Forecasting Tax Incentives: Unraveling the Revenue Puzzle

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THE OHIO STATE UNIVERSITY
JOHN GLENN COLLEGE OF PUBLIC AFFAIRS

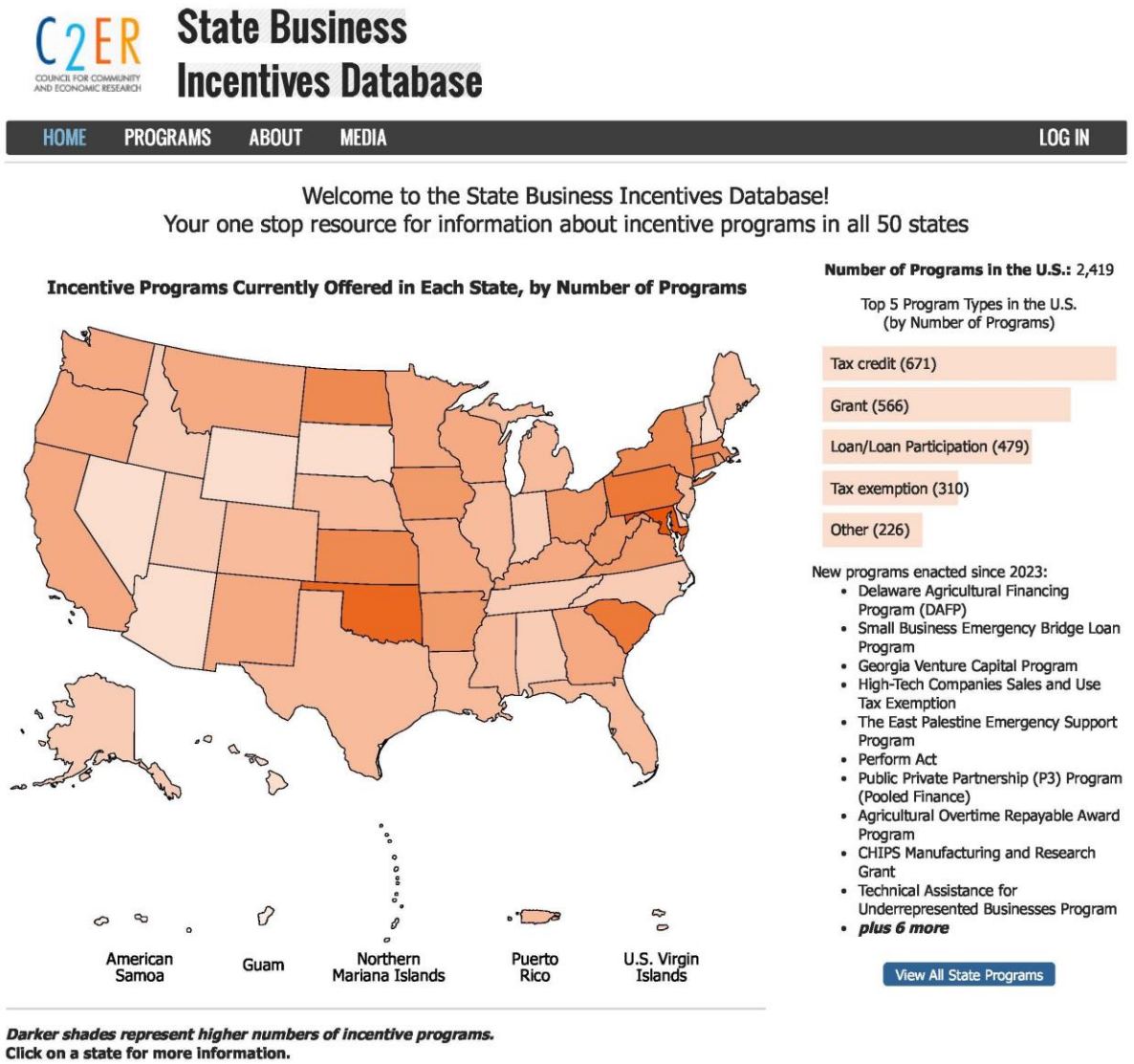
Why do we care?

State incentive costs*

- ~ $20 to $30 billion per year
- ~ $5 to $216 per capita

*Sources: Bartik (2017). *A New Panel Database on Business Incentives for Economic Development Offered by State and Local Governments in the United States.* Upjohn Institute.

