



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 through “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 produced, 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-four states (counting the District of Columbia as a state) produce some form of tax expenditure report.¹ Unfortunately, many of these reports have significant shortcomings that limit their usefulness:

- Ten of the 44 states omit major taxes from their tax expenditure report, and six 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 March 2011.

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.
- Two states, **Arkansas** and **New Hampshire**, 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 the **District of Columbia** 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**, **Colorado**, and **Utah**, because they omit major taxes, fail to provide cost estimates and other key information for many tax expenditures, and/or are not available online.

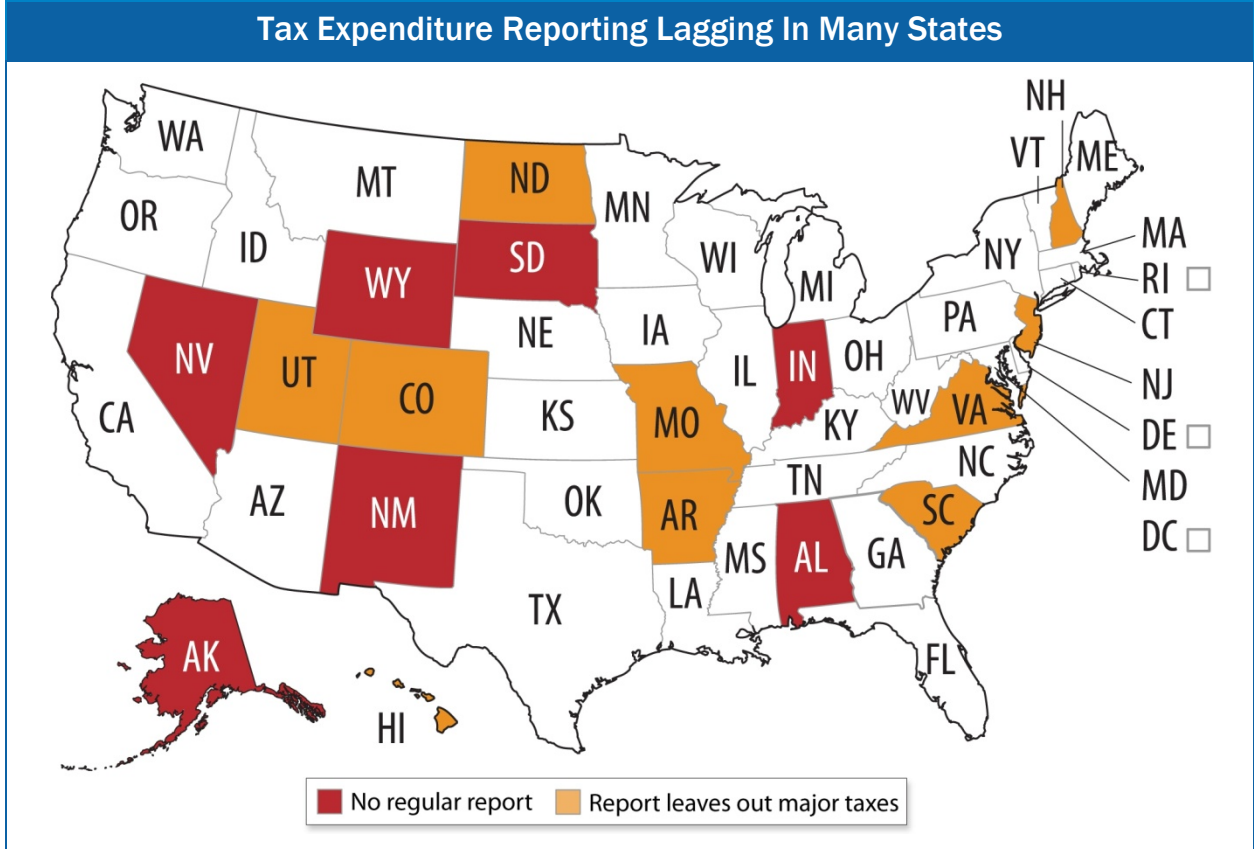
Seven states produce no regular tax expenditure report, meaning that citizens have no way of knowing on an ongoing basis what the state is spending or what policies it is pursuing through the tax code. These states are: **Alabama, Alaska, Indiana, Nevada, New Mexico, South Dakota, and Wyoming.**

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.) It also describes other steps, beyond producing a tax expenditure report, states can take to better manage their tax-side spending. 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, their use should be transparent and accountable. A well-designed tax expenditure report can help accomplish that, especially when accompanied by other reforms that allow legislatures to regularly review and better manage tax-side spending.

Recent Developments in Tax Expenditure Reporting

In the last two years, **New Jersey** and **Georgia** have passed tax expenditure reporting requirements and produced their first reports. The **District of Columbia’s** report has been drastically improved, and several other states have made significant enhancements, including **North Carolina, Rhode Island, and Vermont.**

Missouri, on the other hand, has discontinued its tax expenditure report, now providing only an extremely limited report on economic development tax credits. In **New Mexico**, a bill to create a tax expenditure budget was passed unanimously by both legislative houses in 2011, but vetoed by the governor.



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, exclusions, 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 information technology company a state hopes will locate a facility 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 a spending 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 the following ways, tax expenditures operate just like direct expenditures.

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.

- **Like direct spending, tax expenditures 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.
- **Like direct spending, tax expenditures 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 than it otherwise would to raise the same amount of revenue. 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.) Either way, providing tax preferences for some taxpayers must mean either imposing higher taxes on other taxpayers or forgoing public services such as better public schools or access to health care.
- **Like direct spending, tax expenditures 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).
- **Like direct spending, tax expenditures 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.
- **Like direct spending, tax expenditures can benefit those who do not have tax liability.** 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” income tax credit: if the value of a refundable credit exceeds the recipient’s income 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**

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.

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 bill or 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.

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** before the legislature could repeal it. This is not typical, but it shows just how little control legislatures have over some tax expenditures.

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

To cite one example, since 1994 **Louisiana** has subsidized horizontal drilling for oil and natural gas by exempting such projects from severance taxes for the first two years of operation. This made sense in 1994, when horizontal drilling was a costly new technology and prices for these resources were relatively low. But times have changed. Horizontal drilling is now common practice, and discovery of an enormous natural gas field in the Haynesville Shale in north Louisiana has inspired a “Gas Rush” in the state.⁶ There is no longer any apparent need to entice mining companies to Louisiana with tax breaks, but the state nonetheless spent \$168 million on this unnecessary subsidy in fiscal year 2010. Because it is spent through the tax code rather than the appropriations process, the drilling subsidy will continue indefinitely unless

⁶ Adam Nossiter, “Gas Rush is On, and Louisianans Cash In,” *New York Times*, July 29, 2008, <http://www.nytimes.com/2008/07/29/us/29boom.html?hp=&pagewanted=all>

repealed, and there is no requirement that policymakers ever reconsider whether it is a good use of state dollars or weigh it against other spending.⁷

Making this problem worse, in some states tax expenditures are procedurally 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 (see Section IV). Even in other states where the process is the same for repealing tax expenditures and direct spending, it may be politically more difficult to repeal the tax expenditure.

- **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.

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.

⁷ Louisiana Budget Project, “Louisiana’s Hidden State Budget,” May 19, 2010,

<http://www.labudget.org/lbp/2010/05/louisiana%E2%80%99s-hidden-state-budget-2/>

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 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.”

Forty-four 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 produced, 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 produce tax expenditure reports. Without such a report, a 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.

Vermont's 2008 tax expenditure report helped draw attention to a tax break that allowed individuals to exclude 40 percent of capital gains income from their taxable income. The report showed that this practice was costing the state nearly \$50 million per year, and further analysis demonstrated that 75 percent of this money was going to the wealthiest one percent of Vermont's taxpayers. The state ended the exclusion in 2009, recouping these losses and freeing up funds for other priorities in a difficult budget year.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's tax expenditure reporting practices have helped the state save money since its first 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 exemption was scaled back the following year and changed again in 2001, saving the state more than \$40 million per biennium. More recently, the report helped draw attention to the costs of a tax credit for purchasing

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 regularly produces two tax expenditure reports, and several states produce separate reports focused solely on business incentives, which are only covered here if the state produces no other report documenting tax expenditures. A number of other states, notably Alaska, Arkansas, Indiana, and New Mexico, 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.

¹² Paul Cillo, "Repealing Vermont's Capital Gains Tax Break Would Ease Budget Woes and Improve Tax Fairness," Public Assets Institute, March 20, 2009, <http://publicassets.org/publications/press-releases/capitalgains/>. In 2010, the legislature restored a portion of the capital gains break.

gasoline-hybrid vehicles, which had increased from a total of \$6,000 for eight credits awarded in 1999 to more than \$4.5 million for 3,083 such credits in 2008. The state eliminated the credit for these vehicles in 2009 and now saves up to \$10 million each biennium as a result.

Despite these important benefits, seven states — **Alabama, Alaska, Indiana, Nevada, New Mexico, South Dakota, and Wyoming** — produce no regular tax expenditure report. An additional 10 states report only on a few tax expenditures and/or omit major taxes from their reports (see Table 1), and six 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.

III. ELEMENTS OF A GOOD TAX EXPENDITURE REPORT

Often, and for no apparent reason, states omit key features from 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.

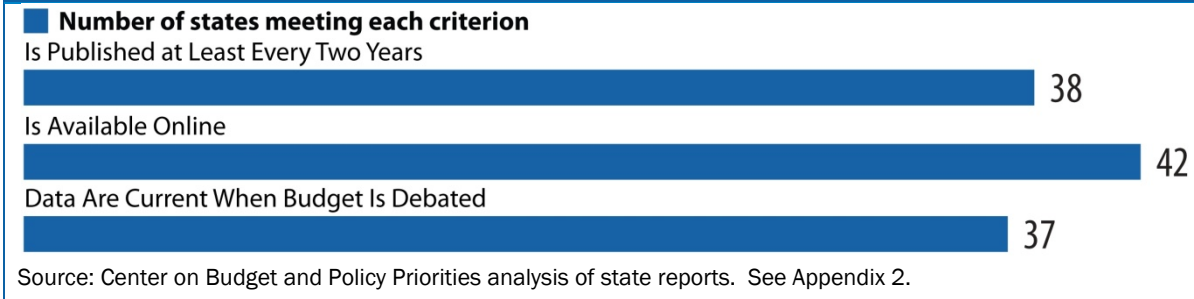
The remainder of this report describes these features in more detail, giving specific examples of which states' reports meet each of these standards. It should be noted that the classification of some of the reports is not precise — many states' reports are largely but not completely comprehensive, for 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.
- **Up to date.** Even a regularly published report is of limited use if the information it contains is several years old. Thirty-seven states' tax expenditure reports provide data that is no more than about one year old when budget deliberations begin. But seven other states must work with significantly dated information. In **Iowa**, for instance, the most recent data on tax expenditures available during fiscal year 2012 budget negotiations were from a January 2009 report that used 2005 data.
- **Incorporated into the budget process.** The report's release should be timed for use during the budget debate. As Professor 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

Figure 1: Accessibility of Tax Expenditure Reports



balancing of alternatives that constructing a budget should entail.”¹³ Some states (for example, **Michigan** and **Pennsylvania**) go further and publish the report as part of the regular budget. Additional steps for integrating tax expenditure budgeting into the budget process are proposed in Section IV below.

- **Available on the Web.** Every tax expenditure report can and should be posted on the Internet in an easy-to-find location. **Massachusetts** and **Nebraska** are leaders in this respect, embedding hyperlinks into their online tax expenditure reports to connect readers to relevant statutes and other resources. **Arkansas** and **New Hampshire**, by contrast, do not even post their reports online.

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-four 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.¹⁴ 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.)

