Business Tax Credits Require Evaluation

Informational Testimony on House Bill 1255/Senate Bill 843

Given before the House Ways and Means and Senate Budget and Tax Committees

It has become increasingly common in Maryland and around the country to offer businesses tax breaks in an attempt to spur economic development. Maryland has done an inadequate job of tracking whether any of its dozens of business and individual tax credits, which cost the state hundreds of millions of dollars per year, are actually helping the state's economy. The Maryland Center on Economic Policy supports the three recommendations of the Maryland Economic Development and Business Climate Commission related to evaluating tax credits. Tracking and evaluation of these credits are essential for policymakers and the public to determine whether such credits are good investments of public dollars.

House Bill 1255/Senate Bill 843 was introduced in response to the commission's recommendations. It's a step in the right direction, but it does not fully address the need for tax credit evaluation as highlighted in the commission's February report. The bill also makes changes to existing tax credit programs, which MDCEP has no position on, given the absence of adequate data about these programs.

There is little evidence to support the claim that business tax credits help create jobs and grow the economy. The commission's report and the Department of Legislative Services point out that state agencies are often not collecting sufficient data on such programs to determine how many jobs they are creating, if any, and how much it cost the state to create those jobs. Reviews of these tax breaks, like the 2014 DLS review of the Enterprise Zone incentives, can highlight problems with the programs and provide needed information for determining whether or not they are delivering an economic boost to the state.[i]

Providing more openness in the awarding of big tax breaks and collecting more information about their effectiveness will give the public the best information about how their tax dollars are being used. Modernizing the tax collection computer systems, as the commission's report recommends, is also an important step toward that. Another helpful development is the new public accounting rules that went into effect in December, which require state and local governments to publish more information about how much they are spending on tax credit.

The Tax Credit Evaluation Act should be amended to ensure that Maryland's tax credit programs have clear, measurable goals and that state agencies are adequately tracking data that will help assess those outcomes and ensure that taxpayers' money is invested in ways that truly grow the state's economy.

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[i] "Evaluation of the Enterprise Zone Tax Credit," Maryland Department of Legislative Services, 2014. http://dlslibrary.state.md.us/publications/OPA/I/TG1-303(b)(1)_2014.pdf