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NCSL TASK FORCE APPROVES BEST PRACTICES FOR EVALUATING STATE TAX EXPENDITURES

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The National Conference of State Legislatures has adopted a best practices guide for the evaluation of state tax expenditures.The NCSL Executive Committee Task Force on State and Local Taxation approved the best practices guidance at its January 14 winter meeting in Scottsdale, Arizona.

According to the NCSL, more than two-thirds of the states prepare regular tax expenditure budgets or reports, but in many states those reports simply list the statutory exemptions, credits, and exclusions without identifying the provisions that are part of the state's normal tax structure.

“This is one reason why, in many states, tax expenditure reports have not been effective tools to help legislators review and improve the tax code," the NCSL report says. "In order for it to be effective, a complete and frequently updated tax expenditure report is essential for good policymaking.”

“Creating more informed tax expenditure reports would help legislators improve their state tax codes,” Connecticut Rep. Chris Perone (D) told Tax Analysts. Perone is currently co-chair of the task force.

“To ensure that reports are accurate, informative, and transparent, there should be a simplified approach, codified in statute, which specifies the elements of the tax expenditure report. With this in mind, the task force has developed a list of questions for legislators to consider as they are developing a process to define their state’s normal tax base,” Perone said.

The guidance explains the best practices for defining a normal tax provision, noting that deductions for ordinary and necessary business expenses and sales tax exemptions for business inputs are generally considered part of a state's normal tax structure, but that some states list them as tax expenditures.

The rest of the report lays out the criteria lawmakers and government officials should consider when reporting and evaluating tax expenditures. The report also recommends that expenditure reports be posted online with a rationale for enacting the tax preference.

According to the NCSL, there should be clarity regarding which authority or agency is responsible for reviewing the state's incentives. Tax expenditure evaluations should also draw clear conclusions on the effectiveness of each tax incentive, have measurable goals, and be able to determine the costs and benefits of each tax preference. The NCSL will send the best practices report to state legislators and legislative staff for their review. Max Behlke of the NCSL said that because each state has its own unique tax system, it was not feasible for the group to create model legislation on the issue. The NCSL’s goal, he said, was to provide states with the proper information and the proper questions to analyze their tax expenditures.