

Fiscal Highlights

An Evaluation of Tax Exceptions and Inducements - Andrea Wilko

Utah offers more than 170 exceptions to tax code and inducements to behavior change. They can be roughly divided into four categories: Tax Policy, Economic Efficiency, Public Goods, and Economic Development. Of the 170, about 111 are of unknown dollar value. Many of the 59 whose size can be measured in dollars lack clearly defined purposes and goals.

Yet, states across the nation trend towards greater accountability for tax exceptions. They strive for better information structured in a way that determines potential returns on investment. Doing so allows policymakers to measure effectiveness across multiple and varied incentives.

The Legislative Fiscal Analyst (LFA) developed a report and an accompanying [interactive dashboard](#) to create an inventory of Utah tax exceptions and inducements. In the report LFA recommends first steps that could facilitate a uniform analysis of all tax exceptions and inducements. Such an analysis would allow legislators to compare exceptions and inducements and determine which are the most effective. Similarly, it would allow policymakers to decide which exceptions are duplicative and which complement one another.

The recommendations of the report included the following:

1. Articulate clear purposes and goals for each tax exception/inducement.
2. Establish common definitions for key measures.
3. Set baselines and targets for each measure, and then collect observations.
4. Address data limitations that hamper evaluation.
5. Create a 3 to 5 year review cycle for those not currently reviewed.
6. Require a reporting of sales tax exemption or establish a methodology for estimating from economic data.
7. Modify UCA 59-1-403 to allow the Tax Commission to share small data sets with the Legislative Fiscal Analyst for exception and inducement evaluations.

In response to the report, the Revenue and Taxation Interim committee took initial steps to improve the process by approving a bill draft that would allow the Legislative Fiscal Analyst to work with the Tax Commission to develop methodologies and proposals to estimate the impact of sales tax exemptions. The report was also presented to the Economic Development and Workforce Services Interim Committee.