¹³ Mikesell 49.

¹⁴ Revenue source data is from the U.S. Census Bureau.

The reports of 30 states include minor taxes as well. **Connecticut** receives 95 percent of its revenue from the “big three” taxes, but its report also covers smaller state taxes.¹⁵ **Nebraska’s** report covers all taxes that generate at least \$2 million in revenue annually, including the personal and corporate income taxes, the sales tax, the property tax, and a number of smaller taxes.

Ten 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, Missouri, New Hampshire, New Jersey, North Dakota, South Carolina, Utah, and Virginia**.¹⁶

- **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.

Five states — **Arizona, the District of Columbia, Hawaii, Kansas, and West Virginia** — withhold the cost of tax expenditures that benefit very few taxpayers, explaining that revealing this information would violate confidentiality. 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

¹⁵ 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.

¹⁶ Georgia, New Jersey, and Rhode Island’s reports include some tax expenditures from each major tax, but because they do not include cost estimates for a majority of expenditures in each tax, they are not counted as covering those taxes for purposes of this report (see Table 1). However, Rhode Island’s report has been improved in recent years and is close to meeting this criterion, while Georgia and New Jersey are new to tax expenditure reporting and both reports mention time or data constraints that they say will improve over time.

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.

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 ^a -----				
Arizona	Y	Y ^b	Y ^b	Y	Y
Arkansas	Partial ^c	Y	Y	N	N
California	Y	Y	Y	Y	Y
Colorado	Y	N	N	N/A	N
Connecticut	Y	Y	Y	N/A ^d	Y
Delaware	N/A	Y	Y	N/A	Y
District of Columbia	Y	Y	Y	Y	Y
Florida	Y	N/A	Y	Y ^e	Y
Georgia	Y ^f	Y ^f	Y	N/A	Y ^f
Hawaii	N	Partial ^g	Partial ^g	N/A	N
Idaho	Y	Y	Y	N/A	N
Illinois	Y	Y	Y	N/A	Y
Indiana	-----No Report ^h -----				
Iowa ⁱ	Y	Y	Y	N/A	N
Kansas	Y	Y	Y	Y ^e	Y
Kentucky	Y	Y	Y	Y	Y
Louisiana	Y	Y	Y	N/A	Y
Maine	Y	Y	Y	Y ^e	N
Maryland	Y	Y	Y ⁱ	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 ^k	N	Y	Y	N/A	N
Montana	N/A	Y	Y	Y	Y
Nebraska	Y	Y	Y	Y ^e	Y
Nevada	-----No Report-----				
New Hampshire	N/A	N/A	Y	N	N
New Jersey	N ^f	Y ^f	Y	NA	Y
New Mexico ^l	-----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 ^m	N/A	Y
Oklahoma	Y	Y ⁿ	Y ⁿ	N/A	Y
Oregon	N/A	Y	Y	Y ^e	Y
Pennsylvania	Y	Y	Y	N/A	Y
Rhode Island	Y	Y	Y ^f	N/A	Y
South Carolina	Y	N	N	N/A	N
South Dakota	-----No Report-----				
Tennessee	Y	N/A	Y	N/A	Y
Texas	Y	N/A	Y	Y ^e	Y
Utah	Y	N	N	Y ^e	N
Vermont	Y	Y	Y	Y	Y
Virginia	Y ^o	N	N	N/A	N
Washington	Y	N/A	N/A ^p	Y	Y
West Virginia	Y	Y	Y	Y ^e	Y
Wisconsin	Y	Y	Y	Y ^e	Y
Wyoming	-----No Report-----				

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

Table 1: Continued

* 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.

^a Alaska released a one-time report on business tax credits in 2010 as part of their annual Revenue Sources Book.

^b 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 2010, and the latest final report covers fiscal year 2007.) The preliminary version does not include PIT or CIT exemptions and deductions, just credits. As a result, available information on PIT and CIT deductions and exemptions is typically quite out of date.

^c 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.

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

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

^f While Georgia, New Jersey, and Rhode Island's reports list tax expenditures for each of these taxes, they leave out cost estimates for more than half of them. Georgia's (inaugural) report includes cost estimates for only 41 of the 105 sales tax expenditures, 15 of 31 PIT expenditures, and 11 of 30 expenditures arising from other taxes. New Jersey's report includes estimates for only 16 of the 135 sales tax expenditures it identifies and 21 of 53 PIT expenditures. Rhode Island's report includes estimates for only 24 of 60 CIT expenditures. Since New Jersey's report includes estimates for less than one-third of sales tax expenditures, we do not count the report as covering this tax.

^g Hawaii's tax expenditure report only includes credits, not exemptions or deductions.

^h Indiana issued one-time studies of PIT expenditures in June and December of 2010. See Appendix 1.

ⁱ Iowa also publishes lists of all its major credits, exclusions, exemptions etc., organized by tax type, but without monetary figures.

^j Maryland's report covers only credits and certain subtractions, stating that "for the most part, data on individual subtractions from the corporation income tax are not available."

^k Missouri has discontinued its Tax Expenditure Report. All Missouri references here refer to the new, much less comprehensive Tax Credit Accountability Report.

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

^m Ohio's Corporate Franchise Tax used to apply to most corporations, but as of 2010 only applies to financial institutions, affiliates of financial institutions, and affiliates of insurance companies. Financial institutions use a special net worth calculation. Because only the remaining affiliates still use the "regular" calculation, "the revenue impact associated with the remaining regular corporate franchise tax expenditures will be extremely small," so the report only includes tax expenditures affecting financial institutions.

ⁿ Oklahoma's report groups CIT and PIT expenditures together under the heading "Income Tax."

^o Virginia is phasing in sales tax expenditure reporting. Its first two reports only cover seven sales & use tax exemptions combined, but future reports will cover more.

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

Although 36 tax expenditure reports include sales tax expenditures, only 19 include an entry for the exclusion of services from the sales tax base.

This is a troubling omission. 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

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.”¹⁷

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.

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.¹⁸ 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.^{19,20}

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. Only 17 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.²¹

¹⁷ 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.

¹⁸ 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.

¹⁹ 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.

²⁰ 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>.

²¹ 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.

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.

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.²² This has had the effect of reducing corporate taxes — and state revenues.²³ 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.²⁴ 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.”

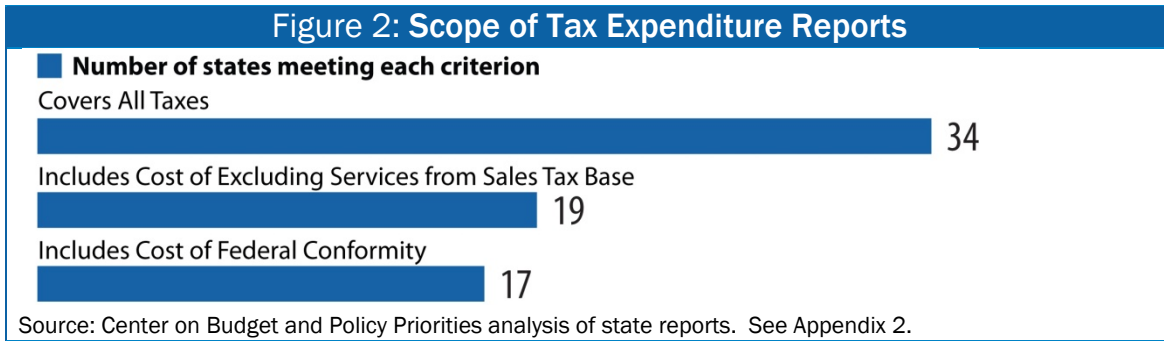
- *Massachusetts’ Tax Expenditure Report*

- **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

²² 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>.

²³ Twenty states have moved to single-sales-factor apportionment, and another two 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.

²⁴ 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.



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.²⁵ Nationwide, localities depend heavily on property taxes,²⁶ 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

²⁵ States should both report the cost of tax expenditures affecting only local revenues and also break out the cost of tax expenditures that affect both state and local revenues, as explained below. In total, 17 states’ tax expenditure reports include costs to localities in at least one of these two ways.

²⁶ In 2008, localities received 72 percent of their tax revenue from property taxes. See U.S. Census at <http://www.census.gov/govs/estimate/>.

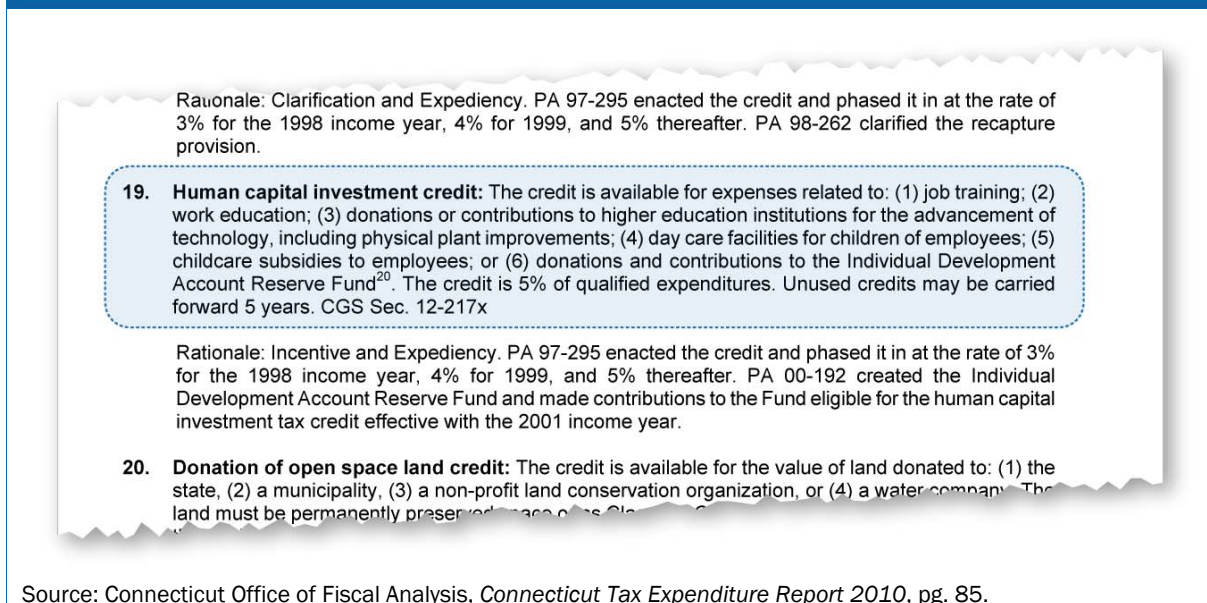
more than 80 tax expenditures as “N/A” (not available), while Maryland’s report indicates that there is “no reliable estimate” for more than 100 expenditures. **Georgia, New Jersey, and Rhode Island** omit estimates for more than half of expenditures under one or more taxes. By contrast, **Oregon’s** report includes cost estimates for all but a very few tax expenditures.

