private hands**. Like appropriations, tax expenditures can be used to distribute money from the state to select beneficiaries, including a specific individual or business.

- **Can benefit those who do not pay any taxes**. While tax expenditures are widely believed to merely reduce the taxes taxpayers owe, they can be structured so as also to benefit individuals or businesses that pay no taxes. A common means is the "refundable" tax credit: if the value of a refundable credit exceeds the recipient's tax liability, the recipient receives the difference in the form of a refund check. Other tax expenditures can be carried over from year to year, allowing an entity without tax liability in a given year to "save" the tax break until a later year when it does owe tax. Still others can be sold, either to another entity or to the state.[5] Through these and other methods, entities without any tax liability benefit from tax expenditures just as they would from direct government spending.

Tax Expenditures Typically Receive Much Less Scrutiny Than Direct Expenditures

Unfortunately, while tax expenditures are clearly a form of spending, they often are much less transparent — and thus are subject to much less scrutiny — than direct expenditures:

- **They may not be listed in the budget and rarely are prioritized alongside direct expenditures.** When a new state budget is proposed, it lists both the direct spending for the current year and proposed spending items for the coming year (or, in some states, two years). The legislature then enacts these spending items into law in the budget bills it passes.

  Tax expenditures, by contrast, are at best listed in a document that is separate from the budget — or not shown at all in conjunction with the budget. Even when they are listed, they are in a different format than on-budget expenditures. As a result, they are much less likely than spending items to be analyzed, debated, and weighed against other priorities as the legislature prepares the final budget.

- **They do not have to be appropriated each year.** Appropriated expenditures generally last only as long as the one- or two-year budget cycle. When the executive branch develops a new budget proposal, it decides which appropriations should be renewed and which discontinued, and these decisions occasion evaluation and comparison.

  The legislature makes similar assessments in enacting a budget. Committees typically hold hearings and consider evidence about whether appropriated items are achieving their purposes and whether any given item is a better use of state funds than other priorities. Such a process adds transparency and accountability to direct expenditures.

  Tax expenditures, by contrast, are typically permanent unless revoked. In most cases they are not evaluated or reconsidered as part of the budget process — or at any other time. No state agency or legislative committee is tasked with scrutinizing each tax expenditure to determine

[5] In Connecticut, for example, corporations without income tax liability can claim research and development tax credits and then sell them back to the state at 65 percent of their face value. The state bought back $15 million of these credits in fiscal year 2005.

whether it should continue. As a result, tax expenditures generally escape the accountability to which direct spending is subjected.

To cite just one small example, in 1989 **Georgia** passed a law exempting videotape rentals from the sales tax. This exemption currently costs the state more than $4 million per year, even as the state continues to tax necessities like clothing and medicine. The exemption is permanent, so there is no requirement that policymakers ever reconsider whether it is a good use of state dollars.[6] Nor is there any evidence that policymakers ever have reviewed it.

A Tax Expenditure That Ran 10,000 Percent Over Budget

In 2000 Arizona passed a tax credit for vehicles that can run on alternative fuels.

The state estimated that the credit, which paid up to half of the vehicle's cost, would cost $3 million to $10 million per year.

In its first year, however, the credit cost the state **$680 million.** This is not typical, but it shows just how little control legislatures have over some tax expenditures.

In addition, in some states tax expenditures are more difficult to revoke than other permanent provisions of state law. This is because some states impose supermajority requirements or other barriers on tax increases, and abolishing a tax expenditure counts as a tax increase. In these states, even when policymakers examine tax expenditures and find them lacking, they are extremely hard to repeal.[7]

- **Their cost can grow out of control.** Appropriated expenditures normally are limited in cost to the amount budgeted. Generally speaking, for example, if the legislature appropriates $10 million for job training programs, the human services department can spend no more than $10 million on job training.

  Many tax expenditures are not subject to this basic constraint. Deductions and credits typically can be claimed by an unlimited number of taxpayers, and sometimes in unlimited amounts. For example, if taxpayers claim twice the amount of home weatherization credits as the state had projected, that tax expenditure will cost the state twice as much as expected. And because the cost of tax breaks is not in the budget, this growth can happen without the legislature's knowledge.

For all of these reasons, there is a broad consensus among public finance experts that tax expenditures warrant careful attention by policymakers and the public. "[U]nless attention is paid to tax expenditures, a country does not have its tax policy or its budget policy under full control," two experts have written.[8] The same applies to state government.

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[6] Clare S. Richie and Sarah Beth Gehl, "Show Us the Money: Transparency Needed On Tax Breaks," Georgia Budget and Policy Institute, Revised March 2007, page 4, www.gbpi.org/pubs/specialreport/20070305.pdf.

[7] National Conference of State Legislatures, "State Tax and Expenditure Limits – 2008," http://ncsl.org/programs/fiscal/telsabout.htm#othertax.

[8] S. S. Surrey and P. R. McDaniel, "The Tax Expenditure Concept and the Legislative Process," *The Economics of Taxation* (H. J. Aarons and M. J. Boskins, eds.), Brookings Institution, Washington, D.C. (1980). On the importance of examining tax expenditures, see also John Mikesell, "Tax Expenditure Budgets, Budget Policy, and Tax Policy: Confusion in the States," *Public Budgeting and Finance,* Winter 2002; Government Accountability Office, "Tax Expenditures Represent a Substantial Federal Commitment and Need to Be Reexamined," September 2005; *Bad Breaks*

Well-Designed Tax Expenditure Reports Improve Transparency and Accountability

To insure that tax expenditures are transparent and accountable, many states produce tax expenditure reports, also called tax expenditure budgets.[9] A tax expenditure report is a list of a state's tax expenditures with information about each one, such as how much it costs the state, how it works, and who benefits. As described below, the type and amount of information vary greatly among states and affect the usefulness of the document.

Forty-two states regularly publish some sort of tax expenditure report.[10] The federal government does the same for federal tax expenditures. Appendix 1 lists the tax expenditure reports states currently produce.

If properly designed and implemented, a tax expenditure report:

- **Makes tax expenditures more transparent.** By listing the cost of the state's tax expenditures, the report lets policymakers and the public know how the state is spending its money and what it is accomplishing through those expenditures. Tax expenditure reports also draw attention to tax expenditures that might otherwise go unnoticed.

  This increased transparency is the fundamental reason for states to enact tax expenditure reports. Without it, prudent allocation of resources is impossible. In the words of Indiana University professor John Mikesell, "Tax expenditure budgets can close an information gap in the budget process."[11]

- **Encourages accountability.** Tax expenditure reports enable policymakers and voters to evaluate individual tax expenditures and decide whether to continue them. Some states even mandate that their reports include such an evaluation.

  Iowa's governor has a proposal pending in the 2009 legislative session to reduce the state's refundable "research activities credit," which has been on the books since the mid-1980s and was last modified in 2000. A report on the credit found that the credit, which is larger than most states provide, did not appear to have any effect on three

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All Around, The Century Foundation, 2002; Hana Polackova Brixi, Christian M.A. Valenduc, and Zhicheng Li Swift, eds., *Tax Expenditures – Shedding Light on Government Spending through the Tax System*, Washington, D.C.: The World Bank, 2004; and C. Eugene Steuerle, "Summers on Social Tax Expenditures: Where He's Wrong…or at Least Incomplete," Tax Notes, December 18, 2000, www.taxpolicycenter.org/publications/template.cfm?PubID=7927.

[9] Forward-looking documents — that is, those that forecast the cost of tax expenditures in upcoming years — are more often called tax expenditure "budgets," while retrospective documents are more often called tax expenditure "reports."

[10] This includes Florida, where the Florida Tax Handbook does not include a discrete tax expenditure analysis but rather embeds revenue loss estimates into the overall revenue analysis for each type of tax. California and New York regularly produce more than one tax expenditure report. Arizona annually produces both a tax expenditure report and a conformity report with information on the cost to the state of conforming with changes in federal tax expenditures. A number of other states, notably Arkansas, Indiana, and Iowa, have published one-time reports at some point, but those are not considered here. For a complete listing, see Appendix 1. Throughout this report, the District of Columbia is counted as a state.

[11] Mikesell 34.

indicators of research activity: research spending, patents, or the number of scientists and engineers.[12]

- **Saves money by exposing excessive costs.** By reporting the cost of tax expenditures, tax expenditure reports make it possible for policymakers to monitor their costs and take action if necessary to rein in the cost.

  Oregon provides a recent example. The state's first tax expenditure report, released in 1996, showed that a state law exempting lottery winnings from the income tax was costing the state about $44 million per biennium. The following year, the legislature scaled back the exemption (limiting it to lottery prizes of $600 or less). In 2001, the change was extended to non-residents who purchase Oregon state lottery tickets. Together, these changes are saving the state more than $40 million per biennium.

Despite these important benefits, nine states — **Alabama, Alaska, Georgia, Indiana, Nevada, New Jersey, New Mexico, South Dakota,** and **Wyoming —** produce no regular tax expenditure report. An additional nine states omit major taxes from their reports (see Table 1), and three others publish reports less than biennially, rendering them far less useful. In these states, neither lawmakers nor voters know how much the state spends on tax breaks, or who benefits.

[12] Iowa Department of Revenue, "Iowa's Research Activities Credit," Tax Credits Program Evaluation Study, January 2008. This was a special study rather than a part of a regular tax expenditure budget, but such information could be incorporated into a tax expenditure budget.

III. Elements of a Good Tax Expenditure Report

Often, and for no apparent reason, states leave out key features of their tax expenditure reports and fail at important practices. A tax expenditure report should be:

- **Accessible.** No tax expenditure report, no matter how good, will result in improved policy if it is left on a shelf. A tax expenditure report needs to be easy to access and use, and it must actually be used to examine tax expenditures alongside budgetary expenditures to determine expenditure priorities and their cost-effectiveness.

- **Comprehensive.** The report should include most or all of a state's tax expenditures, including those arising from all major taxes, from conformity with federal tax law provisions, and from gaps in the state's tax base.

- **Detailed.** The report should include detailed information about the cost and structure of each item, as well as whom it benefits.

- **Analytical.** The report should evaluate whether each tax break is furthering its intended goal.

The remainder of this report describes these features in more detail, giving specific examples of which states' reports meet each of these standards. It should be noted that the classification of some of the reports is not precise — many states' reports are largely but not completely comprehensive, for example, or include detail for some but not all tax expenditures.

Reports Should Be Accessible

The purpose of a tax expenditure report is to provide information to policymakers and the public about the way in which state funds are being spent. To accomplish this purpose, the report has to be readily available and include current information. The report is more likely to be seen and used if it is:

- **Published regularly.** Tax expenditure reports should be published every year or two. Thirty-eight states produce tax expenditure reports at least every two years.

- **Incorporated into the budget process.** The report's release should be timed for use during the budget debate. As Mikesell has noted, having the report's publication schedule "not match that of the regular budget cycle … contributes to the idea that tax expenditures are distinguishable, as part of policy and politics, from ordinary spending and conflicts with the balancing of alternatives that constructing a budget should entail."[13] Some states (for example, **Michigan**) go further and publish the report as part of the regular budget. An additional step would be to require the legislature to consider items in the tax expenditure report when it considers other spending items.[14]

[13] Mikesell 49.