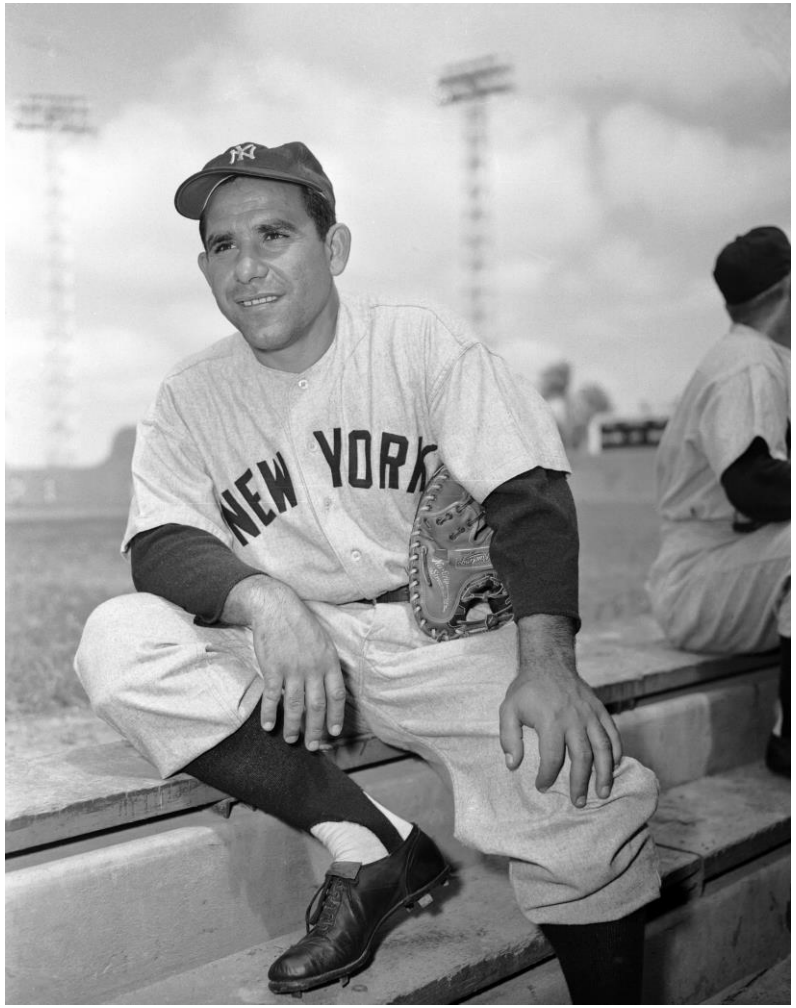
Slattery and Zidar (2020). *Evaluating State and Local Business Incentives*. Journal of Economic Perspectives.



We also care because . . .

It's tough to make predictions, especially about the future.

- Yogi Berra -



We care because of their budget implications

- Our estimates inform . . .
  - decisions on legislation
  - budget decision making
  - revenue forecasts
- They provide . . .
  - a baseline for analyzing future legislative changes
  - information for evaluating incentive program effectiveness and impacts

We also care because . . .

What are we estimating?

- **Tax Incentives:**
- credits
- deductions
- exemptions
- abatements
- rebates

- **Direct Grants/Subsidies**
- job training
- infrastructure

- **Incentives for specific economic activity**
- job creation
- capital investment
- research and development
- venture capital

- **Industry-specific incentives**
- manufacturing
- logistics
- pharma, life sciences
- technology, renewable energy
- housing

- **Place-based incentives**
- TIF
- enterprise zones, etc.

- **General tax rate reductions**
- personal income
- corporate income

How are we estimating? What to consider?