Figure 3: Missing Cost Estimates in Oklahoma Tax Expenditure Report

107.	<i>Prosthetic Devices</i>	Citation: 68 O.S. §1357
	Description:	Sales of prosthetic devices to individuals for their own use.
	Estimate (Sales Tax):	N/A
108.	<i>Motion Picture and Television Production Companies</i>	Citation: 68 O.S. §1357
	Description:	Sales of property or services to a motion picture or television production company to be used or consumed in connection with an eligible production.
	Estimate (Sales Tax):	\$3,000.00
	Data Source:	Tax Commission Records
	Reliability:	2
109.	<i>Diesel Fuel</i>	Citation: 68 O.S. §1357
	Description:	Diesel fuel sold for use by commercial vessels, barges, and other commercial watercraft.
	Estimate (Sales Tax):	N/A
110.	<i>Biomedical Research Foundations</i>	Citation: 68 O.S. §1357
	Description:	Sales of property and services to tax-exempt, independent, nonprofit biomedical research foundations and community blood banks.
	Estimate (Sales Tax):	N/A
111.	<i>Wireless Telecommunication Equipment</i>	Citation: 68 O.S. §1357
	Description:	Wireless telecommunications equipment used as part of a promotional package.
	Estimate (Sales Tax):	N/A
112.	<i>Rail Transportation Cars</i>	Citation: 68 O.S. §1357
	Description:	Leases of rail transportation cars used to transport coal to plants in this state that generate electricity.
	Estimate (Sales Tax):	N/A
113.	<i>Aircraft Repair and Modification</i>	Citation: 68 O.S. §1357
	Description:	Sales of aircraft engine repairs, modification, and replacement parts, sales of aircraft frame repairs and modification, aircraft interior modification, and paint, and sales of services used in the repair, modification and replacement of parts of aircraft engines, aircraft frame and interior repair and modification.
	Estimate (Sales Tax):	\$2,150,000.00

Source: Oklahoma Tax Commission, *State of Oklahoma Tax Expenditure Report 2009-2010*, pg. 58.

Figure 4: Detailed Credit Description In Connecticut Tax Expenditure Report



Source: Connecticut Office of Fiscal Analysis, *Connecticut Tax Expenditure Report 2010*, pg. 85.

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 than \$1 million or "substantial" if it is likely more than \$1 million.²⁷ **Maine's** report assigns uncertain expenditures to categories A through F, representing different cost ranges.²⁸ 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-five 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 \$25 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 4 provides one example.

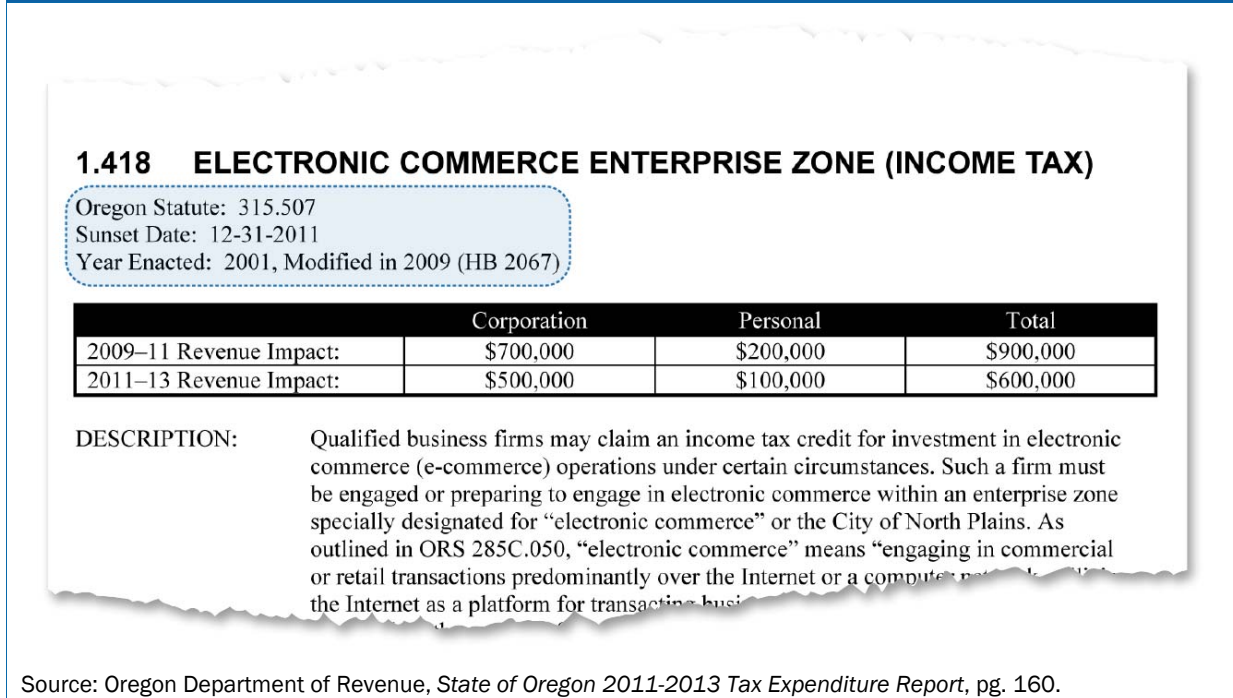
- **Cost projections to allow comparison with other proposed expenditures.** Some tax expenditure reports show cost estimates for one or more previous years, some for one or more future years, and some for a combination of the two. Showing multiple years (both past and future) is helpful, but it is most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

²⁷ Commonwealth of Kentucky Tax Expenditure Analysis: Fiscal Years 2010 - 2012, pp. 8-9.

²⁸ Maine State Tax Expenditure Report 2012 – 2013, pp. 262-268.

- **Legal citation and year of enactment.** Thirty-nine states' reports provide a legal citation for each tax expenditure, and 24 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.

Figure 5: Effective Legal Citation in Oregon's Tax Expenditure Report



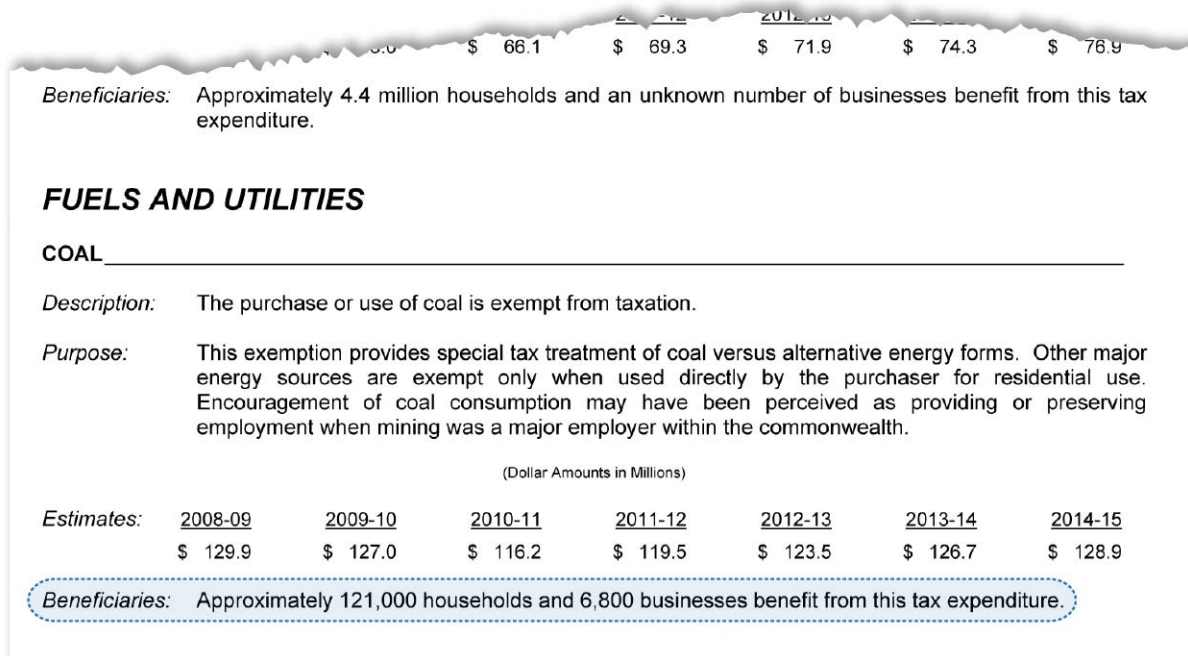
For explicit tax expenditures, this information frequently consists of a single section of state law (such as a section that exempts an item from the sales tax or allows an income tax deduction) along with the year that section passed. For implicit tax expenditures, the information is likely to be more 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 characteristics (individuals, corporations, etc.) and their total number. It is particularly important to identify narrowly tailored tax breaks that may not serve the broader public interest. Most states' reports provide some description of the beneficiaries of tax expenditures, but only sixteen consistently report the number of recipients.

Pennsylvania's report provides a good model. For example, it describes the beneficiaries of the Educational Improvement Tax Credit as “[a]pproximately 2,930 companies and 630 scholarship organizations, educational improvement organizations, and pre-kindergarten scholarship organizations,” and it describes the sales tax exemption for coal as benefitting

“[a]pproximately 121,000 households and 6,800 businesses,” as shown in Figure 6. While helpful, even these descriptions of beneficiaries could be more detailed, as described below under “Analysis and Evaluation.”

Figure 6: Characteristics and Number of Recipients in Pennsylvania Report



Source: Pennsylvania Governor’s Office of the Budget, *2010-2011 Proposed Governor’s Executive Budget*, pg. D44.

- **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 7, lists the state and local costs separately for every expenditure.²⁹ Seventeen states’ reports include information on the costs that state tax expenditures impose on localities.³⁰

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 for most tax expenditures, thereby making it difficult to use the information to make decisions about either state or local budgeting.

²⁹ See “Detailed Summary of Exemptions” at http://dor.wa.gov/Content/AboutUs/StatisticsAndReports/2008/Tax_Exemptions_2008/Default.aspx.

³⁰ This number includes those that include tax expenditures that affect only local revenue, as described above.

- **For tax expenditures that can be deferred or transferred, provide additional detail to trace the impact.** The revenue impact of some tax expenditures is complicated by the fact that they can be sold, traded, or saved to be cashed in at a later date. Some business investment credits, for instance, are meant to encourage immediate investment that will produce benefits over many years; credits awarded in one year can thus be applied to tax liability over the course of several years.

Figure 7: 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)		Category	Revenue Realized?	Page	
		State Tax	Local Tax				
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.

Other tax credits are simply so generous that their value can exceed the tax liability incurred by their recipients. States sometimes make these credits fully or partially refundable, and sometimes allow the original recipients to sell their unused credits to others who will be able to use them. States also sometimes facilitate credit sales by making the credits applicable to multiple taxes, which makes reporting their revenue impact even more complicated.

As shown in Figures 8 and 9, **New York** and **Massachusetts** do a particularly good job of reporting these nuances in their tax expenditure reports. The New York report breaks out the cost of each business tax credit program into eight categories to show the amount earned, claimed, carried forward, and so on. The Massachusetts report includes an entry for the state’s film credit under both the personal and corporate income taxes, explains that the credit is transferable to other taxpayers and applicable to multiple taxes, links the reader directly to the other relevant entry within the report, and provides an estimate of the amount expected to be claimed against special taxes on financial institutions and insurance companies even though the report does not generally cover those types of taxes.

Figure 8: Detail of Business Tax Credits in New York's Report

CORPORATION FRANCHISE TAX

Article 9-A Tax Credits in 2007
(\$ in millions)

	Unused		Total Credit Available	Recaptured Credit	Credit Claimed	Credit Used	Refundable Credit ¹	Credit Carried Forward
	Total Credit Earned	Credit from the Prior Year						
Investment Tax Credit	\$163.8	\$1,096.5	\$1,260.4	\$8.7	\$1,245.9	\$91.1	\$7.9	\$1,146.9
Investment Tax Credit for the Financial Services Industry	22.0	129.9	151.9	0.3	151.6	0.0	0.0	0.0
Marketing Recording Tax Credit	8.7	4.6	13.3	0.0	0.0	0.0	0.0	0.0
Low-Income Housing Tax Credit	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-Term Care Insurance Credit	0.2	0.2	0.5	0.0	0.5	0.1	0.0	0.3
Empire State Film Credit	81.3	14.6	95.9	0.0	95.9	12.3	49.1	34.5
Empire State Commercial Production Credit	1.2	0.0	1.2	0.0	1.2	0.0	0.6	0.6
Fuel Cell Electric Generating Equipment Credit	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Brownfield Tax Credits	128.0	0.0	128.0	0.0	127.9	5.4	122.5	0.0
Security Officer Training Tax Credit	0.4	0.0	0.4	0.0	0.4	0.0	0.4	0.0
Credit for Taxicabs & Livery Service Vehicles Accessible to Persons with Disabilities	0.1	d/	0.2	0.0	0.2	d/	0.0	0.1
Clean Heating Fuel Credit	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Conservation Easement Tax Credit	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Biofuel Production Credit ³	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Historic Properties Rehab Credit	d/	0.0	d/	0.0	d/	d/	0.0	d/
Total⁴	\$852.0	\$2,156.3	\$3,008.6	\$30.1	\$2,928.6	\$210.8	\$318.9	\$2,398.2

¹ Credit refunded includes amounts eligible for refund, but instead claimed as an overpayment applied against next year's tax liability at the discretion of the taxpayer.