[14] Another measure to consider, which is beyond the purview of a tax expenditure report, would be to require tax expenditures to be reenacted every year or two, as direct expenditures are, or to require some type of review process.

FIGURE 1:
ACCESSIBILITY OF TAX EXPENDITURE REPORTS

Source: Center on Budget and Policy Priorities analysis of state reports. See Appenix 2.

- **Available on the Web.** Every tax expenditure report can and should be posted on the Internet in an easy-to-find location. Four states have not posted their reports online, which is a failure of transparency.

Reports Should Be Comprehensive in Scope

To provide a complete and accurate portrayal of how a state is spending its resources and what it is (and is not) taxing, a tax expenditure report should include all or nearly all of a state's tax expenditures. There are a number of dimensions to this requirement:

- **The report should cover all state taxes.** It should include tax breaks arising from every tax the state levies, or at least every major tax. Thirty-three states publish tax expenditure reports that cover all major taxes.

  Most states collect the vast majority of their tax revenue — and make the vast majority of their tax expenditures — through the personal income tax (PIT), corporate income tax (CIT), and/or sales tax, so these are generally the most important to include. For example, **Maine** receives 90 percent of its revenue from taxes on personal income, corporate income, and sales, and covers these three types of taxes in its tax expenditure report.[15] In addition, property taxes are a major source of revenue for a few states, and these states' reports should include property tax expenditures as well. (Property taxes are also a major revenue source for many localities, which receive their taxing authority from the states. Local tax expenditures are discussed below.)

  The reports of 29 states include minor taxes as well. **Connecticut** receives 93 percent of its revenue from the "big three" taxes, but its report also includes smaller state taxes.[16] **Nebraska's** report covers all taxes that generate at least $2 million in revenue annually, which includes the personal and corporate income taxes, the sales tax, the property tax, and a number of smaller taxes.

  Nine states leave out major taxes. **South Carolina**, for example, taxes personal income, corporate income, and sales, but its tax expenditure report includes only sales tax expenditures. The states that leave major taxes out of their reports are **Arkansas, Colorado, Hawaii, Iowa, New Hampshire, North Dakota, South Carolina, Utah,** and **Virginia**.

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[15] Revenue source data is from the U.S. Census Bureau.

[16] These include taxes on gifts, inheritances, public service companies, petroleum company gross earnings, insurance premiums, real estate conveyance, cigarettes and tobacco products, and alcoholic beverages.

- **The report should include all significant tax expenditures, including those that cost relatively little or benefit few taxpayers.** While most states' reports include all tax expenditures associated with each tax they cover, two states — **California** and **Illinois** — leave out expenditures whose annual cost falls below a threshold ($5 million for California, $1 million for Illinois). This practice is problematic for two reasons. First, a large number of small expenditures can add up to a significant amount. Second, leaving out small tax expenditures may leave undisclosed the highly targeted tax expenditures that lawmakers and special interests are most likely to abuse. For practical reasons, however, it may be necessary to exclude some tax expenditures with very minimal fiscal impact.

  Two states — **Kansas** and **North Carolina** — withhold the cost of tax expenditures that benefit very few taxpayers, explaining that revealing this information would violate confidentiality. Kansas withholds the cost of tax expenditures that benefit fewer than five taxpayers; North Carolina withholds the cost of nine tax expenditures (mostly relating to the corporate income tax) that it reports were "taken by so few taxpayers that estimates based on tax information may compromise taxpayer confidentiality if reported."[17] This practice raises the same concerns as leaving out less costly tax expenditures: transparency is most important for highly targeted tax expenditures.

- **The report should include both explicit and implicit tax expenditures.** Some tax expenditures are explicitly defined in state law. For example, a provision reading "The sale of all goods shall be taxed, except the sale of food for home consumption" is an explicit tax expenditure exempting groceries from the sales tax. Other tax expenditures are only implied, by what is left out of the code, by a reference in the code, or by the code's departure from standard or historical practices. Because implicit tax expenditures are harder to recognize, it is particularly important that a tax expenditure report include them.

Three major examples of implicit tax expenditures demonstrate this point:

1. **The omission of certain services from a state's sales tax base.** State sales taxes typically are levied on the purchases of all goods, with specified exceptions (for example, for groceries). Nearly every state also levies its sales tax on certain specified services. By exempting from the sales tax all services not listed in the tax code, a state incurs implicit tax expenditures from the revenue forgone by this exemption.

   Of the 34 tax expenditure reports that include sale tax expenditures, only 16 include an entry for the exclusion of services from the sales tax base.

   This is a troubling omission. The taxability of services is perhaps the most salient policy debate regarding the sales tax. Most tax experts agree that the sales tax should be viewed as a tax on consumption, and thus should cover all goods and services unless there is a clear rationale for excluding them. As William Fox of the University of Tennessee and LeAnn Luna of the University of North Carolina-Wilmington have written, "Empirical literature on

[17] North Carolina 2007 Tax Expenditure Report, pg. 126.

TABLE 1: TAXES INCLUDED IN STATES' TAX EXPENDITURE REPORTS					
State	Sales & Use Tax	Personal Income Tax	Corporate Income Tax	Property Tax*	Other Taxes
Alabama	No Report				
Alaska	No Report				
Arizona	Y	Y[a]	Y	Y	Y
Arkansas	N[b]	Y	Y	N	N
California	Y	Y	Y	Y	Y
Colorado	Y	N	N	N/A	N
Connecticut	Y	Y	Y	N/A[c]	Y
Delaware	N/A	Y	Y	N/A	Y
District of Columbia	Y	Y	Y	Y	Y
Florida	Y	N/A	Y	Y[d]	Y
Georgia	No Report				
Hawaii	N	Partial[e]	Partial[e]	N/A	N
Idaho	Y	Y	Y	N/A	N
Illinois	Y	Y	Y	N/A	Y
Indiana	No Report[f]				
Iowa[g]	N	Partial[h]	Partial[h]	N/A	N
Kansas	Y	Y	Y	Y[d]	Y
Kentucky	Y	Y	Y	Y	Y
Louisiana	Y	Y	Y	N/A	Y
Maine	Y	Y	Y	Y[d]	N
Maryland	Y	Y	Y	Y	Y
Massachusetts	Y	Y	Y	N/A	N
Michigan	Y	Y	Y	Y	Y
Minnesota	Y	Y	Y	Y	Y
Mississippi	Y	Y	Y	N/A	Y
Missouri	Y	Y	Y	N/A	Y
Montana	N/A	Y	Y	Y	Y
Nebraska	Y	Y	Y	Y[d]	Y
Nevada	No Report				
New Hampshire	N/A	N/A	Y	N	N
New Jersey	No Report				
New Mexico[i]	No Report				
New York	Y	Y	Y	N/A	Y
North Carolina	Y	Y	Y	N/A	Y
North Dakota	Y	N	N	N/A	N
Ohio	Y	Y	Y	N/A	Y
Oklahoma	Y	Y[j]	Y[j]	N/A[k]	Y
Oregon	N/A	Y	Y	Y[d]	Y
Pennsylvania	Y	Y	Y	N/A	Y
Rhode Island[l]	N	Y	N	N/A	Y
South Carolina	Y	N	N	N	N
South Dakota	No Report				
Tennessee	Y	N/A	Y	N/A	Y
Texas	Y	N/A	Y	Y[d]	Y
Utah	Y	N	N	Y[d]	N
Vermont	Y	Y	Y	Y	N
Virginia	Y[m]	N	N	N/A	N
Washington	Y	N/A	N/A[n]	Y	Y
West Virginia	Y	Y	Y	Y	Y
Wisconsin	Y	Y	Y	Y[d]	Y
Wyoming	No Report				

* This category judges treatment of state (as opposed to local) property tax collections. States that collect less than 2 percent of their revenues from the property tax receive a designation of "N/A". Other items are listed as "N/A" when the state does not collect the type of tax in question.

Note: see the next page for additional notes to this table.

TABLE 1: CONTINUED

[a] Arizona releases two versions of its tax expenditure report for each fiscal year: a preliminary report shortly after the fiscal year is completed, and a final report some years later. (Currently, the most recent preliminary report covers fiscal year 2006/2007, and the latest final report covers fiscal year 2003/2004.) The preliminary version does not include PIT exemptions and deductions, just credits. As a result, available information on PIT deductions and exemptions is typically quite out of date.

[b] Arkansas' report includes just credits and rebates against its sales tax, not exemptions. Also, Arkansas issued a report on Gross Receipts Tax exemptions in 2001 but has not released an update since. Due to the time lapse, we do not count this report for the purposes of this analysis.

[c] Connecticut's report lists the value of property exempted from the property tax but not the revenue lost as a result.

[d] Florida, Kansas, Maine, Nebraska, Oregon, Texas, Utah and Wisconsin publish information on property tax expenditures even though they collect less than 2 percent of state revenues from the property tax.

[e] Hawaii's tax expenditure report only includes credits, not exemptions or deductions.

[f] Indiana issued a one-time report in 2004 covering all business deductions under the PIT and CIT.

[g] Iowa publishes lists of all its major credits, exclusions, exemptions etc., organized by tax type, but without monetary figures. This information can be found at http://www.state.ia.us/tax/taxlaw/taxlaw.html. In January 2009, Iowa issued a one-time comprehensive tax expenditure report. The report covered the state's sales and use, individual income and corporate income taxes, but no others. Because it is not published regularly, the 2009 report is not included in this analysis.

[h] Iowa's report includes cost estimates for credits only, not exemptions or deductions.

[i] New Mexico's Legislative Finance Committee published a very limited tax expenditure analysis as part of its FY2009 budget report.

[j] Oklahoma's report groups CIT and PIT expenditures together under the heading "Income Tax"

[k] Oklahoma's report does list some property tax items that affect local revenue, but it does not include cost estimates for those items.

[l] While Rhode Island's report lists tax expenditures for each of the state's taxes, it leaves out cost estimates for many of them. The report includes cost estimates for 29 of the 72 sales tax expenditures; 27 of the 38 PIT expenditures; 3 of the 25 CIT expenditures; and 15 of the 47 expenditures arising from other taxes. Since cost estimates are included for less than half of the expenditures under the sales and corporate income taxes, we do not count the report as covering those taxes.

[m] Virginia is phasing in sales tax expenditure reporting. Its first report only covers three sales & use tax exemptions, but future reports will cover more.

[n] While Washington does not have a CIT, its report includes a section on the Business & Occupation Tax, which is a tax on gross receipts.

the taxation of consumer purchases supports the policy advice offered by analysts — broad consumption tax bases with low tax rates are more efficient and encourage economic growth."[18]

Moreover, the fact that nearly every state taxes at least some services suggests that services are indeed part of the conceptual "normal" tax base. By exempting other services from the sales tax, a state creates a special preference for their consumption over the consumption of goods — something it should do only in pursuit of an agreed-upon policy goal.

[18] William F. Fox and LeAnn Luna, "How Broad Should State Sales Taxes Be? A Review of the Empirical Literature." *State Tax Notes*, Sept. 5, 2006.

However, unless policymakers and the public know the cost of existing sales tax exemptions, they cannot have a useful conversation about which services should be taxed and which excluded.

