



STATE OF TENNESSEE

Business Tax Credit Evaluation

MASTERED IN
TENNESSEE

11/16/2021

CENTER FOR ECONOMIC RESEARCH IN TENNESSEE (CERT)

TNECD's Center for Economic Research in Tennessee (CERT) provides key research to support informed decisions and strategic competitiveness in Tennessee economic and community development.

Corporate Decision-Making	Project & Incentive Evaluation
Performance Metrics	Trend Analysis

LEGISLATIVE INITIATIVE

- Strategic evaluation of business tax incentives initiated through participation in a 7-state assessment of business incentives & policy (PEW & CREC, 2014)
- TNECD and TDOR proposed legislation that establishes periodic evaluation of business tax incentives.
- Tenn. Code Ann. § 67-1-118 requires TNECD, in consultation with TDOR, to review and deliver a report on the business tax credits every four years, beginning 1/15/2017. The departments must evaluate the previous 4 fiscal years and include:
 - Purpose of the credit
 - Foregone revenue to the State
 - Benefits of the credit
 - Estimated indirect economic impact of the credit
 - Recommendation to modify, discontinue or take no action with respect to each credit

2017 vs 2021

- Contracted with third party to conduct the January 2017 study
 - Benefits: Independent 3rd party lens; experienced
 - Limitations: Unable to provide firm-level data
- Decision to conduct the 2021 evaluation internally
 - Due to the confidential nature of taxpayer and employment records, internal evaluation would allow us to provide a more granular approach in analyzing taxpayers and their employment trends
 - Leverage strong relationships & robust research staff within TNECD, TDOR, TDLWD
 - Favorable environment for data sharing and cross-agency collaboration in Tennessee State Government
 - TNECD had developed greater impact analysis expertise and software

IMPLEMENTATION

- Report prepared by CERT
- Evaluation conducted by research & tax teams at TNECD, and the research and audit teams at TDOR
 - Weekly conference calls
 - Constructing warehouse, learning about data sets, building and adjusting queries, analyzing results, contemplating approach
- Firm-level data provided by TDOR, TDLWD, TNECD
- State's central IT department (STS) provided data infrastructure to facilitate the secure sharing and evaluation of data
- Executed MOU to facilitate data sharing
- Iterative presentations of results, engaged leadership

CROSSWALK

- Built crosswalk to match firm-level data across 3 agencies.
 - TDOR data on business tax credits claimed and awarded
 - TDLWD data on business employment and wages
 - TNECD data on business development project activity
- Thoughtful construction regarding dynamic factors
 - Matched 93% of 2,700 taxpayers that were awarded/claimed business tax incentives from 2015-18
 - Not always 1-to-1 match
 - Changes to company structure over time
 - Leverage knowledge of company's presence in Tennessee
 - Industry source

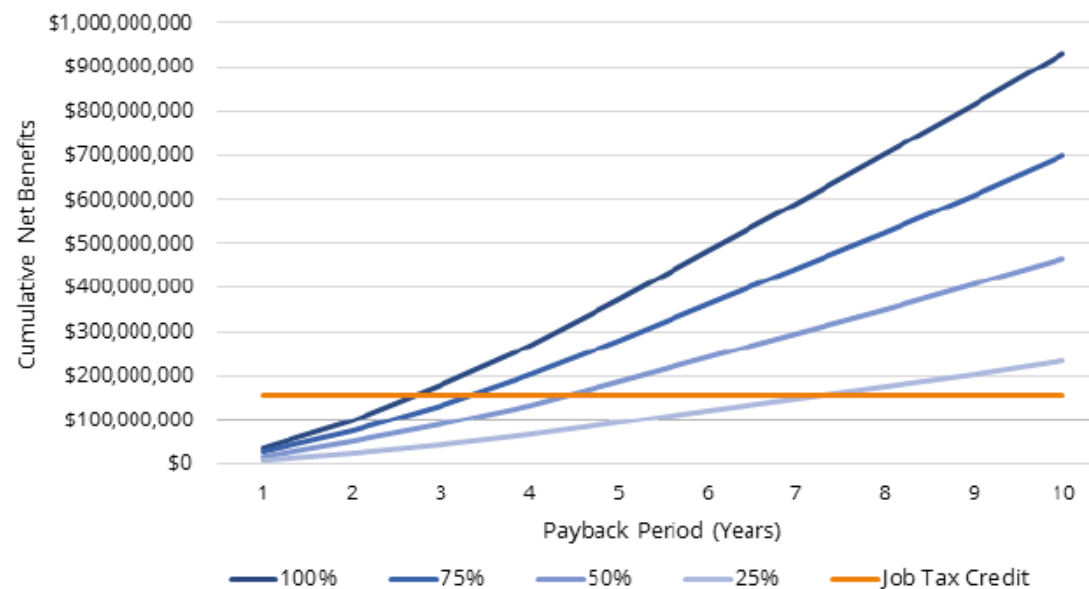
Other Key Analysis Components

- Descriptive statistics on companies claiming credits
 - Value and # of credits claimed; segmentation by industry, target sectors, firm size; patterns in combined usage with other credits and association with ECD projects
- Job growth & wages of each company awarded credits
 - Benchmark against growth of all companies & of companies not awarded credits
 - Incorporated a sensitivity analysis to estimate range of possible outcomes
 - 0%, 25%, 50%, 75%, 100%
 - Exact degree to which incentives influence business decisions is unknown; varies from business to business. The amount of growth that was directly attributable to tax credits and would not have occurred without (or “but for”) the credits cannot be established/verified with certainty
- Forecast economic & fiscal impacts (multiplier effect) associated with growth identified above
 - ROI model by Impact DataSource

PROJECTED IMPACTS & ROI

- Applied RIMS II multipliers to forecast indirect and induced economic activity
 - Multipliers were specific to Tennessee and the industry of each taxpayer
- Forecast direct, indirect, and induced net new tax revenues generated through economic activity
 - Applied tax rates, costs of providing state services, other assumptions
 - Analyzed time at which net new tax revenues generated met sum of credits awarded
 - Range of assumptions on the % of growth for which the credits are responsible

Figure 37: Estimated Cumulative Net Benefits Based on Percentage of Employment Growth Attributable to Job Tax Credits



THANK YOU

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