² The provisions of this credit allow for the transfer of excess credit to affiliates of the taxpayer. However, in 2007, no corporations transferred credit to affiliates.

³ No credit was claimed in 2007.

⁴ Total row reflects the vertical summation of the individual credit components. Horizontal calculations within the column are not valid. Totals may not add due to rounding.

d/ Tax Law provisions prohibit disclosure of data.

Source: New York State Division of the Budget and Department of Taxation and Finance, *Annual Report on New York State Tax Expenditures*, pg. 62.

Figure 9: Film Credit Detail in Massachusetts Report

2.614 -Film (or Motion Picture) Credit

ITEM	Description	FY2010	FY2011	FY2012
2.614	Film (or Motion Picture) Credit	15.5	10.1	10.1

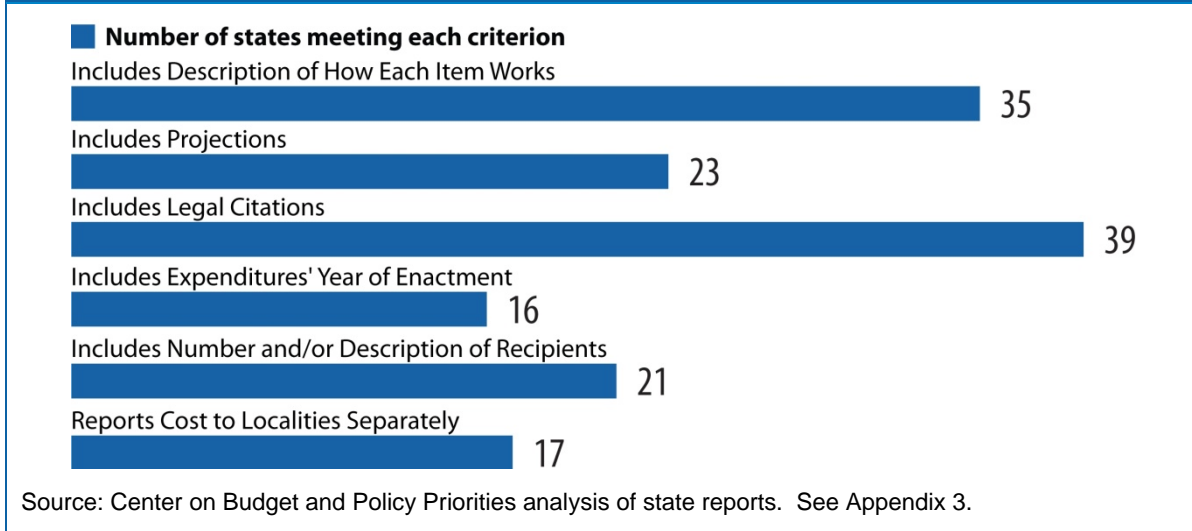
For taxable years beginning on or after January 1, 2006 and before January 1, 2023, Massachusetts allows two credits for motion picture production companies who meet certain qualification requirements. Production companies who incur at least \$50,000 of production costs in Massachusetts are eligible for income and corporate excise tax credits equal to 20% of the total Massachusetts payroll for the production, excluding salaries of \$1 million and higher. In addition, production companies whose Massachusetts production expenses exceed 50% of the total production cost receive an income and corporate excise tax credit of 25% of the total Massachusetts production expense. Supporting documentation is available to the Department of Revenue upon request. These tax credits are refundable at 90% of the approved credit amounts, or the amount of the tax credit that exceeds the tax due for a taxable year may be carried forward by the taxpayer to any of the 5 subsequent taxable years. Additionally, all or any portion of tax credits issued may be transferred, sold or assigned to other taxpayers with tax liabilities under [chapter 62](#) (the individual income tax) or [chapter 63](#) (the corporate or other business excise taxes). For applications submitted prior to January 1, 2007, film tax credits were capped at \$7,000,000 for any one motion picture production has; for applications submitted on or after January 1, 2007, there is no cap. Also, the sunset date for the film incentives statute has been extended from January 1, 2013 to January 1, 2023. See TIR 07-15 for more information (See also item [1.611](#).)

The Department of Revenue estimates that financial institutions and insurance companies will claim \$52.8 million in fiscal year 2011 and the same amount in fiscal 2012 in film tax credits, which are not covered in this tax expenditure budget. This is in addition to the \$10.1 million and \$2.1 million that will be claimed by corporations and individuals (respectively) and is shown in this tax expenditure. (See also item [1.611](#).)

Origin: See "An Act Providing Incentives to the Motion Picture Industry", [St. 2005, c. 158](#), signed into law on November 23, 2005 and "An Act Providing Incentives to the Motion Picture Industry", [St. 2007, c. 63](#); TIR 07-15, TIR 06-1; [M.G.L. c. 63](#)
 Estimate: \$10.1

Source: Massachusetts Department of Revenue, *Tax Expenditure Budget*,
http://www.mass.gov/bb/h1/fy12h1/tax_12/hall.htm

Figure 10: Extent of Detail Of Tax Expenditure Reports



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. When done well, this information serves three important purposes: First, it helps policymakers and the public understand the legislative history of the tax expenditure and why it exists. Second, it helps policymakers more easily evaluate tax-side spending and prioritize it relative to annual appropriations. Third, it helps generate public and legislative debate by providing useful information, including data about who is benefiting from particular tax expenditures. In short, evaluation helps make tax expenditures accountable.

Useful elements of analysis and evaluation include the following:

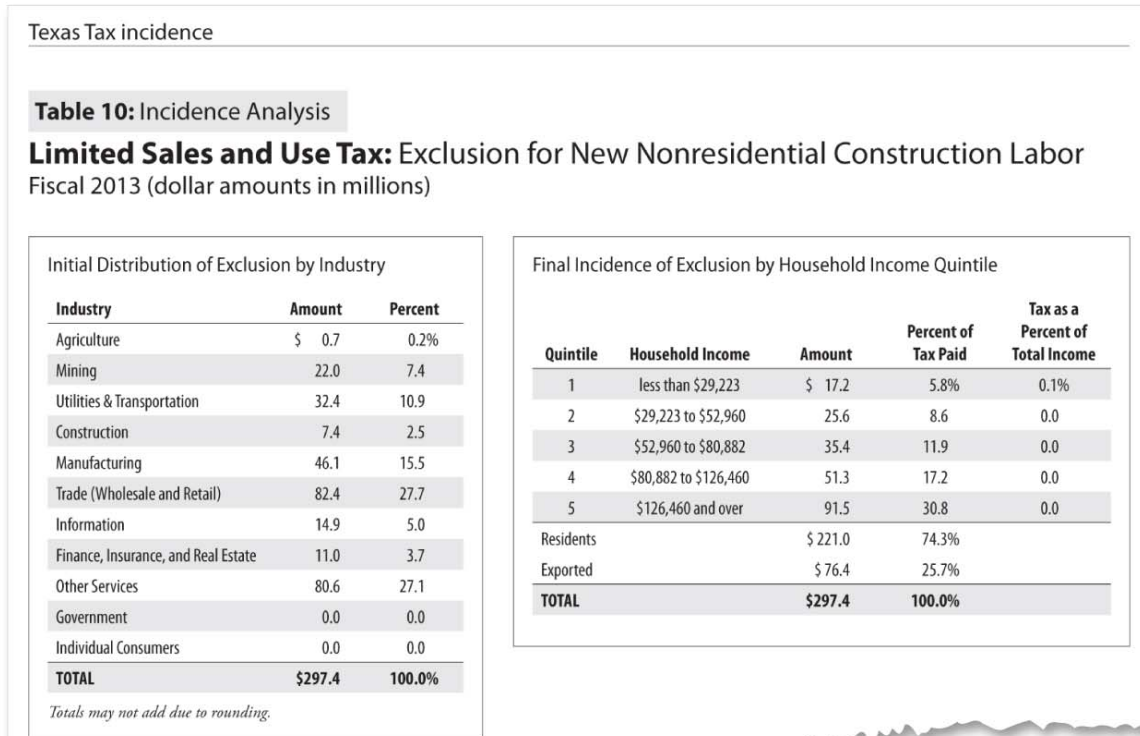
- **Analysis of who benefits.** An important piece of information for evaluating the impact of a tax expenditure is the distribution of its benefits by income level (or, in the case of business tax expenditures, by business size). Many tax breaks described by their advocates as “middle-class tax relief” or “small business tax relief” turn out to provide surprisingly little benefit to these groups. Distributional analyses allow 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;³¹ where this capacity exists, analyzing tax expenditures is quite

³¹ 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>.

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 (see figure 11 above for an example).³² Another nine states include this information for some reported tax expenditures.³³

Figure 11: Detailed Tax Incidence Analysis in Texas’ Report



Source: Texas Office of the Comptroller, *Tax Exemptions and Tax Incidence*, pg.50.

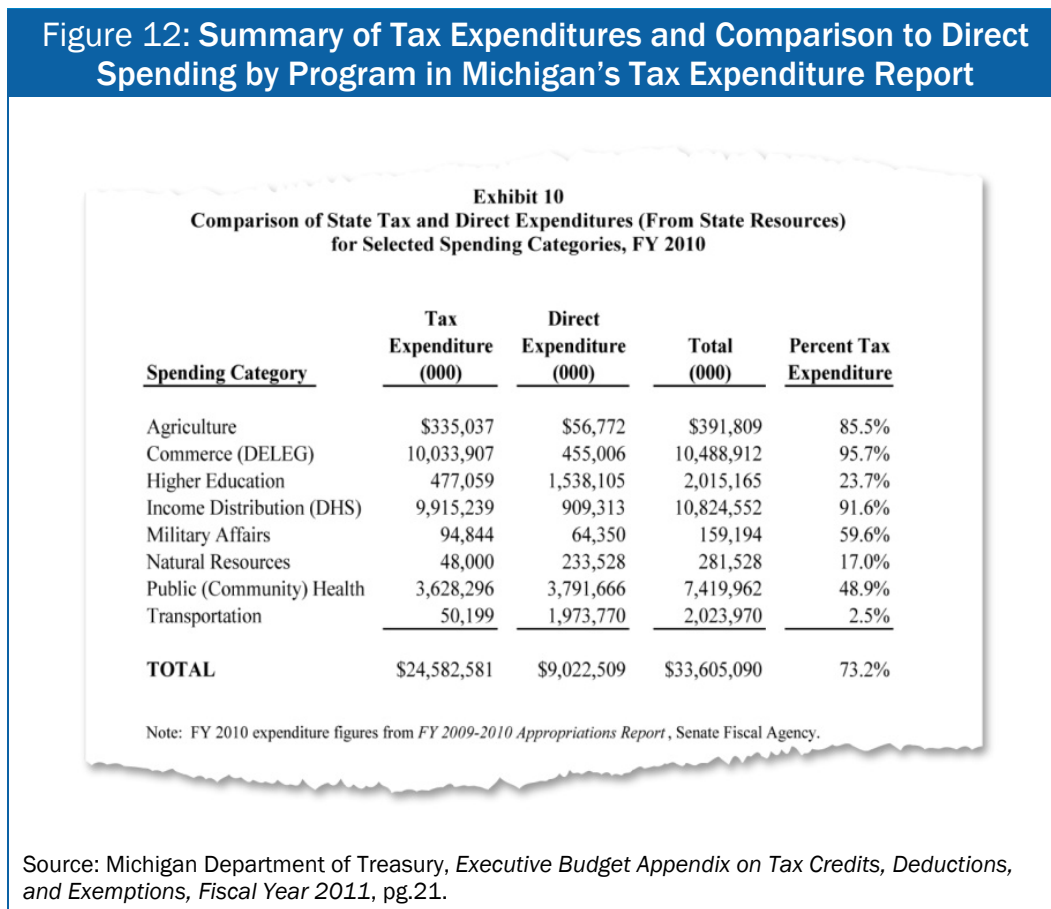
- **Classification by function.** A helpful way to understand the role of tax expenditures is to classify them using the same categories as direct spending. State budgets are generally organized into “program categories” such as education, health care, and transportation. Tax expenditure reports, by contrast, are generally organized by the tax from which the expenditures arise. However, 12 states’ reports also categorize and aggregate tax breaks based on program category or function, just as the budget does for other spending items; this facilitates

³² In fact, 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 approximate distributional consequences of any new tax expenditure before it is enacted.

