Comments

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Effectiveness of Tax Credits/Incentives
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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