Costs

Direct

- revenue loss
- grant/subsidy cost

Indirect

- program administration
- service increases
- in-migration costs

Benefits

Economic activity

- job creation
- investment
- spending

Tax Revenue

- revenue from additional economic activity

How are we estimating? Methodology

Static Analysis
- no behavioral changes

Micro-dynamic analysis
- accounts for behavior changes by those directly affected by incentive

Macro-dynamic analysis
- accounts for behavior changes by those NOT directly affected by incentive

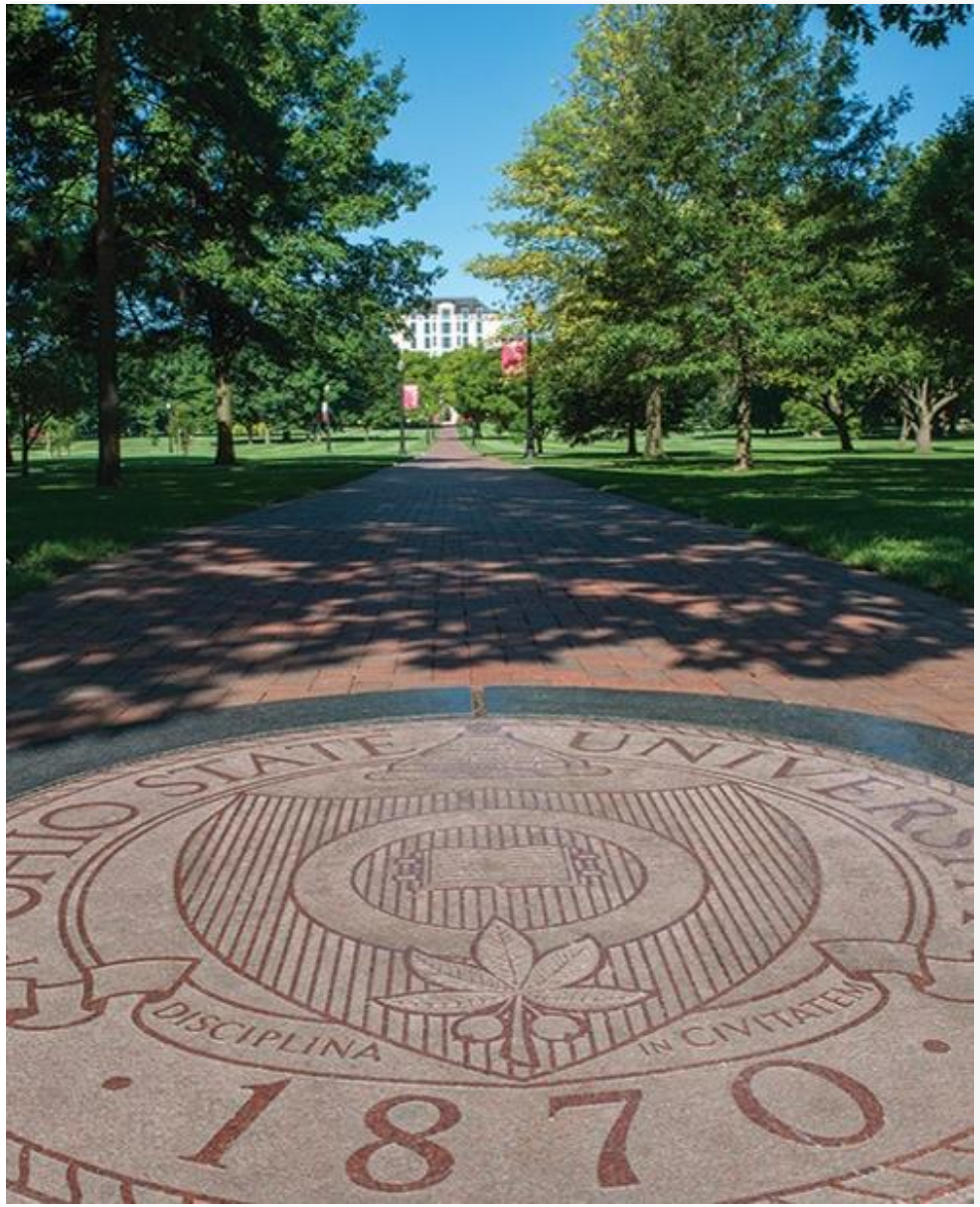
Multiple methods
- different data, different methods could produce a reasonable range

Sensitivity analysis
- how changes in key assumptions or parameters impact estimates

Smell test your results
- does your estimate make sense in the aggregate, for instance

Complicating factors

- **Data, data, data**
  - employment
  - wages
  - investment
- **Automatic vs. Discretionary**
- **Underlying growth**
- **Carve-outs**
- **Contingent liabilities**
- **Piggybacking on federal incentives**
- **Time, time, time**



Thank You.

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