³³ The other nine states that include distributional analysis for at least some tax expenditures are the District of Columbia, Delaware, Hawaii, Michigan, Montana, New York, North Carolina, Oregon, and Vermont.

comparison of tax expenditures with appropriations by allowing policymakers to consider all spending for a given function at once.

A good example is **Michigan’s** report, excerpted in Figure 12, which classifies tax expenditures by program areas and sub-areas, and compares the totals to direct spending on major areas. (Figure 12 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. Thirteen 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.”³⁴

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”

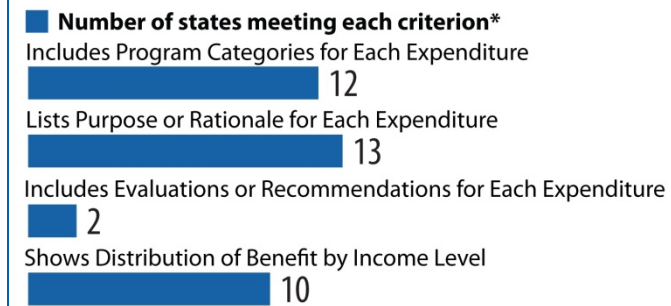
³⁴ State of Oregon 2011-2013 Tax Expenditure Report, p. 76.

— 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.” These subjective categories are difficult for legislators, advocates, and others to understand and use.

It is easier to determine the purpose of a tax expenditure if the legislation establishing the expenditure clearly describes its intent. But a number of states, including **California, New Jersey, Rhode Island, and Wisconsin**, are required to list the purpose of each expenditure in their tax expenditure reports but not in the legislation creating those expenditures. In these cases, states could improve their tax expenditure reports by improving the transparency of their legislation. Finally, 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.

- **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.

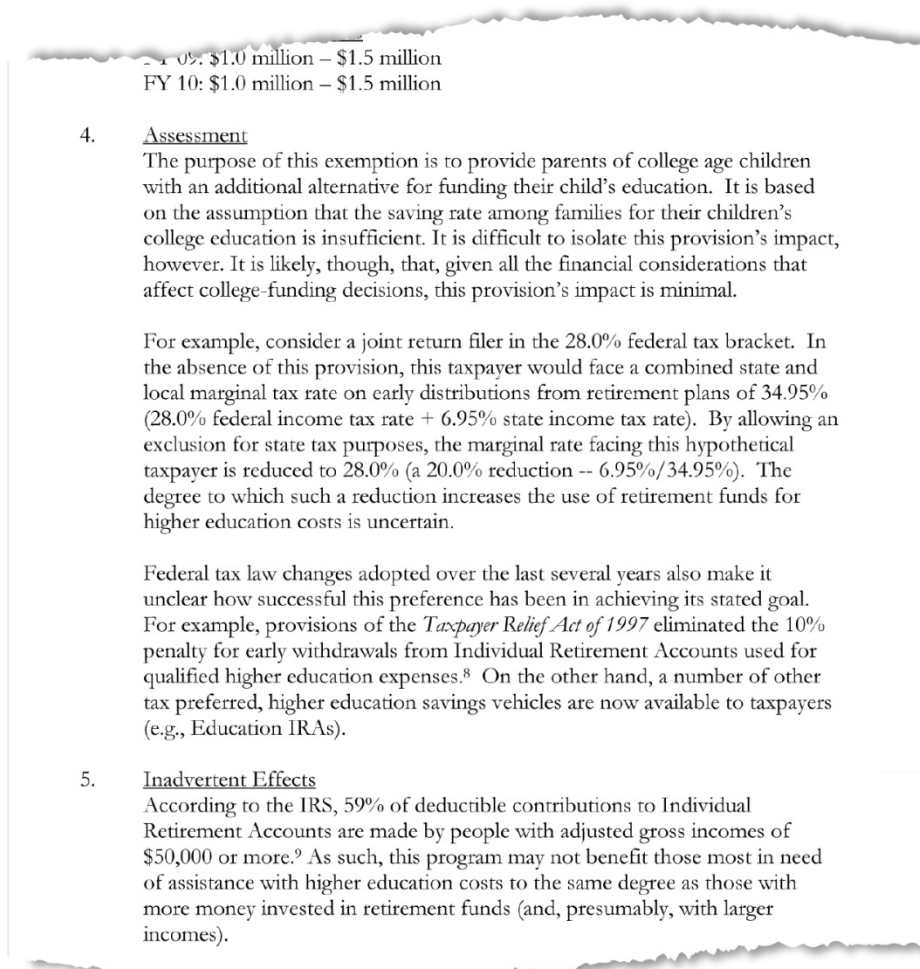
Figure 14: Analysis & Evaluation



*Few states meet these criteria for all expenditures. Credit was given if met for a substantial number of expenditures.

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

Figure 13: An Effective Evaluation: Delaware's Exemption for Retirement Distributions Used for Education



Source: Delaware Division of Revenue, *State of Delaware Tax Preference Report, 2009 Edition*, pg. 1-21.

Delaware's report, excerpted in Figure 13 above, provides meaningful evaluations of many tax expenditures, as does the California Franchise Tax Board's.³⁵

Massachusetts now requires 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 linked to the tax expenditure report.³⁶

³⁵ As noted in footnote 10, California regularly produces more than one tax expenditure report; both the Department of Finance and the Franchise Tax Board produce such reports.

³⁶ Deirdre Cummings, "Senate Hits One Out of the Park for Transparency," Massachusetts Public Interest Research Group, May 27, 2010, https://www.masspirg.org/newsroom/tax-budget/tax-amp-budget-news/senate-hits-one-out-of-the-park-for-transparency#idvMcei26gTWKsC6_Xa2jxxA.

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. **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 tax expenditures. Similarly, **Nebraska** is required to make recommendations for each expenditure, but leaves that section blank in every case.

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 produces information helpful in generating debate about tax-side spending. Legislators, advocates, the media, and others can use this information to debate productively the value of particular tax expenditures and to prioritize them alongside annual appropriations. These evaluations can help ensure that tax expenditure reports have an impact on the public policy debate, especially when they are part of a broader system for reviewing and managing tax expenditures (see Section IV below). By helping policymakers understand the purpose of each tax expenditure and whether it is achieving that purpose, these evaluations can promote meaningful debate about retaining, modifying, or eliminating the tax expenditure.

IV. PUTTING INFORMATION TO USE: IMPROVING THE CONSIDERATION OF TAX EXPENDITURES

Tax expenditure reporting is essential, but is not enough – by itself -- to ensure that spending done through the tax code is thoroughly scrutinized, regularly revisited, and properly considered alongside spending through the appropriations process. Even states with high-quality tax expenditure reports can see them go unnoticed or ignored at budget time. For this reason, other reforms are needed to better integrate tax expenditures into the budget process and to better manage tax-side spending generally.³⁷ This section describes six strategies states can use to ensure that the information in tax expenditure reports does not go to waste.

Set “Sunset” Dates

State services funded by appropriation typically are subject to legislative review every year. Legislative committees hear testimony about proposed appropriations from state officials, expert witnesses, special interest groups, and the public. They often examine written materials and program data submitted by agency personnel, committee staff, and others who testify. They work to prioritize among appropriations and to identify efficiencies. By contrast, tax expenditures typically avoid any kind of regular legislative review. They are, in effect, automatically extended year after year, indefinitely, with no legislative oversight or public review.

For this reason, it is necessary to establish “sunset” dates for more tax expenditures. Setting a sunset date forces the legislature to choose between allowing a tax expenditure to expire and extending it (perhaps with some changes) through the normal legislative process. It also can create an opportunity for public comment and media attention, and for legislators to consider any evaluation of the expenditure included in the tax expenditure report.

Oregon makes more extensive use of sunsets than any other state. In 2009, it established a process by which nearly all state income tax credits sunset every six years. These sunsets are staggered so that one-third of Oregon’s income tax credits come up for review every two years when the legislature sets its biennial budget. Unfortunately, while most income tax *credits* are scheduled for sunset, most income tax *exemptions and deductions* are not.

Establish a Performance Review Process for Tax Expenditures

Many states and the federal government have established performance review systems for evaluating whether government programs are meeting their goals. Typically, these review systems ignore tax expenditures. States could better manage their tax-side spending by submitting tax expenditures to regular performance reviews, too.

³⁷ Carl Davis, “How to Enact (and Maintain) Tax Reform,” Citizens for Tax Justice, October 26, 2010, <http://www.ctj.org/pdf/maintainingtaxreform.pdf>.

Washington State has established the nation's most sophisticated tax expenditure review process.³⁸ In that state, most tax expenditures are extensively reviewed once every 10 years. Non-partisan legislative staff conduct a detailed analysis of each expenditure and recommend whether to extend, alter, reexamine, or eliminate it. A commission of politically appointed citizens then considers the staff analysis, hears public testimony, and forwards their comments with the staff recommendation to a joint hearing of the legislative fiscal committees for consideration.

Cap the Total Cost of Tax Expenditures

In the appropriations process, legislatures determine how much money to provide particular state agencies and programs. Agencies must operate using the funds provided by the legislature and typically cannot exceed their budgets without going back to the legislature for special approval. If the legislature does not provide enough funds, state agencies must find ways to cut costs, for example by eliminating services or staff or by operating more efficiently.

Tax expenditures, by contrast, typically are not constrained by a budget. If they end up costing more than anticipated the state automatically absorbs the additional costs, with no approval by legislators needed. One way to better manage tax-side spending is to mimic the appropriations process by setting limits on the cost of particular tax expenditures or groups of tax expenditures. This is typically done by requiring anyone requesting a tax expenditure to get approval from a state agency before claiming it on their tax form, and limiting the total dollar amount that the agency can approve in a given year.

This can help particularly in times of fiscal stress. For instance, in 2010, **Iowa** cut by one-third an existing aggregate limit on certain economic development tax expenditures, and reduced existing limits on a number of specific tax credits.³⁹

Eliminate Supermajority Requirements

Fifteen states require a supermajority vote of both legislative houses to raise taxes. In at least some of these states, "raising taxes" includes eliminating or scaling back a tax expenditure.⁴⁰ These supermajority vote requirements bias state spending toward tax expenditures and away from appropriations, which can be eliminated or reduced by majority vote.