2. **Tax expenditures arising from conformity with federal tax expenditures.** Many federal tax expenditures are costly to states as well. This is because states often piggyback on federal tax provisions such as the definition of income, typically for reasons of simplicity. Federal tax expenditures that reduce federal taxable income tax (for example, income tax deductions and exclusions) also reduce revenue for states that conform to the federal definition of taxable income.[19] Thus, when the federal government enacts a new deduction or exemption, it may effectively enact a state tax expenditure — without action by the state legislature.[20,21]

   States that piggyback on the federal tax code may "decouple" provisions of their tax systems from the federal system, so it is important to know how much piggybacking costs the state. Sixteen states have tax expenditure reports that provide this information for a substantial number of federal provisions. Unless the report includes this information, the cost may entirely escape the state's notice. Congress seldom considers the cost to states when passing a tax cut that may reduce state revenue, and it does not provide estimates of the cost to states.[22]

   A tax expenditure report can make these interactions with federal policy more transparent. Reporting on the cost of federal conformity gives state lawmakers the information they need to decide whether the benefits of conformity (primarily simplicity) are worth the resulting revenue loss, or if the state should de-link its state tax code from the federal code in one or more ways. A tax expenditure report should indicate which tax expenditures result from conformity to the federal tax code, the federal provision causing the revenue loss, and the cost of conformity.

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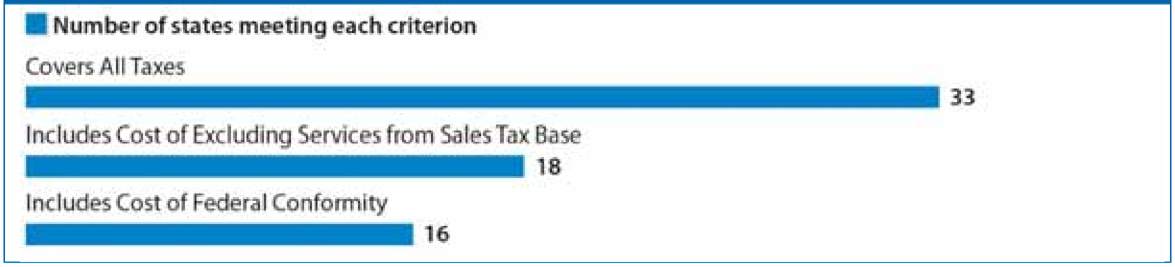
19 For example, federal tax law allows taxpayers who itemize deductions to deduct home mortgage interest. In states that base their income taxes on federal taxable income (or otherwise allow deduction of federally allowed deductions), taxpayers get a deduction from their state taxes for home mortgage interest, despite the lack of an explicit provision in state law allowing that deduction.

20 In states with "rolling conformity," the state tax system automatically adjusts to reflect federal changes, so the state can lose revenue without the state legislature taking any action. In states with "fixed-point conformity," state tax law is tied to federal tax law at a fixed point in time (for example, a provision of the Internal Revenue Code as of Jan. 1, 2007). In states with fixed-point conformity, it is customary for the legislature to update the reference date periodically, so a federal action may cost the state revenue unless the legislature takes extraordinary action.

21 A recent example is the so-called "domestic production deduction" enacted in 2004. This deduction allows companies to claim a tax deduction for profits from a sweeping list of "qualified production activities," including such diverse activities as food production, filmmaking, and utilities. Based on federal government estimates, conformity to this provision cost states about half a billion dollars in 2008. A number of states have chosen to decouple from this provision. See Jason Levitis, "States Can Opt Out of the Costly and Ineffective 'Domestic Production Deduction' Corporate Tax Break," Center on Budget and Policy Priorities, July 29, 2008, http://www.cbpp.org/7-29-08sfp.pdf.

22 When Congress considers a bill to cut taxes, its Joint Tax Committee (JTC) calculates the cost to the federal government, and this information becomes part of the public debate. But JTC does not calculate the cost to the states whose taxes will be cut due to federal conformity. Since no state bill is under consideration, state fiscal offices seldom analyze the impact either.

FIGURE 2:
SCOPE OF TAX EXPENDITURE REPORTS



Source: Center on Budget and Policy Priorities analysis of state reports. See Appendix 2.

3. **Single-sales-factor apportionment.** Another example of an implicit tax expenditure is the favorable tax treatment some states give to multistate corporations. In recent years a number of states have adopted a new formula, known as "single-sales-factor apportionment," to determine what portion of a corporation's profits is taxable by the state.[23] This has had the effect of reducing corporate taxes — and state revenues.[24] By including this revenue loss in a tax expenditure report, a state ensures that policymakers have full information on an ongoing basis about the ramifications of this tax policy decision. A few states have adopted this reporting practice, including **Massachusetts** and **Wisconsin**.

In some cases, it may be unclear whether imposing a lower tax (or no tax) on some entity or activity actually represents an implicit tax expenditure or instead simply reflects the nature of the tax. But including the relevant information in the tax expenditure report can enable policymakers to hold an informed debate on this question.[25] A statement in Massachusetts' report quoted in the box [at right] captures this point well.

> *"[M]aking a judgment about whether a provision is a tax expenditure is not the same as making a judgment about its desirability. With this in mind, we have attempted to provide more rather than fewer tax expenditure estimates, so that necessary information is available for those charged with making policy judgments."*
>
> ***- Massachusetts' Tax Expenditure Report***

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[23] Under a single-sales-factor formula, the share of a corporation's total profit that a particular state taxes is based solely on the share of the corporation's nationwide sales that occur in the state. In contrast, under the traditional "three-factor formula," state taxes are based on the shares of the corporation's total property, payroll, and sales that are located in the state. See Michael Mazerov, "The 'Single Sales Factor' Formula for State Corporate Taxes: A Boon to Economic Development or a Costly Giveaway?" Center on Budget and Policy Priorities, Rev. Sept. 1, 2005, http://www.cbpp.org/3-27-01sfp.pdf.

[24] Eighteen states have moved to single-sales-factor apportionment, and another three have increased the weighting of the sales factor in their apportionment formulas to over 50 percent. Only one state, Maine, has reported gaining revenue from the change.

[25] Some states go even further, reporting not just the cost of implicit tax expenditures but also the potential impact of alternative tax systems or tax rules the state might consider. Florida's report is the best example. Its section on alternative tax systems analyzes such options as enacting an income tax, an estate tax, or a Value-Added Tax; extending the sales tax to services; and adopting combined reporting or a "throwback rule" to close corporate tax loopholes.

- **The report should include tax expenditures that affect local revenues.** Since local tax systems are authorized by state law, state law can reduce local revenue by mandating or permitting local tax expenditures. In such cases, it is important for state lawmakers to know how much the expenditures they have enacted are costing local governments. One reason is that localities with insufficient revenue may turn to the state for increased direct aid, and the state may wish to consider rolling back mandated local tax expenditures as an alternative to increasing its aid.[26] Nationwide, localities depend heavily on property taxes,[27] so property tax expenditures (for example, homestead exemptions and limitations on reappraisals) often bear most heavily on local finances.

Reports Should Include Detailed Information

Policymakers need more than a list of what the tax expenditures are. To determine whether a tax expenditure is worth maintaining, they need to know how much each one costs, whom it helps, and other information. Too often, some of this information is missing.

The following pieces of information should be included about each tax expenditure:

- **Cost to the state.** The most important piece of data is each tax break's cost to the state. Without this information, the report does not serve its basic function of revealing the fiscal implications of tax expenditures. While every tax expenditure report includes this information for at least some expenditures, quite a few leave it out for some or even many expenditures.

  The reason typically given — that the cost of some expenditures is difficult to determine — is seldom justified. In many cases, direct data are available on the cost of tax expenditures. The cost of many income tax credits, for example, can be determined simply by aggregating line items on tax returns. In other cases, the needed data are available elsewhere. States can rely on survey data (for example, U.S. Census data), administrative data from other state agencies or the federal government, and estimates of economic activity; other sources may provide less reliable estimates than direct data but can still be useful for policymakers.

  Two examples of tax expenditure reports weakened by repeated cost estimate omissions are those of **Oklahoma** and **Maryland**. Oklahoma's report (see Figure 3 below) lists the cost of more than 100 tax expenditures as "N/A" (not available), while Maryland's report indicates that there is "no reliable estimate" for dozens of expenditures. By contrast, **Oregon's** report includes cost estimates for all but a very few tax expenditures.

  Some states follow the highly misleading practice of listing a tax expenditure's cost as $0 when the cost is uncertain. This may lead users to conclude that the state has estimated the cost and found it to be zero. **Rhode Island's** report fares worst in this regard, listing the cost of over half of its tax expenditures as $0. This can create highly misleading impressions. For example, the summary figures for a list of 25 corporate tax expenditures suggest that their total cost is

[26] States should also break out the cost of tax expenditures that affect both state and local revenues, as explained below. In total, nineteen states have tax expenditure reports that include the cost that tax expenditures impose on local governments.

[27] In 2005, localities received 72 percent of their tax revenue from property taxes. See U.S. Census at http://www.census.gov/govs/estimate/0600ussl_1.html

FIGURE 3: MISSING COST ESTIMATES IN OKLAHOMA TAX EXPENDITURE REPORT

95. ***Oklahoma Educational Television Authority***

Citation: **70 O.S. §23-116**
Description: Income earned by the Oklahoma Educational Television Authority and income derived from bonds issued by the Authority.
Estimate: N/A
Data Source:
Reliability:

96. ***Oklahoma Student Loan Authority Bonds***

Citation: **70 O.S. §695.3**
Description: Bonds and the income from bonds issued by the Oklahoma Student Loan Authority.
Estimate: N/A
Data Source:
Reliability:

97. ***Independent School Districts - Stadium, Sports Arena, & Recreation Facilities Construction Revenue Bonds***

Citation: **70 O.S. §821.4**
Description: Any bond issued pursuant to 70 O.S. §821 et seq.
Estimate: N/A
Data Source:
Reliability:

98. ***Board of Regents of Specific Institutions of Higher Learning Authorized to Issue Tax Exempt Bonds***

Citation: **70 O.S. §4002**
Description: Bonds issued by various boards of regents of institutes of higher learning.
Estimate: N/A
Data Source:
Reliability:

99. ***Oklahoma Tuition Trust***

Citation: **70 O.S. §6014**
Description: The property and income of the Oklahoma Tuition Trust is exempt from taxation. Purchasers of advance tuition payments administered by the Oklahoma Tuition Trust are allowed to deduct those payments from taxable income in the year the purchase was made.
Estimate: N/A
Data Source:
Reliability:

100. ***Oklahoma Industrial Finance Authority - State Industrial Finance Bonds***

Citation: **74 O.S. §856**
Description: Income derived from bonds of Oklahoma Industrial Finance Authority.
Estimate: N/A

Source: Oklahoma Tax Commission, *State of Oklahoma Tax Expenditure Report 2005-2006*, pg. 24.

