

**WRITTEN TESTIMONY SUBMITTED TO:**

Alaska Senate State Affairs Committee Regarding SB 29,  
The Alaska Tax Break Transparency Act

*March 6, 2012*

Mr. Chairman and members of the Committee, thank you for the opportunity to testify today. I'm Matthew Gardner, and I'm the Executive Director of the Institute on Taxation and Economic Policy. We're a nonprofit research group based in Washington, DC, and our research focuses on federal and state tax policy issues, with an emphasis on the goals of sustainability, transparency and fairness in the tax laws.

My testimony today deals with **Senate Bill 29**, which would take an important first step toward achieving these goals by requiring regular scrutiny of Alaska "tax expenditures"—that is, the various tax credits, deductions, exemptions, and other breaks that reduce Alaska tax revenue.

The basic insight behind the idea of "tax expenditures" is that a law that cuts taxes for a specific individual or business is not meaningfully different, for budget purposes, from a law that directly spends money, writing a check to the same individual or business. The problem is that while the legislative budget process typically imposes regular and strict scrutiny of spending that is done directly by governments, in the absence of a tax expenditure report, the process requires little or no scrutiny of spending that is done through the tax code. Tax breaks are, in fact, government spending, and should be scrutinized in the same way that state appropriations are scrutinized—but all too often, they're not.

The sensible approach that almost every state now takes to deal with this problem is to require what's called a "tax expenditure report." In their most basic form, tax expenditure reports are a detailed list of all of the tax breaks that reduce state revenue, along with the cost of each tax break. Forty-five states currently produce these reports, and in just the last four years, five states have enacted new legal requirements similar to SB29 that make these reports mandatory. Those states are Colorado, Georgia, Idaho, New Jersey, and New Mexico.

But good tax expenditure reports, like the one proposed by SB 29, are more than a simple list. Useful tax expenditure reports also give policymaker the information they need to evaluate these tax breaks, by requiring information on the equity and efficiency effects of tax expenditures as well. Knowing how much a tax break costs is vital, but so is knowing whether that break is achieving its intended purpose.

I should note, however, that meaningful evaluation of tax breaks requires work. Some states, like Washington and Oregon, are doing quite well in this area, but they also devote significant resources to the effort. Other states, like New Jersey – which legally requires evaluation of the effectiveness of its tax breaks – have simply failed to follow through because of a lack of resources.

SB 29 would, sensibly, require evaluations of tax breaks to be staggered rather than being conducted all at once. Staggering these evaluations would likely reduce the cost of this bill and ensure that the Department is able to perform a rigorous evaluation of each break.

There's one sense in which I think SB29 could productively go further than it does. Any state that piggybacks on federal corporate income tax laws, and virtually every state does, allows some of the same tax breaks that are allowed under federal tax laws. They don't have to, and many states have taken steps to decouple from these federally imposed tax breaks. But it's a choice states have. Good tax expenditure reports will break out separately those tax breaks that are inherited from federal law from those that were created by state laws.

Finally, it's good to see that SB29 would require that new legislation creating or expanding a tax break must include a specific statement identifying the *rationale* and *purpose* of the break. Ideally, this statement would describe the broad goals of the tax break, as well as more specific performance measures that could be used in evaluating the tax break in the future. These statements would make future evaluations more accurate by allowing evaluators to zero-in on the goals the legislature had in mind. And this also makes the bill less costly, since evaluators would have to do less work combing through legislative history in search of each break's purpose. Arizona and Colorado currently require these statements of purpose, and other states like Washington and Rhode Island are considering doing the same.

And with that, I thank you again for this opportunity.