³⁸ While Washington's review process is the nation's most sophisticated, it could be improved in a number of ways. See Andy Nicholas, *Every Dollar Counts: Why It's Time for Tax Expenditure Reform*, Washington Budget and Policy Center, February 8, 2011, <http://budgetandpolicy.org/reports/every-dollar-counts-why-its-time-for-tax-expenditure-reform>.

³⁹ The change reduced the aggregate limit from \$185 million to \$120 million. See Iowa's SF 2380, available at <http://coo.legis.state.ia.us/Cool-ICE/default.asp?Category=billinfo&Service=Billbook&frame=1&GA=83&hbill=SF2380>.

⁴⁰ States operating under the legal assumption that eliminating a tax expenditure requires a supermajority vote of the legislature include Arizona, California, Kentucky, Louisiana, Mississippi, Nevada, Oregon, and Washington. In other states that require supermajority votes generally for raising taxes, including Oklahoma and Wisconsin, reductions in tax expenditures are not considered tax increases and therefore are not subject to supermajority rules. In Oregon, at least, the issue is not a fully settled matter of law. While Oregon's Legislative Counsel argues that eliminating tax expenditures (except those of minimal expense) requires a supermajority vote in both legislative houses, it also finds that "there is considerable ground for argument over precisely where the boundary lies between ordinary bills and revenue bills," and proposes alternative legislative procedures that would allow more revenue-related bills to be enacted without supermajority vote and then challenged in court (thus producing more clear legal guidelines from the state's courts).

The special protection these requirements provide tax expenditures makes it more difficult for legislators to manage the state budget. During recessions, for example, special protection for tax expenditures likely increases cuts to programs funded through appropriations, even when these programs are more valuable to the state's economy and the long-term health of its communities than certain tax expenditures. At all times, supermajority vote requirements increase the power of a small group of legislators, who can use their effective veto power over tax expenditures and other revenue measures to extract concessions that may not be in the state's best interest.

One way for legislatures in states with supermajority requirements to manage their tax-side spending more effectively is by adding "sunset" dates to more tax expenditures, as recommended above. Once a tax expenditure expires, a simple majority – not a supermajority – of the legislature can decide whether to extend, alter, or eliminate it.

Require Economic-Development Tax Subsidy Recipients to Meet Performance Criteria

States typically offer tax breaks to businesses that make certain investments, in hopes that these breaks will produce jobs. But businesses generally receive these tax breaks whether or not they use the tax break to create jobs. If they lay off workers or shift jobs overseas after collecting a tax subsidy, businesses usually are not required to return the subsidy.

States can better manage this spending by requiring businesses receiving job-creation tax breaks to meet specific performance criteria. For example, each tax expenditure established to create jobs could stipulate the minimum number of jobs to be created, the wage and benefit levels required for those jobs, and the maximum benefit per job created.

Under **Illinois'** Corporate Accountability for Tax Expenditures Act, enacted in 2003, businesses receiving certain tax credits and exemptions must comply with investment and job creation agreements or repay the tax subsidy.⁴¹

In addition, states could require businesses to disclose publicly that they received a subsidy and information about any jobs they produced. An increasing number of states are providing online the names of companies receiving economic development subsidies, but only a few states provide any information about jobs saved or created by the subsidies.⁴²

Illinois' Corporate Accountability website provides a searchable list of companies receiving any of a number of economic development subsidies, including some provided through the tax code.⁴³ The site also provides information about the number and type of jobs created or retained as a result of the subsidy, and about the pay associated with those jobs.

⁴¹ 20 ILCS 715/1, <http://www.ilga.gov/legislation/ilcs/ilcs3.asp?ActID=2441&ChapterID=5>.

⁴² Philip Mattera, et al., *Show Us the Subsidies: An Evaluation of State Government Online Disclosure of Economic Development Subsidies*, Good Jobs First, December 2010, <http://www.goodjobsfirst.org/sites/default/files/docs/pdf/showusthesubsidiesrpt.pdf>.

⁴³ The site is located at <http://www.ilcorpacct.com/corpacct/ProgressReport.aspx>.

Improve the Legislative Process to Better Manage Tax-Side Spending

Simply requiring more information to be included for bills that enact, expand, or continue tax expenditures would improve the transparency and accountability of tax-side spending. To the extent possible, all the information that this report recommends about how actual tax expenditures work – current and future costs, beneficiaries, cost-effectiveness and so on – should also be provided concerning how *proposed* tax expenditures are *expected* to work.

To give an obvious example, as noted above, several states' tax expenditure reports are required to include the expenditures' purpose or rationale. But in some of those states, the laws creating those expenditures do not have to include any such explanation. Lawmakers should be required to be explicit about what the purpose of a tax expenditure is so that it may be later evaluated as to whether it is achieving that purpose.

The typical document that states use to provide some of this information is the “fiscal note” – a short, plain-language document associated with a specific piece of legislation. But not all states require fiscal notes on tax bills, and the information available in fiscal notes varies widely.

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

Revenue Sources Book, Chapter 3, The Role of Credits in Public Policy, FY08 - FY10, Alaska Department of Revenue, Tax Division, December 2010, one-time release

<http://www.tax.alaska.gov/programs/documentviewer/viewer.aspx?2136f>

Arizona

The Revenue Impact of Arizona's Tax Expenditures: FY 2009/10 (Preliminary), FY08 - FY10 (varies), Arizona Department of Revenue, Office of Economic Research and Analysis, November 2010, annual¹ release

<http://www.azdor.gov/LinkClick.aspx?fileticket=JL-F9b7MZ-M%3d&tabid=108&mid=492>

Arkansas

Business Incentives and Tax Credits, Program Costs through December 31, 2009, All years up to CY09, Department of Finance and Administration, Revenue Division, Office of Excise Tax Administration, September 2010, annual release

Exemptions or Exclusions from the 6% Arkansas Gross Receipts Tax and Compensating Use Tax, FY08, Department of Finance and Administration, Economic Analysis and Tax Research, December 2008, ad hoc release

California

Tax Expenditure Report, FY09 - FY13, Department of Finance, November 2010, annual release

http://www.dof.ca.gov/research/documents/Tax_ExpenditureRpt_10-11_web.pdf

Income Tax Expenditures: Compendium of Individual Provisions, CY07 and FY10 - FY12, California Franchise Tax Board, Economic and Statistical Research Bureau, December 2010, annual release

http://www.ftb.ca.gov/aboutftb/Tax_Expenditure_Report_2010.pdf

Colorado

Colorado Sales Tax Exemption Study, CY 2009, Colorado Department of Revenue, April 2011, rare release

<http://www.colorado.gov/cs/Satellite/Revenue-Main/XRM/1213954095223>

Connecticut

Connecticut Tax Expenditure Report, FY11, Connecticut General Assembly, Office of Fiscal Analysis, March 2010, biennial release

http://www.cga.ct.gov/ofa/Documents/year/TER/2011TER-20100300_Tax_Expenditure_Report_FY_2011.pdf

DC

District of Columbia Tax Expenditure Report, FY10 - FY13, Office of the Chief Financial Officer, April 2010, biennial release

http://cfo.dc.gov/cfo/lib/cfo/ora/032910_final_tax_expenditure_report.pdf

(an abbreviated version of this report also appears in the biennial budget proposal)

Delaware

State of Delaware Tax Preference Report, FY09 - FY10, Department of Finance, Division of Revenue, November 2009, biennial release

http://www.finance.delaware.gov/publications/tax_prefer/report.pdf

Florida

Florida Tax Handbook, FY11, Office of Economic and Demographic Research, January 2010, annual release

<http://edr.state.fl.us/Content/revenues/reports/tax-handbook/taxhandbook2010.pdf>

Georgia

Georgia Tax Expenditure Report, FY10 - FY12, Fiscal Research Center, Andrew Young School of Policy Studies at Georgia State University, December 2010, annual release

http://opb.georgia.gov/vgn/images/portal/cit_1210/55/30/167223274Georgia_Tax_Expenditures.pdf

Hawaii

Tax Credits Claimed by Hawaii Taxpayers, TY 2005, Department of Taxation, December 2007, rare release

<http://www.state.hi.us/tax/pubs/2005credit.pdf>

Idaho

Idaho's Tax Structure: Exemptions, Credits, Exclusions, and Deductions, CY07 - CY12 or FY08 - FY13, Dept. of Financial Management, January 2011, annual release

http://dfm.idaho.gov/Publications/EAB/GFRB/GFRB12/TaxStructure_Jan2011.pdf

Illinois

Tax Expenditure Report, FY08 - FY09, Office of the Comptroller, December 2010, annual release

<http://www.apps.ioc.state.il.us/ioc-pdf/TaxExpFY09.pdf>

Indiana

Indiana Tax Expenditure Study: Individual Income Tax Deductions and Exemptions, TY05 – TY07, Indiana State Budget Agency, June 2010, one-time release

Indiana Tax Expenditure Study: Individual Income Tax Credits, TY05 – TY07, Indiana State Budget Agency, December 2010, one-time release

Iowa

Iowa Tax Expenditures, CY 2005, Iowa Department of Revenue and Finance, 2008, pentannual release with 3-year lag

<http://www.iowa.gov/tax/educate/TaxExp2005.pdf>

Iowa's 2007 Tax Credit Claims Tax Credits Program Report, TY07 and/or TY06, Tax Research and Program Analysis Section, Iowa Department of Revenue, April 2010, annual release

<http://www.iowa.gov/tax/taxlaw/TaxCreditsClaimReport2007.pdf>

Kansas

Tax Expenditure Report, TY08 or FY10, Kansas Department of Revenue, January 2011, annual release

<http://www.ksrevenue.org/pdf/taxexpreport.pdf>

Kentucky

Tax Expenditure Analysis, FY10 - FY12, Governor's Office for Economic Analysis, October 2009, biennial release

http://www.osbd.ky.gov/NR/rdonlyres/DBC47EB8-FE21-4429-A283-7357388BF39B/0/1012TEA_TaxExpenditureDoc.pdf

Louisiana

Tax Exemption Budget, FY08 - FY12, Louisiana Department of Revenue, March 2011, annual release

[http://www.rev.state.la.us/forms/publications/TEB\(2010\)WEB.pdf](http://www.rev.state.la.us/forms/publications/TEB(2010)WEB.pdf)

Maine

Maine State Tax Expenditure Report, FY12 - FY13, Department of Administrative and Financial Services, Maine Revenue Services, Economic Research Division, January 2011, biennial release

http://www.maine.gov/revenue/research/tax_expenditure_report_11.pdf

Maryland

Maryland Tax Expenditures Report, FY07 - FY10, Department of Budget and Management, January 2010, biennial release

<http://dbm.maryland.gov/agencies/operbudget/Documents/2010TaxExpendReport.pdf>

Massachusetts

Tax Expenditure Budget, FY10 - FY12, Department of Revenue, January 2011, annual release

http://www.mass.gov/bb/h1/fy12h1/tax_12/hall.htm

Michigan

Executive Budget Appendix on Tax Credits, Deductions, and Exemptions, FY10 - FY11, Michigan Department of Treasury, January 2011, annual release

http://www.michigan.gov/documents/treasury/ExecBudgAppenTaxCreditsDedExempts_FY_2011_343232_7.pdf

Minnesota

State of Minnesota Tax Expenditure Budget, FY10 - FY13, Minnesota Department of Revenue: Tax Research Division, February 2010, biennial release

http://taxes.state.mn.us/legal_policy/Documents/other_supporting_content_2010_tax_expenditure_links.pdf