FIGURE 4: MANY COSTS ESTIMATES MISLABELED AS ZERO IN RHODE ISLAND

Tax Preference Item		$	Reliability
	Business Corporation Tax		
1	Exclusion for financial institution	$0	5
2	Exclusion for public service corporation	$0	5
3	Exclusion for insurance companies	$0	5
4	Exclusion for nonprofit	$0	5
5	Exclusion for fraternal benefit societies	$0	5
6	Exclusion for special chartered corporations	$0	5
7	Exclusion for common ownership corporations	$0	2
8	Special provisions for security companies	$0	5
9	Special provisions for investment companies	$0	5
10	Exclusion for 1120S	$0	5
11	Consolidation provisions	$0	5
12	Interest on federal obligations	$0	5
13	Net operating loss deductions	$36,700,000	2
14	Treatment as a DISC	$0	5
15	Treatment as a FSC	$0	5
16	Rapid amortization of air / water facility	$0	5
17	Accelerated amortization deduction for certain manufacturers	$0	5
18	Exclusion - dividends of banks	$0	5
19	Exclusion - dividends of corporations	$0	5
20	Exclusion - interest from utilities	$0	5
21	Apportionment of net income	$0	5
22	Special apportionment of USFDA facilities	$0	5
23	Allocation / apportionment of brokerage services	$0	5
24	Exclusion for international investment services	$0	5
25	Passive investment treatment	$0	1
	TOTAL BUSINESS CORPORATION TAX = 25	$36,700,000	

Source: State of Rhode Island Department of Revenue, *Tax Expenditures Report*, pg. 6.

$36.7 million, when in fact that is the cost of just one of these items; the other 24 are listed as having zero cost. By adding fairly precise figures with highly imprecise ones, the report produces a misleading sum.[28]

Other states that list uncertain cost estimates as zero are **Arkansas, Iowa,** and **Washington**.

Some reports deal with uncertainty about a tax expenditure's cost by offering less precise estimates. **Kentucky**, when faced with "tax expenditures that cannot be reliably quantified, whether from conflicting data or lack of data," reports the cost as "minimal" if it is likely less

[28] Rhode Island's report gives each estimate a reliability rating between 1 and 5, with 1 being the most reliable and 5 indicating that "no reliable data exists." As the sample shows, almost all of the $0 cost figures are designated highly unreliable.

FIGURE 5: DETAILED CREDIT DESCRIPTION IN CONNECTICUT'S TAX EXPENDITURE REPORT

Rationale: Clarification and Expediency. PA 97-295 enacted the credit and phased it in at the rate of 3% for the 1998 income year, 4% for 1999, and 5% thereafter. PA 98-262 clarified the recapture provision.

19. **Human capital investment credit:** The credit is available for expenses related to: (1) job training; (2) work education; (3) donations or contributions to higher education institutions for the advancement of technology, including physical plant improvements; (4) day care facilities for children of employees; (5) childcare subsidies to employees; or (6) donations and contributions to the Individual Development Account Reserve Fund[20]. The credit is 5% of qualified expenditures. Unused credits may be carried forward 5 years. CGS Sec. 12-217x

Rationale: Incentive and Expediency. PA 97-295 enacted the credit and phased it in at the rate of 3% for the 1998 income year, 4% for 1999, and 5% thereafter. PA 00-192 created the Individual Development Account Reserve Fund and made contributions to the Fund eligible for the human capital investment tax credit effective with the 2001 income year.

Source: Connecticut Office of Fiscal Analysis, *Connecticut 2008 Tax Expenditure Report*, pg. 80.

than $1 million or "substantial" if it is likely more than $1 million.[29] **Maine's** report assigns expenditures to categories A through F, representing different cost ranges.[30] A range provides less information than a point estimate but is preferable to no estimate at all.

- **Description.** To evaluate a tax expenditure, policymakers and the public also need to know how it works. An expenditure's legal title frequently does not provide enough information for a reader to discern its eligibility criteria, value to beneficiaries, and other parameters; a tax expenditure report should include this information. Thirty-three states' reports do this.

  Tennessee's report includes a good example of why a thorough description of each tax expenditure is important. It lists a tax expenditure called the "Jobs Credit" that costs the state about $30 million per year. But the report does not indicate how the expenditure works, who can claim it, or how much it is worth — all the information necessary to understand how the state is spending this money. By contrast, **Connecticut's** report includes a detailed description of each tax expenditure; Figure 5 provides one example.

- **Cost projections to allow comparison with other proposed expenditures.** Some tax expenditure reports show cost estimates for one or more previous years, some for one or more future years, and some for a combination of the two. Showing multiple years (both past and future) is helpful, but it is most important to show the cost in one or more future years so tax expenditures can be compared with other expenditures in a proposed budget. Twenty-one states have reports that estimate the cost of tax expenditures in one or more future years.

- **Legal citation and year of enactment.** Thirty-six states' reports provide a legal citation for each tax expenditure, and 17 states' reports include the year of enactment. This information is important for readers interested in the history and legal foundations of a given tax expenditure — and in how it might be revised.

[29] Commonwealth of Kentucky Tax Expenditure Analysis: Fiscal Years 2008 - 2010, pg. 8.

[30] Maine State Tax Expenditure Report 2008 – 2009, pp. 259-266.

FIGURE 6: EFFECTIVE LEGAL CITATION IN OREGON'S TAX EXPENDITURE REPORT

			$512
Total	26,624	100.0%	$805

EVALUATION: This tax credit is effective because it assists low-income families with their child care expenses, which provides encouragement to stay in the workforce. *[Evaluated by the Employment Department.]*

1.160 DEPENDENT CARE ASSISTANCE

Oregon Statute: 315.204
Sunset Date: 12-31-16
Year Enacted: 1987, Modified in 2005 (HB 2951)

	Corporation	Personal	Total
2005–07 Revenue Impact:	$1,500,000	$400,000	$1,900,000
2007–09 Revenue Impact:	$1,500,000	$400,000	$1,900,000

DESCRIPTION: Employers providing dependent care assistance or dependent care information and referral services to their employees are allowed a credit to either personal or corporation income tax. The credit equals 50 percent of the total costs the employer paid for dependent care (but no more than $2,500 per employee) and 50 percent of the cost of providing information and referral services. The employer may ...

Source: Oregon Department of Revenue, *State of Oregon 2007-2009 Tax Expenditure Report*, pg. 157.

For explicit tax expenditures, this information frequently consists of a single section of state law (such as a section that exempts an item from the sales tax or allows an income tax deduction) along with the year that section passed. For implicit tax expenditures, the information is likely to be more complicated. The most useful information regarding implicit holes in a tax base (such as a sales tax on goods but not services) will be the section of state law that defines the base. In cases of tax expenditures created by conformity with federal law, it will be useful to know both the state provision requiring conformity (for example, the section tying state income tax liability to federal taxable income) and the federal provision creating the tax expenditure.

- **Number and description of taxpayers benefiting.** One element that is necessary to evaluate whether a tax expenditure merits its cost is information about beneficiaries — both their number and their characteristics (individuals, corporations, etc.). It is particularly important to identify narrowly tailored tax breaks that may not serve the broader public interest. Fifteen states' reports provide this information for some or all tax expenditures.

  Pennsylvania's report provides a good model. For example, it describes the beneficiaries of the Educational Improvement Tax Credit as "[a]pproximately 1,065 companies and 550 scholarship organizations, educational improvement organizations, and pre-kindergarten scholarship organizations," and it describes the sales tax exemption for coal as benefitting "[a]pproximately 120,500 households and 7,400 businesses," as shown in Figure 7. While helpful, even these descriptions of beneficiaries could be more detailed, as described below under "Analysis and Evaluation."

FIGURE 7: CHARACTERISTICS AND NUMBER OF RECIPIENTS IN PENNSYLVANIA REPORT

FUELS AND UTILITIES

COAL

Description: The purchase or use of coal is exempt from taxation.

Purpose: This exemption provides special tax treatment of coal versus alternative energy forms. Other major energy sources are exempt only when used directly by the purchaser for residential use. Encouragement of coal consumption may have been perceived as providing or preserving employment when mining was a major employer within the commonwealth.

(Dollar Amounts in Millions)

Estimates:	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	$ 194.8	$ 203.8	$ 213.3	$ 223.2	$ 233.6	$ 244.5	$ 255.8

Beneficiaries: Approximately 120,500 households and 7,400 businesses benefit from this tax expenditure.

FIREWOOD

Description: The purchase or use of firewood cut into lengths for burning or wood pellets is exempt from taxation when used as fuel for cooking, or for heating water, or residential dwellings.

Source: PA Governor's Office of the Budget, *2008-2009 Proposed Governor's Executive Budget*, pg. D41.

- **For tax expenditures that affect both state and local revenues, separate reporting of the cost to each.** Some tax expenditures impose a cost on both the state budget and one or more local governments. For example, a sales tax exemption may reduce both state and local revenues in a state in which localities levy a sales tax that conforms to state definitions.

  In such cases, a tax expenditure report should list separately the cost to the state and the cost to localities. For example, **Washington's** report, excerpted in Figure 8, lists the state and local costs separately for every expenditure.[31] Seventeen states' reports include information on the costs that state tax expenditures impose on localities.[32]

  Listing the combined impact does not provide the information needed to make decisions about the state budget. **Nebraska's** report, for example, includes the cost to localities but fails to break it out from the cost to the state, thereby making it difficult to use the information to make decisions about either state or local budgeting.

[31] See "Detailed Summary of Exemptions" at http://dor.wa.gov/Content/AboutUs/StatisticsAndReports/2008/Tax_Exemptions_2008/Default.aspx.

[32] This number includes those that include tax expenditures that affect only local revenue, as described above.

FIGURE 8: DISTINCTION BETWEEN STATE AND LOCAL EFFECTS IN WASHINGTON'S REPORT

SUMMARY LISTING OF TAX PREFERENCES
Taxpayer Savings for 2007-09 Biennium

RCW	Brief Description	Taxpayer Savings ($000) State Tax	Taxpayer Savings ($000) Local Tax	Category	Revenue Realized?	Page
82.29A.130(15)	Professional football stadium	135	119	Bus. incentive	Yes	61
82.29A.130(16)	Public facilities districts	123	108	Bus. incentive	Yes	61
82.29A.130(17)	Historic property	84	73	Government	Yes	62
82.29A.130(18)	Clark County amphitheater	41	36	Bus. incentive	Yes	62
82.29A.132	2nd Narrows bridge	0	0	Bus. incentive	No	63
82.29A.134	Sale/leasebacks, R. T. A.	0	0	Government	No	63
82.29A.135	Gasohol production facilities	166	145	Bus. incentive	Yes	64
82.29A.136	Developments, > 3,000 lots	355	-426	Tax base	Yes	64
82.29A.137	Super-efficient airplane facilities	0	0	Bus. incentive	Yes	65
82.29A.138	Radio repeaters	5	5	Individuals	Yes	65

Source: Washington State Department of Revenue, *Tax Exemptions – 2008*, Summary List pg. 4.

