

# Comments

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**Effectiveness of Tax Credits/Incentives  
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**ANDREW YOUNG SCHOOL**  
OF POLICY STUDIES

## Should taxes matter?

- **Economist believe decisions are made at the margin**

## What the literature says

- **Empirical studies yield mixed results, but the better studies suggest that taxes matter, but not a lot.**

# Why so little effect?

- **Perhaps state and local taxes are too small**
- **Taxes fund services**

# Why Corporation Income Tax Has Little Effect

## ➤ Effect of reducing the state CIT:

- **CIT is a very small percentage of a corporation's total state taxes.**
- **Federal deductibility reduces the effect of a change in state tax rate. A 2 percentage point reduction in the state tax rate reduces the corporation's total income tax rate by 1.3 percentage points.**
- **Apportionment reduces the effect even more. With a ratio is 25 percent a 2 percentage point reduction in the state tax rate reduces the corporation's total income tax rate by 0.325 percentage points.**

# Economic Development Tax Credits

- **Most states have**
  - **a job tax credit (46)**
  - **an investment tax credit (45)**
  - **a R&D tax credit (42)**
  - **a film tax credit (44)**
  
- **There is little evidence about the effect of tax credits on economic development**

## Evaluation of Incentives

- **Violate tax and budget principles**
- **No real consideration of “in the absence of”**
- **Evaluations consider only revenue or multiplier effects**

# Film Tax Credits

## ➤ History

➤ 1 state in 1992, 5 by 2002, 44 by 2009

➤ Credit rate has increased

## ➤ Evaluation

# Thank You