Mississippi

The Annual Tax Expenditure Report, FY11, Center for Policy Research and Planning, Mississippi Institutions of Higher Learning, November 2010, annual release

http://www.mississippi.edu/urc/downloads/2010_TER_Full.pdf

Missouri

Tax Credit Accountability Report, CY09, Department of Economic Development, June 2010, annual release

http://mapyourtaxes.mo.gov/MAP/TaxCredits/1099_Report2010.pdf

Tax Expenditure Report, FY03 - FY13, State & Regional Fiscal Studies Unit, University of Missouri - Columbia, January 2009, discontinued

<http://eparc.missouri.edu/Publication/TAXEXP/TaxExp.htm>

Report of the Missouri Tax Credit Review Commission, FY98 - FY10 (varies), Missouri Tax Credit Review Commission, November 2010, one-time report

<http://tcrc.mo.gov/pdf/TCRCFinalReport113010.pdf>

Montana

Biennial Report, TY05 - TY09 or FY07 - FY10 (varies), Montana Department of Revenue, December 2010, biennial release

http://revenue.mt.gov/content/publications/biennial_reports/2008-2010/BiennialReport-TaxExp.pdf

Nebraska

State of Nebraska Tax Expenditure Report, TY09 or FY10 (varies), Nebraska Department of Revenue Research Services, October 2010, biennial release

http://www.revenue.ne.gov/tax_exp/2010/contents.html

Nevada

None

New Hampshire

State of New Hampshire 2010 Tax Expenditure Report, CY06 - CY10, Department of Revenue Administration, January 2011, annual release

New Jersey

A Report on Tax Expenditures in New Jersey, FY10 - FY12, New Jersey Department of the Treasury, Division of Taxation, February 2011, annual release

<http://www.state.nj.us/treasury/pdf/Tax%20Expenditures%20Report%20for%20Fiscal%20Year%202012.pdf>

New Mexico

Estimated Revenue Impact of New Mexico Tax Credits, Deductions, Exemptions, Rate Differentials, and Rebates for which Direct Data Exists, Third Draft, FY04 - FY10, Taxation and Revenue Department, Office of Tax Analysis, Research, and Statistics, September 2010, one-time report

<http://www.nmlegis.gov/lcs/handouts/Table%20-%20Revenue%20Impacts%202010-09-30.pdf>

New York

Annual Report on New York State Tax Expenditures, CY11 and 5 years ending in CY07, CY08, or CY09, New York State Division of the Budget and New York State Department of Taxation and Finance, March 2011, annual release

<http://publications.budget.state.ny.us/eBudget1112/fy1112ter/TaxExpenditure11-12.pdf>

Exemptions from Real Property Taxation in New York State, 2009, Office of Real Property Services, February 2010, annual release

<http://www.orps.state.ny.us/ref/pubs/exempt/ex09/index.htm>

Annual Statistical Report: Analysis of Article 9-A General Business Corporation Franchise Tax Credits, TY05 - TY06, New York State Department of Taxation and Finance, Office of Tax Policy Analysis, June 2010, 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_2006.pdf

North Carolina

North Carolina Biennial Tax Expenditure Report, FY10, North Carolina Department of Revenue, Policy Analysis and Statistics Division, December 2009, biennial release

http://www.dor.state.nc.us/publications/nc_tax_expenditure_report_09.pdf

North Dakota

State and Local Taxes: An Overview and Comparative Guide, Biennium 2009 - 2011, North Dakota Tax Commissioner Cory Fong, January 2011, biennial release

<http://www.nd.gov/tax/genpubs/2010-redbook.pdf>

Ohio

State of Ohio Executive Budget, FY10 - FY13, Ohio Department of Taxation, March 2011, biennial release

http://tax.ohio.gov/divisions/communications/publications/FY_2012-2013_TER_-_final.pdf

Oklahoma

State of Oklahoma Tax Expenditure Report, FY10, Oklahoma Tax Commission, Tax Policy Division, October 2010, biennial release

http://www.tax.ok.gov/reports/TER_2009-2010.pdf

Oregon

State of Oregon 2011 - 2013 Tax Expenditure Report, Biennia 2009 - 2011 and 2011 - 2013, Budget and Management Division, Department of Administrative Services, and Department of Revenue Research Division, January 2011, biennial release

<http://www.oregon.gov/DOR/STATS/tax-expenditure-report-2011-2013.shtml>

Pennsylvania

Governor's Executive Budget, FY10 - FY16, Governor's Office of the Budget, March 2011, annual release

http://www.portal.state.pa.us/portal/server.pt/document/1049028/2011-2_budget_document_pdf

Rhode Island

Tax Expenditures Report, CY08 - CY11, State of Rhode Island Department of Revenue, Office of Revenue Analysis, October 2010, biennial release

http://www.dor.ri.gov/taxexpenditure/2010_Tax_Expenditures_Report.pdf

South Carolina

Sales and Use Tax Exemptions, FY09, South Carolina Budget and Control Board, Board of Economic Advisors, January 2008, irregular release

<http://www.bcb.sc.gov/BCB/bea/exemptions.pdf>

South Dakota

None

Tennessee

The Budget, FY12, Department of Finance and Administration, March 2011, annual release

<http://tennessee.gov/finance/bud/documents/11-12BudgetVol1.pdf>

Texas

Tax Exemptions & Tax Incidence, FY or CY 2011 - 2016, Office of the Comptroller, February 2011, biennial release

<http://www.window.state.tx.us/taxinfo/incidence/96-463TaxIncidence02-11.pdf>

Utah

Utah State Tax Commission Annual Report, FY10, Utah State Tax Commission, February 2011, annual release

<http://tax.utah.gov/research/reports/fy10report.pdf>

Vermont

Vermont Tax Expenditures, FY08, FY09, & FY12 (varies), Vermont Department of Taxes Legislative Joint Fiscal Office, January 2011, biennial release

http://www.leg.state.vt.us/jfo/reports/2011_Tax_Expenditure_Report_01-20-2011.pdf

Virginia

Virginia Retail Sales and Use Tax Expenditure Study, 5-10 years ending in FY11 (varies), Secretary of Finance, Tax Commissioner, December 2009, annual release

<http://www.tax.virginia.gov/Documents/2009SUTESStudy.pdf>

Washington

Tax Exemptions, FYs 2008 - 2011, Research Division, Washington State Department of Revenue, January 2008, quadrennial release

http://dor.wa.gov/docs/reports/2008/Tax_Exemptions_2008/Tax_exemptions_2008.pdf#page=181

West Virginia

West Virginia Tax Expenditure Study, FY10, Research Division, State Tax Department, January 2011, different pieces released on a three-year rotation

<http://www.state.wv.us/taxrev/publications/taxExpenditureStudy.2011.pdf>

Wisconsin

State of Wisconsin Summary of Tax Exemption Devices, FY10, Division of Executive Budget and Finance, Department of Administration, and Division of Research and Policy, Department of Revenue, February 2011, biennial release

<http://www.revenue.wi.gov/ra/11sumrpt.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	Published at Least Every Two Years	Data Are Current When Budget Is Debated ²	Can Be Found Online	Covers All Major Taxes ³	Includes Low-Cost and Highly-Targeted Items	Includes Cost of Exempting Services from Sales Tax ⁴	Includes Cost of Federal Conformity
AZ	Yes ⁵	No ⁶	Yes	Yes ⁷	No ⁸	Yes	Yes ⁹
AR	Yes	Yes	No	No	Yes	No	No
CA	Yes	Yes	Yes	Yes	No ¹⁰	No	Yes
CO	No ¹¹	No ¹²	Yes	No ¹³	Yes	No	No
CT	Yes	Yes	Yes	Yes	Yes	Yes	No ¹⁴
DE	Yes	Yes	Yes	Yes	Yes	N/A	No
DC	Yes	Yes	Yes	Yes	No ¹⁵	Yes	Yes
FL	Yes	Yes	Yes	Yes	Yes	Yes	No
GA	Yes	Yes	Yes	Yes ¹⁶	Yes	Yes	No
HI	No ¹⁷	No	Yes	No	No	N/A ¹⁸	No
ID	Yes	Yes	Yes	Yes	Yes	Yes	No
IL	Yes	No	Yes	Yes	No ¹⁹	No	No
IA	No ²⁰	No	Yes	Yes	Yes	Yes	Yes
KS	Yes	Partial ²¹	Yes	Yes	No ²²	No	No
KY	Yes	Yes	Yes	Yes	Yes	Yes ²³	Yes
LA	Yes	Yes	Yes	Yes	Yes	No	No
ME	Yes	Yes	Yes	Yes	Yes	Yes	Yes
MD	Yes	Yes	Yes	Yes	Yes	No	No
MA	Yes	Yes	Yes	Yes	Yes	Yes ²⁴	Yes
MI	Yes	Yes	Yes	Yes	Yes	Yes	Yes
MN	Yes	Yes	Yes	Yes	Yes ²⁵	Yes	Yes
MS	Yes	Yes	Yes	Yes	Yes	No	Yes
MO	Yes	Yes	Yes	No	Yes	No	No
MT	Yes	Yes	Yes	Yes	Yes	N/A	Yes
NE	Yes	Yes	Yes	Yes	Yes ²⁶	No	No
NH	Yes	Yes	No	No ²⁷	Yes	N/A	No
NJ	Yes	Yes	Yes	No ²⁸	Yes	No	No
NY	Yes	Yes	Yes	Yes	Yes	No	Yes
NC	Yes	Yes	Yes	Yes	Yes	No	No ²⁹
ND	Yes	Yes	Yes	No ³⁰	Yes	Yes	No
OH	Yes	Yes	Yes	Yes	Yes ³¹	No	No
OK	Yes	Yes	Yes	Yes	Yes	No	No
OR	Yes	Yes	Yes	Yes	Yes	N/A	Yes
PA	Yes	Yes	Yes	Yes	Yes ³²	Yes	No
RI	Yes	Yes	Yes	Yes ³³	Yes	No	Partial ³⁴
SC	No ³⁵	No	Yes	No ³⁶	Yes	No	No
TN	Yes	Yes	Yes	Yes	Yes	Yes	No
TX	Yes	Yes	Yes	Yes	Yes	Yes	N/A ³⁷
UT	Yes	Yes	Yes	No ³⁸	Yes	No	No
VT	Yes	Yes	Yes	Yes	Yes	No	Yes
VA	Yes	Partial ³⁹	Yes	No ⁴⁰	Yes	No	No
WA	No ⁴¹	No	Yes	Yes	Yes	Yes	No
WV	No ⁴²	Partial ⁴³	Yes	Yes ⁴⁴	No ⁴⁵	Yes	Partial ⁴⁶
WI	Yes	Yes	Yes	Yes	Yes	Yes	Yes ⁴⁷

Appendix 3: Detail
Key Details a Tax Expenditure Report Should Include About Each Expenditure

