

Office of the State Auditor: Tax Expenditure Evaluations Overview

Tax Expenditure Evaluation Interim Study Committee

July 23, 2019



SA

We Set the Standard for Good Government



SB 16-203: Our Mandate

“Provide the State with factual evidence of whether the State’s tax expenditures achieve the objectives they are intended to achieve.”

First Step: Identify Tax Expenditure Provisions

- 226 total
- 50 are 50+ years old
- 21 will eventually expire with no legislative action.
- 205 are permanent



Definition of “Tax Expenditure”

Section 39-21-302(2), C.R.S Definition:

“a tax provision that provides a gross or taxable income definition, deduction, exemption, credit, or rate for certain persons, types of income, transactions, or property that results in reduced tax revenue.”

OSA Criteria- The provision must:

- 1) Be a *state* provision
- 2) Be a *tax* provision
- 3) Appear to confer preferential treatment to specific individuals, organizations or businesses
- 4) Potentially result in reduced tax revenue to the state

Scheduling Evaluations

- Statutory criteria:
 - Review all provisions by September 2022
 - Oldest first
 - If expiring, prior to the legislative session in which they would need to be renewed
- Group similar expenditures for efficiency

Number of Expenditures Reviewed

- 15 expenditures reviewed in 2018
- 45 expenditures reviewed in 2019, as of July
- 10 more scheduled for September 2019; 5 with repeal dates
 - Renewable Energy – Jan. 1, 2021
 - Rural Jump Start (3) – Jan. 1, 2021
 - Beetle Kill Trees – July 1, 2020

How Did the OSA Develop its Process for Evaluating Tax Expenditures?

- Key statutory requirements
 - Assess whether each is meeting its purpose
 - Analyze the economic cost and benefits
 - Evaluate the impact on intended beneficiaries
 - Report data constraints
 - Identify policy considerations to improve effectiveness and administration

How Did the OSA Develop its Process for Evaluating Tax Expenditures?

Other sources to help develop our methodology:

- Meet with JBC members who sponsored Senate Bill 16-203
- Met with Legislative Council and Legislative Legal staff
- Met with Department of Revenue staff
- Met with staff from Pew and Colorado Fiscal Institute
- Reviewed process in other states that do tax expenditure evaluations

Purpose and Performance Measures

- Most do not have a direct statement of purpose in statute
- None have had performance measures in statute
- For most, we inferred a purpose and created performance measures



Economic Costs and Benefits

- Revenue impact to the State/local governments (\$0 to \$4 billion)
- Benefits to taxpayers/state
- Cost effectiveness
- “But for” problem



Impact To Beneficiaries If Provision Was Eliminated

- Cost to taxpayers
- Impact to businesses/consumers
- Competitiveness with other states

Similar Provisions/Programs in the State/Similar Tax Expenditures in Other States

- Consider other state tax expenditures, federal tax expenditures, and state-run programs that have a similar purpose
- Identify other states with similar provisions, national trends

Data Constraints

- Most evaluations have been impacted by data constraints
- Common DOR data issues:
 - Target data not captured on a DOR form
 - Multiple expenditures aggregated on reporting lines
 - Information on forms is not easily extracted from GenTax
 - Tax information is self-reported by taxpayers
 - Tax information changes over time
- Use of third-party data

Policy Considerations

- What drives a policy consideration?:
 - Not being used, or used minimally
 - Changes to the context or other laws that may change the applicability of the original purpose
 - Use of the provision that may be outside of the original intent or not originally considered
 - Administrative issues that might make the provision less effective
- 29 have had policy considerations
 - Consider repeal (5)
 - Clarify statute (8)
 - Review effectiveness (12)
 - Administrative issues (4)



We Set the Standard for Good Government

1525 Sherman Street, 7th Floor, Denver, Colorado 80203

303.869.2800

<http://www.colorado.gov/auditor/>



@COStateAuditor