Office of the State Auditor: Tax Expenditure Evaluations Overview

Tax Expenditure Evaluation Interim Study Committee

July 23, 2019
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
  - 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
• 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)
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1525 Sherman Street, 7th Floor, Denver, Colorado 80203

303.869.2800

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

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