State	Is Forward-Looking in its Estimates	Includes Number of Recipients	Includes Description of How Each Item Works	Includes Legal Citations	Includes Each Item's Year of Enactment	Reports Cost To Localities Separately ⁴⁸
AZ	No	Yes ⁴⁹	Yes	Yes	No	No
AR	No	No	No	Yes	Yes	No
CA	Yes	Yes	Yes	Yes	No	Yes
CO	No	No	No	Yes	Yes	No
CT	Yes	No	Yes	Yes	Yes ⁵⁰	Yes
DE	No	No	Yes	Yes	No	No
DC	Yes	Yes	Yes	Yes	Yes	N/A
FL	Yes	No	No	Yes	Partial ⁵¹	Yes
GA	Yes	No	Yes	Yes	Partial ⁵²	Yes
HI	No	Yes	Yes	Yes	Yes	No
ID	Yes	No	Yes	Yes	Yes	No
IL	No	No	No	Yes	No	No
IA	No	No	Yes	Yes	Yes	No
KS	No	Yes	Yes	Yes	No	No
KY	Yes	No	Yes	Yes	Yes	No
LA	Yes	No	Yes	Yes	Yes	No
ME	Yes	Yes	Yes	Yes	No	No
MD	No	No	No	Yes	No ⁵³	Yes
MA	Yes	No	Yes	Yes ⁵⁴	No	No
MI	No	No	Yes	No	No	Yes
MN	Yes	Partial ⁵⁵	Yes	Yes	Yes	Yes
MS	No	No	Yes	Yes	No	No
MO	No	No	No	No	No	No
MT	No	Yes ⁵⁶	Yes	Yes ⁵⁷	Partial ⁵⁸	Yes
NE	No	No	Yes	Yes	No	Partial ⁵⁹
NH	No	No	Yes	Yes	No	No
NJ	Yes	Partial ⁶⁰	Yes	Yes	Yes	No
NY	Yes	No ⁶¹	Yes	Yes	Yes	No
NC	No	No	Yes	Yes	No	No
ND	No	No	No	No	No	Yes
OH	Yes	No	Yes	Yes	Yes	No
OK	No	Yes	Yes	Yes	No	No
OR	Yes	Yes	Yes	Yes	Yes	Yes
PA	Yes	Yes	Yes	No ⁶²	Yes	No
RI	Yes	Yes	Yes	Yes	Yes	No
SC	Yes	No	Yes	Yes	Yes	No
TN	Yes	No	No	Yes	No	Yes
TX	Yes	No	Yes	Yes	Yes ⁶³	Yes
UT	No	No	No	No	No	Yes
VT	Yes	Yes	Yes	Yes	Yes	No
VA	Yes	Yes	Yes	Yes	Yes	No
WA	Yes	Yes	Yes	Yes	Yes	Yes
WV	No	No	Yes	Yes	No	Yes
WI	No	No	Yes	Yes	No	Partial ⁶⁴

Appendix 4: Analysis
Key analytical elements of a tax expenditure report

State	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	No	No	No	No
AR	No	No	No	No
CA	No ⁶⁵	No ⁶⁶	No ⁶⁷	No ⁶⁸
CO	No	No	No	No
CT	No	Yes ⁶⁹	No	No
DE	No	Yes	Yes	Yes ⁷⁰
DC	Yes	Yes	No	Yes
FL	No	No	No	No
GA	No	No	No	No
HI	No	No	No	Yes
ID	No	No	No	No
IL	Yes	No	No	No
IA	No	No	No	No
KS	No	No	No	No
KY	Yes	No	No	No
LA	No	Yes	No ⁷¹	No
ME	No	Yes	No	No
MD	Yes	No	No	No
MA	No	No	No	No
MI	Yes	No	No	Yes ⁷²
MN	No	No	No	No
MS	No	Yes	No	No
MO	Yes	No	No	No ⁷³
MT	Partial ⁷⁴	Yes ⁷⁵	No	Yes
NE	No	No	No	No
NH	No	No	No	No
NJ	No	No ⁷⁶	No	No
NY	Yes	No	No	Yes ⁷⁷
NC	No	No	No	Yes ⁷⁸
ND	Yes	No	No	No
OH	No ⁷⁹	No	No	No ⁸⁰
OK	No	No	No	No
OR	Yes	Yes	Yes ⁸¹	Yes ⁸²
PA	No	Yes	No	No
RI	No	Partial ⁸³	No	No
SC	No	No	No	No
TN	No	No	No	No
TX	No	No	No	Yes
UT	Partial ⁸⁴	No	No	No
VT	No	No	No	Yes
VA	No	Yes	No	No
WA	Yes	Yes	No	No
WV	No	Yes	No	No
WI	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 2009/2010, and the latest final report covers fiscal year 2006/2007.) 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 To meet this criterion, the report must include data or estimates for the most recent prior fiscal year or second-most recent calendar year at the time the governor submits budget recommendations for the upcoming year. For example, if a state begins budget deliberations for FY12 with the governor's proposal in January 2011, the tax expenditure report must have data at least as current as FY10 or CY09.

³ 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.

⁴ 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.

⁵ But, as noted above, the final report is published with significant lag.

⁶ Data for PIT and CIT expenditures are about four years out of date at all times. Dates for other expenditures vary.

⁷ 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).

⁸ In Arizona, "if less than three firms claim a credit *or* if one firm claims more than 90% of the total credit amount claimed *or* if providing statistics on one credit would result in confidential information being divulged about other credits, then that information cannot legally be released." Arizona Department of Revenue, *The Revenue Impact of Arizona's Tax Expenditures FY 2009/10*, pg. 21.

⁹ 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 FY07 version.

¹⁰ Excludes items costing less than \$5 million.

¹¹ Colorado's reports cover one calendar year each, but they are produced and released irregularly several years apart. The reports for years 2007 - 2009 were released at the same time in April 2011.

¹² See previous note.

¹³ Includes the sales tax only.

¹⁴ This report covers a very small number of conformity items.

¹⁵ The cost of a tax expenditure is only listed if the item affects at least three returns.

¹⁶ As noted in Table 1, Georgia's inaugural report does include sections for all major taxes, but provides estimates for less than half of sales tax and personal income tax expenditures.

¹⁷ Hawaii's reports are released irregularly. The most recent report covers FY05 and was released in 2007.

¹⁸ Hawaii's sales tax covers virtually all services.

¹⁹ Excludes items costing less than \$1 million.

²⁰ Released every five years, with a three-year delay.

²¹ Data for Kansas's Sales Tax exemptions and a few other tax programs are current through the most recent previous fiscal year. Data for all Income and Privilege Tax expenditures are two or more years old.

²² The cost of a tax expenditure is only listed if the item benefits more than five taxpayers.

²³ Kentucky's report includes estimates of the cost of excluding services from the sales tax, but does not classify them as tax expenditures. The estimates are provided in an appendix and are not added into the summary tables.

²⁴ In aggregate only.

²⁵ The report actually leaves out items worth less than \$50,000, but that is a truly negligible amount.

²⁶ Nebraska's report includes only those taxes that generate more than \$2 million in annual revenue.

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- ²⁷ New Hampshire’s report excludes the property tax, which is a major source of state revenue.
- ²⁸ As noted in Table 1, New Jersey’s report does include sections for all major taxes, but provides estimates for less than half of Personal Income Tax expenditures, and even fewer (16 of 135) Sales Tax Expenditures. It is not counted as covering the Sales Tax for purposes of this report.
- ²⁹ 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.
- ³⁰ Sales and Use Tax only.
- ³¹ Ohio’s report does not provide precise estimates for items costing less than \$1 million, listing their cost as “minimal.”
- ³² Pennsylvania’s report includes only tax sources that generate more than \$15 million in revenue.
- ³³ As noted in Table 1, Rhode Island’s report leaves out cost estimates for more than half of identified Corporate Income Tax expenditures.
- ³⁴ Includes federal conformity costs for PIT but not for CIT.
- ³⁵ Although a summary table is released annually, the whole report is published irregularly.
- ³⁶ Sales and Use Tax only.
- ³⁷ Texas has no PIT and an unusual CIT that does not meaningfully conform to the federal tax code.
- ³⁸ Sales and Property Tax only.
- ³⁹ Virginia’s report rotates which expenditures it covers, so only those in the most recent report have current data.
- ⁴⁰ Includes only three selected sales tax expenditures.
- ⁴¹ Released every four years.
- ⁴² Published annually, but each tax is only covered every three years.
- ⁴³ Since West Virginia’s taxes are covered on a three-year rotating basis, only the taxes in the most recent edition include current data.
- ⁴⁴ West Virginia’s taxes are covered on a three-year rotating basis.
- ⁴⁵ West Virginia’s report excludes expenditures that affect five or fewer taxpayers.
- ⁴⁶ West Virginia’s report includes provisions affecting the corporate income tax only, not the personal income tax.
- ⁴⁷ Wisconsin’s report lists the cost of many conformity measures as “minimal” or “not available”.
- ⁴⁸ To meet this criterion, the report must either report the cost of tax expenditures that only affect local governments, or break out the local and state costs of those that affect both levels of government.
- ⁴⁹ For most CIT credits and some PIT credits.
- ⁵⁰ Though not obvious, the year of enactment is built into the bill numbers provided.
- ⁵¹ The report includes the year of enactment for sales tax exemptions only.
- ⁵² The inaugural version of Georgia’s report is missing the year of enactment for many expenditures, but future versions are expected to fully include this information.
- ⁵³ Very few.
- ⁵⁴ The online version of Massachusetts’s report also provides a direct link to the relevant statute.
- ⁵⁵ Minnesota’s report includes the number of beneficiaries for many expenditures, but the information is inconsistently provided and often buried in the description of the expenditure.
- ⁵⁶ Montana’s report also includes additional detail for PIT expenditures, breaking the beneficiaries into residents, non-residents, and part-year residents.
- ⁵⁷ Legal citations are included for most expenditures in the report, but not in a systematic way. Some are missing and many are buried in the text.
- ⁵⁸ Only for PIT credits and a small number of CIT expenditures.
- ⁵⁹ Nebraska’s report lists the cost to counties of a few expenditures under the Nebraska and County Lodging Tax.
- ⁶⁰ New Jersey reports the number of returns affected for about 20 of 54 Gross Income Tax expenditures.

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- ⁶¹ New York also produces another report, the “Annual Statistical Report,” which does include this information for Business Corporation Franchise Tax credits.
- ⁶² Citations are included for a significant minority of expenditures.
- ⁶³ For most expenditures.
- ⁶⁴ Wisconsin’s report includes an informative section on the property tax, detailing total amounts of exempt properties and the estimated effect on local property tax rates.
- ⁶⁵ California’s other report, the Franchise Tax Board’s “Income Tax Expenditures: Compendium of Individual Provisions,” does include program categories for the tax expenditures it covers.
- ⁶⁶ Includes a heading for each item’s “legislative intent,” but says “not specified” for most of them. California’s other report, the Franchise Tax Board’s “Income Tax Expenditures: Compendium of Individual Provisions,” does include rationales for the tax expenditures it covers.
- ⁶⁷ California’s other report, the Franchise Tax Board’s “Income Tax Expenditures: Compendium of Individual Provisions,” does include evaluations of the tax expenditures it covers.
- ⁶⁸ California’s other report, the Franchise Tax Board’s “Income Tax Expenditures: Compendium of Individual Provisions,” does include distributional analyses for the tax expenditures it covers.
- ⁶⁹ Categorizes each expenditure into one of eight general rationales.
- ⁷⁰ 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.
- ⁷¹ Louisiana’s report is supposed to evaluate certain expenditures, but provides nothing meaningful.
- ⁷² For a few PIT expenditures.
- ⁷³ For the credits it covers, this report does break down the total amount claimed by business size.
- ⁷⁴ Includes a table that shows PIT expenditures by function.
- ⁷⁵ Frequently describes purposes and/or incentives associated with the expenditures as part of the description.
- ⁷⁶ As of New Jersey’s second report, objectives are included for only eight expenditures.
- ⁷⁷ For the first time, New York’s 2011 report includes distributional analyses for several PIT and Corporation Franchise Tax expenditures.
- ⁷⁸ For the first time, North Carolina’s report now includes “distributional notes” for a few expenditures.
- ⁷⁹ Ohio categorized its tax expenditures by policy function in its 2010 report, but has unfortunately dropped the practice.
- ⁸⁰ Ohio included some distributional information in its 2010 report, but has unfortunately dropped the practice.
- ⁸¹ For many. Done by the agencies handling the expenditures.
- ⁸² Includes only selected items, but enough to count for the purposes of this report.
- ⁸³ Includes each expenditure’s purpose when it is clearly stated in the legislation, which is rare.
- ⁸⁴ Only for certain sales tax exemptions, and then only broad categories.