Reports Should Analyze the Impact of Each Tax Expenditure

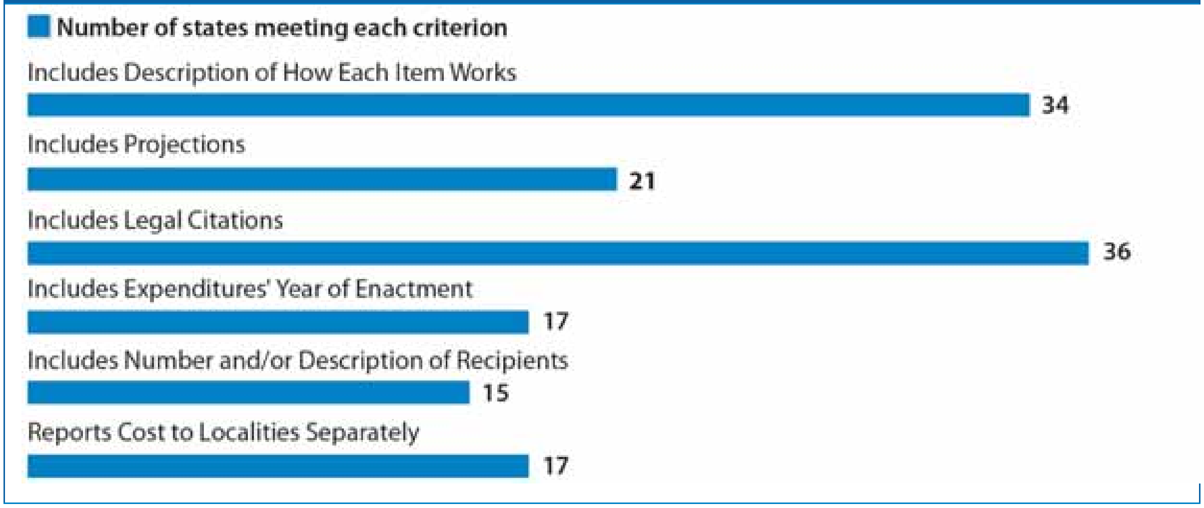
For policymakers and the public to evaluate whether the goal of a given tax expenditure is still appropriate (and, if so, whether it would be better accomplished by an on-budget expenditure), they will need analytic information about it. While analysis is more time- and cost-intensive to produce than the data described in the previous sections, it is an important and useful addition, and some states' reports do include it.

Some reports, for example, include informed opinions about whether tax expenditures are meeting their goals and should be continued. This information serves three important purposes: First, it ensures that policymakers and the public understand the legislative history and the reason the tax expenditure exists. Second, it forces policymakers to evaluate tax expenditures, much as they evaluate annual appropriations. Third, it is a useful starting point for legislative debate. If a government agency finds that some tax breaks are not achieving their intended goals or are not worth the cost, the legislature may be more likely to examine those tax breaks closely. In short, evaluation helps make tax expenditures accountable.

Useful elements of analysis and evaluation include the following:

- **Classification by function.** A helpful way to understand the role of tax expenditures is to classify them using the same categories as direct spending. State budgets are generally organized into "program categories" such as education, health care, and transportation. Tax expenditure reports, by contrast, are generally organized by the tax from which the expenditures arise. However, nine states' reports also categorize and aggregate tax breaks based on program category or function, just as the budget does; this facilitates comparison of tax expenditures with appropriations by allowing policymakers to consider all spending for a given function at once.

FIGURE 9:
EXTENT OF DETAIL OF TAX EXPENDITURE REPORTS



Source: Center on Budget and Policy Priorities analysis of state reports. See Appendix 3.

A good example is **Kentucky's** report, excerpted in Figure 10, which classifies tax expenditures by program areas and sub-areas. (Figure 10 shows a summary, but the report also categorizes each individual tax expenditure by program category.)

- **Purpose.** Taxpayers deserve to know what policy purpose each tax expenditure is intended to serve. Twelve states' tax expenditure reports list a purpose or rationale for some or all expenditures. These explanations may be specific or general. **Oregon's** report provides a specific rationale for each expenditure. For example, it lists the purpose of the income tax deduction for self-employment health insurance as promoting "the purchase of health insurance by the self-employed and provid[ing] some degree of equity between the self-employed and employees covered by employer-sponsored health care insurance."[33]

  Information about the rationale for tax expenditures is less useful when it appears subjective or arbitrary. For example, **Connecticut's** report places the state's sales tax exemptions for child car seats and gas-electric hybrid cars in a category labeled "expediency" — which the report defines as a tax break that "violate[s] one or more of the principles of a high-quality revenue system without any apparent counterbalancing or compensating precept" — while placing the state's sales tax exemption for smoking cessation products in a category labeled "incentive." This is difficult to understand and renders the report's classification system difficult to use.

  It would be useful for a tax expenditure report to mention any hearings or legislative debate in which the tax expenditure was discussed. Also, if both the tax expenditure budget and the legislative records are on public websites, a hyperlink could be provided to improve access to this information.

[33] State of Oregon 2007-2009 Tax Expenditure Report, p. 87.

FIGURE 10: SUMMARY OF TAX EXPENDITURES BY PROGRAM IN KENTUCKY'S TAX EXPENDITURE REPORT

Summary of Tax Expenditures by Program ($ millions)

	FY 08	FY 09	FY 10
Agriculture	**239.479**	**248.197**	**258.218**
Agricultural Development	207.920	215.636	224.654
Equine Industry Support	31.559	32.561	33.564
Business	**1,582.417**	**1,673.772**	**1,728.481**
Banking Support	7.140	7.580	7.900
Economic Development	105.950	109.050	111.650
Energy Development and Coal Industry Support	376.971	413.846	429.828
Existing Business Support	822.651	859.692	885.622
Job Development	147.635	155.635	161.835
Natural Resources	10.580	10.810	11.010
Transportation Industry Support	111.490	117.159	120.636
Human Resources	**3,117.949**	**3,282.729**	**3,484.512**
Education Support	31.000	32.700	36.200
Family Support	372.300	383.800	396.700
Health Care Support	907.289	989.139	1,075.792
Housing Development	501.300	531.100	563.100
Income Maintenance	689.160	709.490	725.220
Retirement Support	616.900	636.500	687.500
Government	**381.740**	**392.737**	**408.109**
Federal Government Support	10.800	10.900	10.900
Intergovernmental Transfers	12.000	12.600	13.200
Military Support	32.220	33.390	34.650
State and Local Government Support	326.720	335.847	349.359
Social Services	**646.184**	**650.744**	**676.290**
Charitable Organization Support	559.061	584.649	610.114
Community Development	47.891	26.563	26.644
Environmental Conservation and Historic Preservation	39.232	39.532	39.532

Source: Kentucky Governor's Office of Economic Analysis, *Tax Expenditure Analysis Fiscal Years 2008-2010*, pg.5.

- **Evaluation of effectiveness.** A few tax expenditure reports not only list the purpose of each expenditure but also evaluate the extent to which it has achieved that purpose. This is an invaluable feature; when done well, it promotes accountability for tax expenditures. But few states practice it, and fewer practice it well. Indeed, some states' reports offer less-than-informative evaluations or leave them out despite specific statutory requirements that they be included.

  Delaware's report, excerpted in Figure 11 below, provides meaningful evaluations of many tax expenditures, as does the California Franchise Tax Board's.[34]

[34] As noted in footnote 10, California is one of two states that regularly produces more than one tax expenditure report; both the Department of Finance and the Franchise Tax Board produce such reports.

FIGURE 11: AN EFFECTIVE EVALUATION: DELAWARE'S HISTORIC PRESERVATION CREDIT

2007 Delaware Tax Preference Report
Personal Income Tax
Page 1-27

4. Assessment:

The intention of this provision is to encourage private sector participation in maintaining and preserving the State's historic structures. However, since no public purpose is required for participation in this program, it is possible that the benefits enjoyed from this credit could accrue to relatively few, and most likely wealthy, individuals. Credits could be issued for renovations conducted on privately owned homes located in isolated areas. In instances like this, the individuals (all state taxpayers) ultimately subsidizing the historic renovation would be unable to even view that for which their tax dollars have paid. Recent experience, however, has proven that businesses account for the majority of those qualifying to take this credit.

Additionally, it is unlikely that individuals with insufficient means to undertake renovations would be motivated by this tax incentive. As such, it is possible that this credit may act more as preservation subsidy than as a preservation incentive.

Because this preference is administered on a first-come, first-serve basis, it would also be possible for funds, which should have been allocated to the state's most important historic resources to instead, be diverted to other, potentially less worthy, properties. Moreover, this method of allocation may cause equity concerns given that there is no restriction on the amount of tax credit than can be granted to any one taxpayer. Consequently, one taxpayer could receive the entire $5 million dollar credit allotment in any given year.

5. Inadvertent Effects:

As previously mentioned, aside from the resident curator provision there is nothing preventing one large taxpayer from receiving the remainder of the credits available in any given fiscal year. Such allocation of the credit may actually hinder preservation efforts by causing individuals who would have otherwise begun historic rehabilitation to postpone projects until the credit is once again available. Additionally, equity concerns are a likely consequence of credit monopolization.

Source: Delaware Division of Revenue, *State of Delaware Tax Preference Report, 2007 Edition*, pgs. 1-27.

A proposal pending in **Massachusetts** would require disclosure of the names of entities that receive state grants in the form of refundable or transferable tax credits, along with the number of jobs created through these credits and other measures of "results." This information will be disclosed on a web site as a complement to the tax expenditure report, and will give the public more information about state fiscal choices and promote accountability.

FIGURE 12: DETAILED TAX INCIDENCE ANALYSIS IN TEXAS' REPORT

TABLE 11

Incidence Analysis
Limited Sales and Use Tax
Exclusion for Residential Construction Labor

FISCAL 2009 (dollar amounts in millions)

INITIAL DISTRIBUTION OF EXCLUSION BY INDUSTRY

Industry	Amount	Percent
Agriculture	$0.0	0.0%
Mining	0.0	0.0
Utilities & Transportation	0.0	0.0
Construction	0.0	0.0
Manufacturing	0.0	0.0
Trade (Wholesale and Retail)	0.0	0.0
Information	0.0	0.0
Finance, Insurance, and Real Estate	52.7	9.3
Other Services	0.0	0.0
Government	0.0	0.0
Personal Consumption	513.8	90.7
TOTAL	$566.5	100.0%

Totals may not add due to rounding.

FINAL INCIDENCE OF EXCLUSION BY HOUSEHOLD INCOME QUINTILE

Quintile	Household Income	Amount	Percent of Exclusion	Exclusion as a Percent of Total Income
1	less than $24,899	$29.7	5.2%	0.1%
2	$24,899 to $45,271	36.0	6.3	0.1
3	$45,271 to $69,614	58.6	10.3	0.1
4	$69,614 to $109,182	89.7	15.8	0.1
5	$109,182 and over	205.6	36.3	0.1
Residents		$419.5	74.1%	
Exported		$147.0	25.9%	
TOTAL		$566.5	100.0%	

52 SUSAN COMBS, Texas Comptroller

Source: Texas Office of the Comptroller, *Tax Exemptions and Tax Incidence*, pg.52.

Other states with an evaluation requirement do a less exemplary job, simply rubber-stamping most expenditures without much apparent analysis or even ignoring the requirement altogether. **Oregon's** report evaluates every expenditure but concludes that virtually every one has "achieved its purpose," without explaining how that conclusion was reached. **Louisiana's** report simply states for many expenditures that "The purpose of this credit is achieved in a fiscally effective manner," without explanation. (A number of expenditures intended to create jobs receive this rating even though the report provides no information about the number of jobs they have created.) **Wisconsin's** report is even less adequate: it ignores a statutory requirement that it evaluate the effectiveness of each tax expenditure, arguing that the lack of a standard for that evaluation prevents the state from complying.

