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The Complicated Business of Evaluating Tax Incentives.

States give out billions to businesses and corporations each year in tax breaks to keep them within their borders. But tracking how these tax incentives are spent — and whether they even work — has been an incredibly tricky business.

Back in 2000, Good Jobs First, which follows corporate tax subsidies, released a report that looked at 122 audits of state economic development programs in 44 states. What it found was that auditors were having trouble doing their jobs because "they are hampered by lack of data and objectives."

The climate has improved somewhat since then, says the group's president, Greg LeRoy. But it's been a long, state-by-state slog.

Massachusetts illustrates just how difficult it's been. For a state that is among the more active when it comes to tax incentives, it has been particularly slow at revealing any information about the hundreds of millions of dollars it forgoes each year via giveaways. The state has typically ranked among the bottom of Good Jobs First reports that track tax expenditures and accountability measures. That stands in contrast with the state's strong reputation — and ranking — with other financial accountability groups, such as the nonprofit U.S. Public Interest Research Group, which applaud the state's transparency on how it spends its actual revenues.

For the past half-decade, businesses and legislators in the Bay State have thwarted numerous attempts to track the effectiveness of tax incentives. State Auditor Suzanne Bump has been trying since she took office in 2011 to gain access to business tax returns at the Department of Revenue (DOR) for the purposes of auditing the tax credit programs. Bump is stymied by a state law that bans the auditor from accessing business tax information filed with the department. "Although we are told to audit the tax department, we cannot actually look at tax returns," she says. "If you can't look at the source documents, you can't know how well DOR is executing its functions."

Bump's solution has been to propose legislation granting her access, but the idea has met staunch resistance from the business community during the past two legislative sessions. Businesses cite privacy concerns and worries the auditor is overreaching her authority as the reasons for their opposition. To address those fears, Bump's latest bill includes stipulations regarding the auditor's access and calls for criminal penalties for any business disclosure violations. Still, the bill has sat in committee following a September hearing.

Similarly, state Rep. James Eldridge has sponsored a bill that calls for more stringent reporting requirements on the state's economic development tax credits. He wants to know whether jobs were created and wants clawback provisions should the state need to cancel the incentive if the goals aren't being met. In the past, the bill never made it out of committee and its hearing for the current legislative session was last June. Most bills in Massachusetts have until March to make it out of committee to stay alive in the current legislative session.

Bump says a total of 37 other state auditors have the power she is seeking. But the experience of other states indicates there's no guarantee she'll get to the bottom of whether the state's tax

incentives are working.

In Louisiana — where auditors can access tax returns — a 2012 legislative audit concluded it was "impossible" to determine whether $3 billion in business tax credits were actually a good investment for the state. Meanwhile, Illinois doesn't grant auditors access to tax returns, but Good Jobs First rates it among the best at tax credit disclosures because of a law requires companies to report subsidies, where the company located, how much it received, and what the results were in terms of job creation and wages.

Eileen McAnneny, president of the Massachusetts Taxpayers Foundation, says that most of the tax credits the state gives out don't specify expectations for the employer. She argues that giving Bump access to tax returns would yield "very subjective" results. "For example, was the brownfields tax credit enacted to create jobs, clean-up contaminated sites or to facilitate economic development?" she says. "Its effectiveness could vary widely depending on the criteria you are using to evaluate it."

But Bump counters that her bill allows for flexibility in the criteria. Job creation, she says, is only one aspect she would look at to see if tax credits were working. "Other tax expenditures exist, for instance, to reward green technology use or to nurture new industry," she says. "I believe it is critical that an independent entity provide oversight and verification of the impact of all tax expenditures in the commonwealth."

To date, Massachusetts' last movement on disclosures was a relatively minor one. That was in 2010, when lawmakers passed a law requiring agencies to report the amount and recipient of tax credits that are transferable to other companies or where companies can receive cash back from their credits. The new requirement, effective in 2012, came only after controversial stories emerged about companies profiting off these types of state credits.

Still, points out LeRoy, the reported dollar amounts reveal nothing about whether the recipients profited off their award or how it was even spent. "You can't just give a company money," he says, "and hope good things happen."

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