

Report Highlights on Pennsylvania's Tax Credit Programs

Senate Resolution 20 and House Resolution 127 call on the LB&FC to assess the effectiveness of 18 tax credit programs.¹ The report contains both specific findings for the various programs and overall findings. This Report Highlights only addresses the overall findings and recommendations; the report also contains findings and recommendations in the specific program areas.

- **Although \$344 million in tax credits were authorized in 2008-09, the tax credit amounts utilized are often far less than the amounts authorized in legislation.** Some tax credit programs are utilized up to, or nearly up to, their authorized limits, but others have authorized limits that far exceed their historical utilization rates. **Recommendation:** *The General Assembly may wish to consider reducing or terminating those tax credit programs with historically low utilization rates.*
- **We were unable to fully assess several tax credit programs due to prior interpretations of the confidentiality requirements of the Commonwealth's Fiscal Code.** The Commonwealth's Fiscal Code provides that the tax information collected by the Department of Revenue shall be confidential "except for official purposes." Our review was not deemed to fall under the definition of an official purpose. This limited our ability to review cost information and internal controls and contact program recipients. We did not have this restriction for the tax credit programs that had a mandated reporting requirement. **Recommendation:** *The General Assembly include a mandated reporting requirement in any new or reauthorizing tax credit legislation.*
- **Agencies' files are largely paper files, which makes it difficult to administer and monitor the programs for both Commonwealth agencies and program participants.** Our review of program files, particularly those at DCED, was often difficult and time-consuming because most of the programs we reviewed still use paper-based files and communications. While investing in an electronic management system involves significant up-front costs, over the long term such systems should pay for themselves in greater efficiencies and monitoring capabilities. **Recommendation:** *Agencies that have not yet converted their tax credit programs to a computer-based record-keeping system begin to do*
- **Little is being done to monitor or verify program results.** DCED had established a program monitoring unit, but it has been disbanded. **Recommendations:** *DCED re-staff its monitoring unit and that all the administering agencies monitor the tax credit programs with the same level of scrutiny as programs with direct expenditures.*
- **Most tax credit programs do not have clearly defined goals and objectives.** Even when the goals and objectives of a tax credit program can be identified, program elements that would measure how well these goals are being met have not, for the most part, been developed by the administering agencies. **Recommendation:** *When the General Assembly creates or reauthorizes a tax credit program, it attempt to articulate the program's goals and objectives and program measures against which the program's success can be judged.*
- **Tax credit programs do not appear to get the same level of scrutiny as programs that receive appropriations.** Although tax credit programs can have a significant impact on Commonwealth tax revenues and can result in millions of dollars of tax benefits to individual companies, they do not require an annual appropriation, and therefore may go relatively unscrutinized for years at a time. **Recommendations:** *The report contains several recommendations that would facilitate greater legislative and public understanding and scrutiny of tax credit programs.*

¹ Programs include: Call Center, Coal Waste Removal and Ultraclean Fuel, Educational Improvement, Employment Incentive, First Class Cities Economic Development District, Homeowners' Emergency Mortgage Assistance Fund, Job Creation, Limited (Malt Beverage), Neighborhood Assistance, Organ and Bone Marrow Donor, Pennsylvania Insurance Guaranty Association, Research and Development, Resource Enhancement and Protection Program, and the Strategic Development Areas program. Separate reports on the Film Production Tax Credit and Keystone Opportunity Zone program were released in June 2009 and July 2009, respectively, and are available by contacting the LB&FC office.