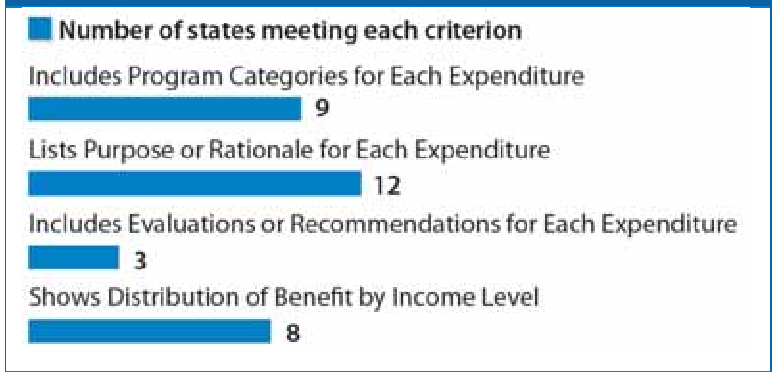
Evaluations should be done in a systematic way that is consistent across tax expenditures and makes clear the basis on which the judgment is offered.

Evaluating tax expenditures is arguably the key to ensuring that tax expenditure reports have an impact on the public policy debate. By helping policymakers understand the purpose of each tax expenditure and whether it is achieving that purpose, these reports can promote meaningful debate about retaining, modifying, or eliminating the tax expenditure.

- **Analysis of who benefits.** An important piece of information for evaluating the impact of a tax expenditure is the distribution of its benefits by income level (or, in the case of business tax expenditures, by business size). Many tax breaks described as "middle-class tax relief" or "small business tax relief" provide relatively little benefit to these groups. Distributional analysis allows policymakers to see whom a tax break truly benefits.

  A majority of states already have the capacity to produce distributional tax analyses based on one or more of their taxes;[35] where this capacity exists, analyzing tax expenditures is quite straightforward. For states without this capacity, building it is a significant undertaking but has numerous benefits. Besides providing valuable information about tax expenditures, a distributional tax model provides a better understanding of the state's tax system overall and of the impact of proposed changes. Unfortunately, only one state — **Texas** — produces distributional analyses for all tax expenditures. Another six states include this information for some reported tax expenditures.

FIGURE 13:
ANALYSIS & EVALUATION



Source: Center on Budget and Policy Priorities analysis of state reports. See Appendix 4.

It is worth noting that Texas requires a distributional analysis prior to the consideration of any tax bill by the legislature. Thus policymakers and the public are made aware of the distributional consequences of any new tax expenditure before it is enacted.

[35] See Michael Mazerov, "Developing the Capacity to Analyze the Distributional Impact of State and Local Taxes: Issues and Options for States," Center on Budget and Policy Priorities, January 15, 2002, http://www.cbpp.org/1-15-02sfp2.pdf.

Appendices

APPENDIX 1: LISTING OF STATE EXPENDITURE REPORTS

Key
Information for each state report is listed in the following order:
Title, Years Covered, Author, Most Recent Release Date, Frequency, and Website (if any)

Alabama
None

Alaska
None

Arizona
The Revenue Impact of Arizona's Tax Expenditures, FY2006/2007, Preliminary, FY2006-07, Arizona Department of Revenue, Office of Economic Research and Analysis, Nov. 15, 2007, annual[1] release
http://www.revenue.state.az.us/ResearchStats/Taxep08P.pdf

Estimated Impact on State Revenues of Conformity to 2006 Enacted Federal Provisions[2], FY07-FY10, Arizona Department of Revenue, Office of Economic Research and Analysis, Jan. 10, 2007, annual release

Arkansas
Business Incentives and Tax Credits, Program Costs through December 31, 2006, CY2006, Department of Finance and Administration, Revenue Division, Office of Excise Tax Administration Jun. 2007, annual release[3]

California
Tax Expenditure Report 2007-08, FY 2007-08, Department of Finance, Sept. 2007, annual release
http://www.dof.ca.gov/Research/documents/Tax_Expenditure_Rpt_08-09-w.pdf

Income Tax Expenditures: Compendium of Individual Provisions, CY04, FYs07-09, California Franchise Tax Board, Economic and Statistical Research Bureau, Dec. 2007, periodic release
http://www.ftb.ca.gov/aboutftb/taxExp08.pdf

Colorado
Colorado Sales Tax Exemption Study, CY2006, Department of Revenue, Summer 2007, annual release
http://www.colorado.gov/cs/Satellite?c=Document_C&cid=1213954196680&pagename=Revenue-Main%2FDocument_C%2FXRMAddLink

Connecticut
Connecticut Tax Expenditure Report, January 2008, FY08-09, Connecticut General Assembly, Office of Fiscal Analysis, Jan. 2008, biennial[4] release
http://www.cga.ct.gov/ofa/Documents/RevItems/TaxExp/TaxExp2008.pdf

Delaware
State of Delaware Tax Preference Report, 2007 Edition, FY07-FY08, Department of Finance, Division of Revenue, Jan. 16, 2008, biennial release
http://finance.delaware.gov/publications/2007_tax_prefer/2007_report.pdf

District of Columbia
Revenue Chapter (FY 2007 Budget and Financial Plan, pg. 67), FY06-FY09, Office of the Chief Financial Officer, Mar. 20, 2006, biennial release
http://cfo.dc.gov/cfo/frames.asp?doc=/cfo/lib/cfo/budget/2007/DC_Budget-Volume_1e.pdf

Florida
2007 Florida Tax Handbook, Including Fiscal Impacts of Potential Changes, pg. 177, FY2008, Office of Economic and Demographic Research, Mar. 15, 2007, annual release
http://edr.state.fl.us/reports/taxhandbooks/taxhandbook2008.pdf

Georgia
None

Hawaii
Tax Credits Claimed by Hawaii Taxpayers, 2005, FY2005, Department of Taxation, Dec. 2007, annual release
http://www.state.hi.us/tax/pubs/2005credit.pdf

Idaho
Idaho's Tax Structure: Exemptions, Credits, Exclusions, and Deductions, CY04-CY09, Dept. of Financial Management, Jan. 2008, annual release
http://dfm.idaho.gov/cdfy2010/publications/gfrb/TaxStructure_Jan2009.pdf

Illinois
Tax Expenditure Report, Fiscal Year Ended June 30, 2006, FY05-FY06, Office of the State Comptroller, Jun. 26, 2007, annual release
http://www.apps.ioc.state.il.us/ioc-pdf/TaxExpRptFY2007Web.pdf

Indiana
None[5]

Iowa
Tax Credits Tracking and Analysis System 2007 Report to the General Assembly, FY02-FY12, Department of Revenue, Dec. 2007, annual release
http://www.state.ia.us/tax/taxlaw/IDRTaxCreditReportDec2007.pdf

Iowa Tax Expenditures 2005, CY2005, Department of Revenue, Jan. 2009, quintennial release
http://www.state.ia.us/tax/educate/TaxExp2005.pdf

Kansas
Tax Expenditure Report: Calendar Year 2006, CY2006[6], Department of Revenue, Jan. 2008, annual release
http://www.ksrevenue.org/pdf/taxexpreportcy2007.pdf

Kentucky
Tax Expenditure Analysis Fiscal Years 2008-2010, FY2008-2010, Governor's Office of Economic Analysis, 2007, biennial release
http://www.osbd.ky.gov/NR/rdonlyres/795A66EE-ED7E-430F-8EE9-C90B0B345316/0/0810TEA_TaxExpenditureDoc.pdf

Louisiana
2007-2008 Tax Exemption Budget, FY07-08, Department of Revenue, Feb. 2008, annual release
http://www.rev.state.la.us/forms/publications/te(2009).pdf

Maine
Maine State Tax Expenditure Report 2008-2009, FY06-FY09, Department of Administrative and Financial Services, Maine Revenue Services, Economic Research Division, Jan. 15, 2007, biennial release
http://mainegov-images.informe.org/revenue/research/tax_expenditure_report%20_07.pdf

Maryland
Maryland Tax Expenditures Report: Fiscal Year 2006, FY03-FY06, Department of Budget and Management, Apr. 11, 2005, biennial release

Massachusetts
Tax Expenditure Budget: Fiscal Year 2009, FY07-FY09, Department of Revenue, Jan. 2008, annual release
http://www.mass.gov/bb/h1/fy10h1/dnld10/taxexpend10.pdf

Michigan
Executive Budget Appendix on Tax Credits, Deductions, and Exemptions: Fiscal Year 2008, FY07-FY08, Department of Treasury, Sep. 2007, annual release
http://www.michigan.gov/documents/treasury/Budget_Report_09_257559_7.pdf

Minnesota
State of Minnesota Tax Expenditure Budget: Fiscal Years 2008-2011, FY08-FY11**,** Department of Revenue: Tax Research Division**,** Feb. 2008**,** biennial release
http://www.taxes.state.mn.us/taxes/legal_policy/other_supporting_content/2008_tax_expenditure.pdf

Mississippi
The Annual Tax Expenditure Report, FY2008, Center for Policy Research and Planning, Mississippi Institutions of Higher Learning,[7] Nov. 2007, annual release
http://www.mississippi.edu/urc/downloads/2008_TER_Full.pdf

Missouri
Tax Expenditure Report: January 2008, FY02-FY12**,** State & Regional Fiscal Studies Unit, University of Missouri – Columbia**,**[8] Jan. 2008**,** annual release
http://oa.mo.gov/bp/publications/TaxExpenditure2009.pdf

Montana
Biennial Report: July 1, 2004-June 30, 2006, pg 167 (years covered varies, mostly 2004 and 2005), Department of Revenue, Dec. 2006, biennial release
http://mt.gov/revenue/publicationsreports/biennialreports/biennialreports.asp

Nebraska
State of Nebraska Tax Expenditure Report 2006, CY2006, Department of Revenue Research Services, Oct. 2006, biennial release
http://www.revenue.ne.gov/tax_exp/2008/contents.htm

Nevada
None

New Hampshire
State of New Hampshire 2006 Tax Expenditure Report, CY02-CY06[9], Department of Revenue Administration, Jan. 2007, annual release

New Jersey
None

New Mexico
None[10]

New York
Annual Report on New York State Tax Expenditures, CY 2008[11], Division of the Budget and Department of Taxation and Finance, Jan. 2008, annual release
http://publications.budget.state.ny.us/eBudget0910/fy0910ter/TaxExpenditure09-10.pdf

Annual Statistical Report: Analysis of Article 9-A General Business Corporation Franchise Tax Credits for 2004, TY03-TY04, Department of Taxation and Finance, Office of Tax Policy Analysis, Feb. 27, 2008, annual release
http://www.tax.state.ny.us/pdf/stats/stat_corp/article_9a/analysis_of_article_9-a_general_business_corporation_franchise_tax_credits_for_2004.pdf

North Carolina
North Carolina Biennial Tax Expenditure Report: 2007, FY2007-08, North Carolina Department of Revenue, Policy Analysis and Statistics Division, Nov. 2007, biennial release
http://www.dor.state.nc.us/publications/nc_tax_expenditure_report_07.pdf

