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Evaluating Incentives: A Rational Approach

(Austin, TX) - The Texas Taxpayers and Research Association today released a new research report calling for the state to rethink its process of evaluating economic incentives. In *Evaluating Incentives: A Rational Approach*, TTARA criticized the way in which the state determines the “cost” of an incentive.

Texas typically calculates the benefit received by the taxpayer and scores this as a “cost” to the state. In fact, an incentive is typically used as a discount on future taxes due, as a way to encourage a business to locate here. Absent the incentive, the business would not locate in Texas and those taxes would never be due. Further, “losing” a project can mean a missed opportunity for substantial revenue gains to state and local governments.

“Policymakers focus too much on the amount of the tax discount, and fail to consider the net taxes the project would pay,” TTARA President Dale Craymer said. “Major industrial projects typically pay huge amounts of taxes. Offering a temporary discount up front to encourage them to invest here can generate millions of additional dollars for Texas. Ironically, the higher the dollar value of the temporary discount, the greater the potential return to the state.”

“Incentives may be controversial, but they are necessary for Texas to compete for major industrial projects,” Craymer noted. “Texas has among the nation’s highest property and sales taxes, placing a higher burden on businesses than most other states. In spite of the popular rhetoric, the truth is that Texas is not a low tax state for business.”

“Even so, states should not chase economic development solely for tax gains,” Craymer said. “Projects should be evaluated not just on their fiscal returns, but also on the economic benefits they create, as well as the intangible benefits they may bring, such as prestige, publicity, and infrastructure. The state should establish a standardized matrix that includes all of these factors—evaluated using a consistent methodology and a uniform set of assumptions.”

The Texas Taxpayers and Research Association (TTARA) is a non-profit, non-partisan membership-supported organization of businesses and individuals interested in state and local fiscal policies in Texas and the way those policies impact our economy. TTARA members operate in every part of Texas; they employ and provide incomes to thousands of Texans; they produce or provide every type of good or service Texans consume; and, they provide a major portion of the revenue that supports public services at every level of government. TTARA has been recognized as the state’s leading organization specializing in tax and fiscal policy for more than 50 years.

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