

COMMENTS

“RETHINKING PROPERTY TAX INCENTIVES FOR BUSINESS,” BY KENYON, LANGLEY, & PAQUIN

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MY FIRST COMMENT IS THAT THIS IS AN excellent policy focus report — just the type of material that policy makers need in order to be more informed. It is pitched at the right theoretical level for policy makers, with plenty of policy-specific examples. Evidence-based policy advice is provided, grounded in the empirical literature. Relevant economic and political considerations are given their due. The study is comprehensive, covering all the major tax incentives. Furthermore, this policy focus report makes recommendations reinforcing and advancing the important findings of the Pew Center on the States in their 2012 report, “Do States’ Tax Incentives Work?” which indicates that very few states actually evaluate their incentives for effectiveness. In a larger context, this report is an example of the type of policy analysis recommended in the National Research Council (NRC) report, “Using Science as Evidence in Public Policy.” This study recommends evidence-influenced policy, arguing that in policy making, “...far from being a sphere in which science can neatly be separated from politics, is a sphere in which they necessarily come together.” This report also provides advice consistent with the new Office of Management and Budget (OMB) instructions to federal agencies to, “demonstrate the use of evidence throughout” in their FY2014 budget submissions.

My second comment relates to the authors’ point on state policy options related to local policy use

or abuse. They recommend policies to penalize rather than subsidize localities that use property tax incentives inappropriately. But, ending subsidies is one thing; penalizing is another. It is a good recommendation to end state reimbursement of local government property tax incentives (e.g., hold-harmless provisions), but it is difficult to implement a recommendation to penalize local governments that misuse incentives by reducing state aid. Often, there is no direct means of reducing aid that is tied to the local’s property tax policy. An indirect penalty via general state aid is not likely to be effective or acceptable.

My third comment relates to transparency and evaluation. Most states do not provide tax expenditure estimates for the local property tax, but should. Mike Bell and David Brunori are currently editing a property tax expenditure handbook that will provide specific guidance on how to produce quality property tax expenditure estimates, with specific case studies highlighting states that do it well. For example, there will be a chapter on estimating the cost of property tax circuit breaker relief. The authors also recommend an independent evaluation of state-local programs and their effectiveness. This is essential and a part of a larger issue of government accountability. It can also give local government officials cover for politically difficult decisions to pull the plug on ineffective programs.