North Dakota
State and Local Taxes: An Overview and Comparative Guide 2006, pg 41, 2005-2007 Biennium, FY2005-2007, North Dakota Tax Commissioner Cory Fong, Dec. 2006, biennial release
http://www.nd.gov/tax/genpubs/2008-redbook.pdf

Ohio

State of Ohio Executive Budget: Fiscal Years 2008 and 2009, Book Two: Tax Expenditure Report, FY08-FY09, Department of Taxation, Feb. 2007, biennial release
http://www.tax.ohio.gov/divisions/communications/publications/documents/FY2010-2011_TER_1.pdf

Oklahoma

State of Oklahoma Tax Expenditure Report: 2005-2006, FY2006, Oklahoma Tax Commission, Tax Policy Division, Dec. 2006, biennial release
http://www.tax.ok.gov/reports/TER2007-2008.pdf

Oregon

State of Oregon 2007-2009 Tax Expenditure Report, Biennia 05-07 and 07-09, Budget and Management Division, Department of Administrative Services and Research Section, Department of Revenue, May 2007, biennial release
http://egov.oregon.gov/DOR/STATS/docs/ExpR09-11/FullReport.pdf

Pennsylvania

2008-09 Proposed Governor's Executive Budget[12], FY06-07 thru FY12-13, Governor's Office of the Budget, Feb. 2008, annual release
http://www.portal.state.pa.us/portal/server.pt/gateway/PTARGS_0_113914_350146_0_0_18/2009_10_Budget_Document.pdf

Rhode Island

Tax Expenditures Report, CY2007[13], State of Rhode Island Department of Revenue, Division of Taxation, Jan. 2008, biennial[14] release
http://www.tax.state.ri.us/taxexpenditure/2008TaxExpendituresReport.pdf

South Carolina

Sales & Use Tax Exemptions, Fiscal Year 2008-2009, FY2008-09, South Carolina Budget and Control Board, Board of Economic Advisors, Jan. 2008, sporadic[15] release

South Dakota

None

Tennessee

The Budget: Fiscal Year 2008-2009, pgs. 79-81, FY2008-09, Department of Finance and Administration, Jan. 25, 2008, annual release
http://www.state.tn.us/finance/bud/bud0910/0910Document.pdf

Texas

Tax Exemptions & Tax Incidence, FY07-FY12[16], Office of the Comptroller, Feb. 28, 2007, biennial release
http://www.window.state.tx.us/taxinfo/incidence09/incidence09.pdf

Utah
Utah State Tax Commission Annual Report: 2007 Fiscal Year[17], FY2007, State Tax Commission, Jan. 23, 2008, annual release
http://tax.utah.gov/research/reports/fy08report.pdf

Vermont
Vermont Tax Expenditures: Transition Report on Individual and Corporate Income Taxes, Sales and Use Tax, Meals and Rooms Tax, Property Tax (years covered varies: mostly 2005 and 2006), Department of Taxes and Joint Fiscal Office, Jan. 15, 2008, biennial[18] release
http://www.state.vt.us/tax/pdf.word.excel/misc/expenditurereport2008.pdf

Virginia
2007 - 2011 Virginia Retail Sales and Use Tax Expenditure Study (years covered varies), Secretary of Finance, Tax Commissioner, Dec. 1, 2007, annual release
http://leg2.state.va.us/dls/h&sdocs.nsf/By+Year/RD3282007/$file/RD328.pdf

Washington
Tax Exemptions – 2008, FY08-FY11, Washington State Department of Revenue, Research Division, Jan. 2008, released every four years
http://dor.wa.gov/Content/AboutUs/StatisticsAndReports/2008/Tax_Exemptions_2008/Default.aspx

West Virginia
West Virginia Tax Expenditure Study, FY2007, Research Division, State Tax Department, Jan. 2008, different pieces released on a three-year rotation[19]
http://www.state.wv.us/taxrev/expenditure2008.pdf

Wisconsin
State of Wisconsin Summary of Tax Exemption Devices, FY2006, Division of Executive Budget and Finance, Department of Administration AND Division of Research and Policy, Department of Revenue, Feb. 2007, biennial release
http://www.revenue.wi.gov/ra/07sumrpt.pdf

Wyoming
None

APPENDIX 2: ACCESSIBILITY AND SCOPE

Key Measures of Whether a Tax Expenditure Report Covers All of a State's Expenditures and Is Easy to Use

State and Report		Published at Least Every Two Years	Can Be Found Online	Covers All Major Taxes[20]	Includes Low-Cost and Highly-Targeted Items	Includes Cost of Exempting Services from Sales Tax[21]	Includes Cost of Federal Conformity
AZ	Tax Expenditures Report	Yes[22]	Yes	Yes[23]	Yes	Yes	Yes[24]
	Conformity Report	Yes	No	Yes	Yes	No	Yes
AR	Business Incentives and Tax Credits Report	Yes	No	No	Yes	No	No
CA	Tax Expenditure Report	Yes	Yes	Yes	No[25]	No	Yes
	Compendium of Individual Provisions	Yes	Yes	No[26]	Yes	N/A	Yes
CO	Sales Tax Exemption Study	Yes	Yes	No[27]	Yes	No	No
CT	Tax Expenditure Report	No[28]	Yes	Yes	Yes	Yes	No[29]
DE	Tax Preference Report	Yes	Yes	Yes	Yes	N/A	No
DC	Tax Expenditure Budget	Yes	Yes	Yes	Yes	Yes	Yes
FL	Florida Tax Handbook	Yes	Yes	Yes	Yes	Yes	No
HI	Tax Credits Report	Yes	Yes	No	Yes	No	No
ID	Tax Expenditure Report	Yes	Yes	Yes	Yes	Yes	No
IL	Tax Expenditure Report	Yes	Yes	Yes	No[30]	No	No
IA	Tax Credits Report to the General Assembly	Yes	Yes	No[31]	Yes	No	No
KS	Tax Expenditure Report	Yes	Yes	Yes	No[32]	No	No
KY	Tax Expenditure Analysis	Yes	Yes	Yes	Yes	Yes	Yes
LA	Tax Exemption Budget	Yes	Yes	Yes	Yes	No	No
ME	Tax Expenditure Report	Yes	Yes	Yes	Yes	Yes	Yes
MD	Tax Expenditures Report	Yes	No	Yes	Yes	No	No
MA	Tax Expenditure Budget	Yes	Yes	Yes	Yes	Yes	Yes
MI	Executive Budget Appendix on Tax Credits, Deductions, and Exemptions	Yes	Yes	Yes	Yes	Yes	Yes
MN	Tax Expenditure Budget	Yes	Yes	Yes	Yes[33]	Yes	Yes
MS	Tax Expenditure Report	Yes	Yes	Yes	Yes	No	Yes
MO	Tax Expenditure Report	Yes	Yes	Yes	Yes	Yes	Yes
MT	Tax Expenditure Report	Yes	Yes	Yes	Yes	N/A	Yes
NE	Tax Expenditure Report	Yes	Yes	Yes	Yes[34]	No	No
NH	Tax Expenditure Report	Yes	No	No[35]	Yes	N/A	No
NY	Tax Expenditure Report	Yes	Yes	Yes	Yes	No	Yes
	Franchise Tax Credits Analysis	Yes	Yes	No	Yes	N/A	No
NC	Tax Expenditure Report	Yes	Yes	Yes	No[36]	No	No[37]
ND	Sales and Use Tax Exemptions List	Yes	Yes	No (Sales Tax only)	Yes	Yes	No
OH	Tax Expenditure Report	Yes	Yes	Yes	Yes	No	No
OK	Tax Expenditure Report	Yes	Yes	Yes	Yes	No	No
OR	Tax Expenditure Report	Yes	Yes	Yes	Yes	N/A	Yes
PA	Governor's Budget: Tax Expenditure Analysis	Yes	Yes	Yes	Yes[38]	Yes	No
RI	Tax Expenditures Report	Yes	Yes	Yes	Yes	No	Yes
SC	Sales & Use Tax Exemptions	No[39]	No	No (Sales Tax only)	Yes	No	No

TN	Tax Expenditures Overview	Yes	Yes	Yes	Yes	Yes	No
TX	Tax Exemptions & Tax Incidence Report	Yes	Yes	Yes	Yes	Yes	No
UT	Tax Commission Annual Report	Yes	Yes	No (Sales & Property Taxes only)	Yes	No	No
VT	Vermont Tax Expenditures: Transition Report	Yes	Yes	Yes	Yes	No	No
VA	Virginia Retail Sales and Use Tax Expenditure Study	Yes	Yes	No[40]	Yes	No	No
WA	Tax Exemptions Budget	No[41]	Yes	Yes	Yes	Yes	No
WV	Tax Expenditure Study	No[42]	Yes	Yes[43]	Yes	Yes	Yes[44]
WI	Summary of Tax Exemption Devices	Yes	Yes	Yes	Yes	Yes	Yes[45]

APPENDIX 3: DETAIL Key Details a Tax Expenditure Report Should Include About Each Expenditure							
State and Report		**Is Forward-Looking in its Estimates**	**Includes # and/or Description of Recipients**	**Includes Description of How Each Item Works**	**Includes Legal Citations**	**Includes Each Item's Year of Enactment**	**Reports Cost To Localities Separately**
AZ	Tax Expenditures Report	No	Partial[46]	Yes	Yes	No	No
	Conformity Report	Yes	No	Yes	No	Yes	No
AR	Business Incentives and Tax Credits Report	No	No	No	Yes	No	No
CA	Tax Expenditure Report	No	No	Yes	Yes	No	Yes
	Compendium of Individual Provisions	Yes	Yes[47]	Yes	No	No	No
CO	Sales Tax Exemption Study	No	No	No	Yes	Yes	No
CT	Tax Expenditure Report	No	Yes	Yes	Yes	No	Yes
DE	Tax Preference Report	No	Partial	Yes	Yes	No	No
DC	Tax Expenditure Budget	Yes	No	No	No	No	N/A
FL	Florida Tax Handbook	Yes	No	Very few	Yes	Partial[48]	Yes
HI	Tax Credits Report	No	Yes	Yes	Yes	Yes	No
ID	Tax Expenditure Report	Yes	No	Yes	Yes	Yes	No
IL	Tax Expenditure Report	No	No	No	No	Yes	No
IA	Tax Credits Report to the General Assembly	Yes	Yes	Yes	Yes	Yes	No
KS	Tax Expenditure Report	No	Yes	Yes	Yes	Partial[49]	No
KY	Tax Expenditure Analysis	Yes	No	Yes	Yes	Yes	No
LA	Tax Exemption Budget	Yes	No[50]	Yes	Yes	Yes	No
ME	Tax Expenditure Report	Yes	Yes	Yes	Yes	No	No
MD	Tax Expenditures Report	Yes	No	No	Yes	No	Yes
MA	Tax Expenditure Budget	Yes	No	Yes	Yes	No	No
MI	Executive Budget Appendix on Tax Credits, Deductions, and Exemptions	Yes	Partial	Yes	No	No	Yes
MN	Tax Expenditure Budget	Yes	Yes	Yes	Yes	Yes	Yes
MS	Tax Expenditure Report	No	No	Yes	Yes	No	No
MO	Tax Expenditure Report	Yes	No[51]	Yes	Yes	Partial	No
MT	Tax Expenditure Report	No[52]	Yes	Yes	Yes	No	Yes
NE	Tax Expenditure Report	No	No	Yes	Yes	No	Yes
NH	Tax Expenditure Report	No	No	Yes	Yes	No	No
NY	Tax Expenditure Report	No	No	Yes	Yes	Yes	No
	Franchise Tax Credits Analysis	No	Yes	Yes	No	Yes	No
NC	Tax Expenditure Report	No	No	Yes	Yes	No	No
ND	Sales and Use Tax Exemptions List	No	No	No	No	No	Yes
OH	Tax Expenditure Report	Yes	No	Yes	Yes	Yes	No[53]
OK	Tax Expenditure Report	No	No	Yes	Yes	No	Yes
OR	Tax Expenditure Report	Yes	Yes[54]	Yes	Yes	Yes	Yes
PA	Governor's Budget: Tax Expenditure Analysis	Yes	Yes	Yes	No	Yes	No
RI	Tax Expenditures Report	No	Yes	Yes	Yes	No	No
SC	Sales & Use Tax Exemptions	Yes	No	Yes	Yes	Yes	No
TN	Tax Expenditures Overview	Yes	No	No	Yes	No	Yes
TX	Tax Exemptions & Tax Incidence Report	Yes	No	Yes	Yes	Yes	Yes
UT	Tax Commission Annual Report	No	No	No	No	No	Yes
VT	Vermont Tax Expenditures: Transition Report	No	Yes	Yes	Yes	Yes	No
VA	Virginia Retail Sales and Use Tax Expenditure Study	Yes	No	Yes	Yes	Yes	No
WA	Tax Exemptions Budget	Yes	Yes[55]	Yes	Yes	Yes	Yes
WV	Tax Expenditure Study	No	No	Yes	Yes	No	Yes
WI	Summary of Tax Exemption Devices	No	No	Yes	Yes	No	Yes

