The District's Dime
Going Beyond the Budget Book

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Do DC's Tax Incentives Work? No One Actually Knows!

By Ed Lazere

The District offers many tax incentives to promote economic development, yet little is done to find out how well they work. Take, for example, the tax incentives offered to supermarkets that open in targeted neighborhoods — an effort to make sure all DC residents have access to an important amenity. The program provides $3 million in each year in tax breaks, but that doesn't necessarily mean it is working. Have any supermarkets opened that otherwise would not have?

The sad reality is that no one can answer that question. The District does a terrific job identifying the costs of its tax incentives — in a Tax Expenditure Budget — but it does not evaluate whether they generate jobs or actually encourage new businesses to open up. DC and 25 states are "trailing behind" in efforts to oversee tax incentives, according to a 2012 report from the Pew Center on the States. The study was presented at this week's meeting of the DC Tax Revision Commission.

It only makes sense to understand whether the District's tax incentive programs, which have a cost just like libraries and trash pick-up, are meeting their intended purpose in a cost-efficient way. The good news is that the District has taken some steps in this direction. In 2011, the CFO started conducting analyses of all proposed tax abatements and exemptions, to determine whether a given tax break is needed for a project to move forward and to list the project's community benefits. The so-called "Tax Abatement Financial Analyses" or TAFAs, are now a routine part of DC's tax abatement process.

But the city should look to great models from a number of states to create a process to evaluate all tax incentive programs in an ongoing way. The Pew study offers several suggestions:

- **Regular review:** All tax incentive programs should expire after five years or so —called a "sunset" — to give policymakers a chance to evaluate them. Oregon recently created a sunset of 6 years for its tax incentives.

- **Rigorous data collection and evaluation:** Washington State adopted a process to evaluate all of its tax incentive programs over a 10-year period. Evaluations should assess the economic impact of the tax break, whether it is meeting its intent, and whether the original goal is still an important one, Pew recommends.

- **Manage Costs of Tax Breaks:** Most tax incentive programs in the District allow any eligible business to claim them, but this can lead to higher-than-expected costs. DCFPI has recommended, and another Pew report agrees, that cities and states should set caps on the amount of any tax incentive that will be provided, so that costs do not balloon out of control.

The efforts to evaluate tax incentives are important and don't require huge investments of staff or money. Washington State is evaluating its tax programs with just two staff. As a member of the DC Tax Revision Commission, I hope we will explore this model and others as we move toward final recommendations.