APPENDIX 4: ANALYSIS
Key analytical elements of a tax expenditure report

State and Report		Includes Program Categories for Each Expenditure	Lists Purpose or Rationale for Each Expenditure	Includes Evaluations for Each Expenditure	Shows Distribution of Benefit by Income Level
AZ	Tax Expenditures Report	No	No	No	No
	Conformity Report	No	No	No	Yes
AR	Business Incentives and Tax Credits Report	No	No	No	No
CA	Tax Expenditure Report	No	No[56]	No	No
	Compendium of Individual Provisions	Yes	Yes	Yes	Yes
CO	Sales Tax Exemption Study	No	No	No	No
CT	Tax Expenditure Report	No	Yes	No	No
DE	Tax Preference Report	No	Yes	Yes	Yes[57]
DC	Tax Expenditure Budget	Yes	No	No	No
FL	Florida Tax Handbook	No	No	No	No
HI	Tax Credits Report	No	No	No	Yes
ID	Tax Expenditure Report	No	No	No	No
IL	Tax Expenditure Report	Yes	No	No	No
IA	Tax Credits Report to the General Assembly	No	No	Yes	No
KS	Tax Expenditure Report	No	No	No	No
KY	Tax Expenditure Analysis	Yes	No	No	No
LA	Tax Exemption Budget	No	Yes	No	No
ME	Tax Expenditure Report	No	Yes	No	No
MD	Tax Expenditure Report	Yes	No	No	No
MA	Tax Expenditure Budget	No	No	No	No
MI	Executive Budget Appendix on Tax Credits, Deductions, and Exemptions	Yes	No	No	Yes
MN	Tax Expenditure Budget	No	No	No	No
MS	Tax Expenditure Report	No	Yes	No	No
MO	Tax Expenditure Report	No	No	No	No
MT	Tax Expenditure Report	No	Yes	No	Yes
NE	Tax Expenditure Report	No	No	No	No
NH	Tax Expenditure Report	No	No	No	No
NY	Tax Expenditure Report	Yes	No	No	No
	Franchise Tax Credits Analysis	No	No	No	Yes[58]
NC	Tax Expenditure Report	No	No	No	No
ND	Sales and Use Tax Exemptions List	Yes	No	No	No
OH	Tax Expenditure Report	No	No	No	No
OK	Tax Expenditure Report	No	No	No	No
OR	Tax Expenditure Report	Yes	Yes	Yes	Yes[59]
PA	Governor's Budget: Tax Expenditure Analysis	No	Yes	No	No
RI	Tax Expenditures Report	No	No	No	No
SC	Sales & Use Tax Exemptions	No	No	No	No
TN	Tax Expenditures Overview	No	No	No	No
TX	Tax Exemptions & Tax Incidence Report	No	No	No	Yes
UT	Tax Commission Annual Report	Partially[60]	No	No	No
VT	Vermont Tax Expenditures: Transition Report	No	No	No	No
VA	Virginia Retail Sales and Use Tax Expenditure Study	No	Yes	No	No
WA	Tax Exemptions Budget	Yes	Yes	No	No
WV	Tax Expenditure Study	No	Yes	No	No
WI	Summary of Tax Exemption Devices	No	No	No	No

[1] Arizona releases two versions of its tax expenditure report for each fiscal year: a preliminary report shortly after the fiscal year is completed, and a final report some years later. (Currently, the most recent preliminary report covers fiscal year 2006/2007, and the latest final report covers fiscal year 2003/2004.) The preliminary version does not include PIT exemptions and deductions, just credits. As a result, available information on PIT deductions and exemptions is typically quite out of date.

[2] Includes impact of recent federal tax legislation on state revenues. The 2007 Conformity Report covered the Tax Increase Prevention and Reconciliation Act of 2005, the Pension Protection Act of 2006, and the Tax Relief and Health Care Act of 2006.

[3] In addition, Arkansas issued a report on Gross Receipts Tax exemptions in 2001, but it has not released an update since, so it is not considered it here.

[4] While officially a biennial report, in fact four years passed between the release of the previous and current editions.

[5] Indiana's Legislative Services Agency produced a one-time policy brief in 2004 examining business tax expenditures, entitled "Business Tax Credits and Deductions in Indiana". It can be found at: http://www.in.gov/legislative/pdf/FISCAL_ISSUE_BRIEF_-_BUSINESS_TAX_CREDITS_AND_DEDUCTIONS_IN_INDIANA.PDF.

[6] Includes some estimate for other years.

[7] Produced by a university research institution rather than a state office.

[8] Produced by a university research institution rather than a state office.

[9] The report's figures are based on tax returns filed during each calendar year

[10] New Mexico, the report of the Legislative Finance Committee to the 48th Legislature includes a discussion of Tax Expenditure Budgeting and a very partial list of New Mexico's tax expenditures. See http://legis.state.nm.us/lcs/lfc/lfcdocs/budget/2009RecommendVolI.pdf, pgs. 21 and 173.

[11] Includes 2008 estimates plus actual figures for 5 years ending in 2004, 2005, or 2006.

[12] See pages 228-334 (Section D)

[13] Mostly 2007 figures, but varied.

[14] The report itself incorrectly claims to be issued annually, but state law dictates the biennial release of a full report with a more limited annual version.

[15] The whole report is issued irregularly; the summary table is updated annually.

[16] In some cases, CY07-CY12.

[17] See page 54 for sales tax and page 60 for property tax.

[18] The report is being released annually during its first few years of existence.

[19] The West Virginia Tax Expenditure Study appears in three rotating parts: (1) Expenditures for Corporation Net Income Tax, Business Franchise Tax and Personal Income Tax (released Jan. 2008); (2) Expenditures for Consumers Sales and Service Tax and Use Tax (Jan. 2007); (3) Expenditures for Special Business Taxes, Business License Taxes, Excise Taxes and Property Taxes (Jan. 2006). As a result, it takes three years for a comprehensive report to be released.

[20] To meet this criterion, a tax expenditure report is required to cover the personal income tax, corporate income tax, and sales tax (assuming the state has these taxes, and the property tax if the state collects more than 2 percent of its revenues from that tax.

[21] See discussion under Comprehensiveness. The reports of Delaware, Montana, New Hampshire, and Oregon are listed as "N/A" because those states do not levy a sales tax.

[22] But, as noted above, the final report is published with significant lag.

[23] The "preliminary" version includes only credits among income tax expenditures. Only the final version, which lags years behind, contains data for other income tax provisions (exemptions, deductions, etc).

[24] But not in the reasonably up-to-date "preliminary" version. The "Yes" designation here applies to the final versions, but there's a long lag in publishing these. Currently, the most recent is the FY 2002/2003 version.

[25] Excludes items costing less than $5 million.

[26] Includes the PIT and CIT only.

[27] Includes the sales tax only.

[28] Connecticut's report is biennial in theory, but it took four years to produce the last report.

[29] This report covers a very small number of conformity items.

[30] Excludes items costing less than $1 million.

[31] Includes just PIT and CIT credits. Iowa published a report in 2000 that covered other taxes.

[32] The cost of a tax expenditure is only listed if the item benefits more than five taxpayers.

[33] The report actually leaves out items worth less than $50,000, but that is a truly negligible amount.

[34] Nebraska's report includes only those taxes that generate more than $2 million in annual revenue.

[35] New Hampshire's report excludes the property tax, which is a major source of state revenue.

[36] North Carolina's report leaves out the cost of nine expenditures mostly arising from the CIT, that were "taken by so few taxpayers that estimates based on tax information may compromise taxpayer confidentiality if reported."

[37] Just a very few are included. There is also a list of federal tax expenditures and whether each is conformed to, but that list does not specify the cost of conforming.

[38] Pennsylvania's report includes only tax sources that generate more than $15 million in revenue.

[39] Although a summary table is released annually, the whole report is published irregularly.

[40] Includes only three selected sales tax expenditures.

[41] Apparently quadrennial.

[42] Published annually, but each tax is only covered every three years.

[43] West Virginia's taxes are covered on a three-year rotating basis.

[44] West Virginia's report includes provisions affecting the corporate income tax only, not the personal income tax.

[45] Wisconsin's report lists the cost of many conformity measures as "minimal" or "not available".

[46] Yes for most CIT credits and some PIT credits.

[47] Most, but not all items include descriptions.

[48] The report includes the year of enactment for sales tax exemptions only.

[49] For sales tax exemptions, the report provides the year of the most recent revision.

[50] Includes only a very rudimentary descriptions of each item.

[51] Not for most expenditures. But the report does include a count of sales-tax-exempt organizations.

[52] Mostly no, although natural resource tax estimates are forward-looking.

[53] Combines local impact with costs to state general fund.

[54] Gives a description of the recipients of each item, but not always a number.

[55] Mostly just descriptions, but some selected items include numbers.

[56] Includes a heading for each item's "legislative intent," but says "not specified" for most of them.

[57] While Delaware's report does not provide numerical analysis of the distributional impact, the written assessment of personal income tax credits is quite concerned with the differential impact on low, moderate, and upper income taxpayers.

[58] Includes only selected items, but enough to count for the purposes of this report.

[59] Includes only selected items, but enough to count for the purposes of this report.

[60] Only for certain sales tax exemptions, and then only broad categories.