**Tax Credit Review Commission**
**Economic Development Committee**

Pete Levi, Chair
Jim Anderson, Co-Chair

**Members:**

Senator Jolie Justus
Representative Tim Flook
Representative Sam Komo
Ray Wagner
Melissa Randol
Dave Kendrick
Alan Marble

**Tax Credits Assigned:**

BUILD
Business Facility
Development Tax Credit
Enhanced Enterprise Zone
Film Tax Credit
MDFB Bond Guarantee
MDFB Infrastructure
Quality Jobs
Incubator Tax Credit
Rolling Stock Tax Credit

**Preamble:**

Success in economic development today and into the future requires that Missouri focus on three primary strategies: recruiting businesses to the state, incentivizing the expansion and retention of existing businesses, and fostering the growth of business startups. In today's economic development environment, Missouri must be equipped to compete with other states and countries to attract, retain and grow businesses with competitive business development incentives that are easy to understand, promote and utilize, and which complement Missouri's business-friendly environment by providing direct incentives to businesses that create jobs and make capital investments and by providing the financing necessary for public infrastructure that facilitates business growth.

State tax credits are an important part of Missouri's business development toolkit. Changes in today's economy and the evolution of operations have highlighted areas where Missouri's business development tax credits fall short in providing the most effective means to promote business development, job creation and capital investment. To make the most effective use of Missouri's business development tax credits and the taxpayer dollars they utilize, Missouri's tool kit should contain business development tax credits that:

- Incentivize economic activity that would otherwise not occur without the tax credit;

- Give priority to measurable job growth and capital investment; and
- Complement and effectuate the strategic objectives developed through the Governor's Strategic Planning Initiative for Economic Growth by targeting high-growth industries to attract, retain and grow in the state.

When working to recruit or retain a business prospect, the State will calculate and communicate the available business development tax credits to the prospect in the form of a proposal. In the current economic development climate, a business prospect is often simultaneously considering similar such proposals from competing states (or even countries). This competitive landscape makes it critical for Missouri to be able to present a concrete, streamlined, and easy to understand proposal that can influence business decision-making on a real-time basis. Subjecting Missouri's business development tax credits to an annual appropriations process could severely hamstring Missouri's ability to provide the kind of concrete proposals necessary to attract and retain businesses that will create jobs and make significant capital investment in the state. The General Assembly should establish appropriate criteria in the award of both discretionary and entitlement business development tax credits. The committee hopes that the guiding principles set forth below will aid the General Assembly in that process.

**Committee Methodology:**

**1. <u>Guiding Principles</u>**

The Economic Development Committee approached its task by establishing a series of guiding principles related to the use of business development tax credits to promote economic development. The committee then applied these guiding principles to evaluate each of the existing tax credit programs assigned to the committee. The guiding principles adopted by the committee include the following:

- **Positive Return on Investment**
    - Discretionary business development tax credits offered directly to a business should be used only when the project will provide a positive return on investment, defined as a fiscal benefit to the state General Revenue fund net of the cost of the incentive and measured by a REMI or equivalent model. The amount of this return may vary between programs.
- **Return on Investment Within a Defined Time Period**
    - The fiscal benefits to the state General Revenue fund should occur within an established time period, not to exceed ___years. However, discretionary business development tax credits used for public infrastructure should be allowed a longer period in which to gain a positive return on investment, not to exceed ___years.
- **Focus on Primary Jobs**
    - Business development tax credits should focus predominantly on primary and base jobs.
- **Reward Higher-Paying Jobs With Benefits**
    - Business development tax credits should reward higher paying jobs (above county average wage) with due consideration for location, local employment (recent job loss), job numbers, and job permanency.
    - Business development incentives should reward companies who offer health insurance to their employees.
- **Consider Local Participation**

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    - Business development tax credits should always consider (and reward) cost sharing with local governments.
- **Flexibility**
    - Business development tax credits should be flexible to meet targeted, high growth industries and sectors, to incent a business activity or close a financing gap, and to apply to a variety of eligible activities, applicants and uses (able to address industry-specific cost pressures).
- **Simplicity**
    - Business development tax credits should be simple to understand, promote and execute and should be streamlined in their operation.
- **Up-Front Financing**
    - Business development tax credits should allow for the option of up-front financing in certain circumstances through the use of refundable tax credits, with strict clawbacks for non-performance.
- **Entitlement and Discretionary Components**
    - Possessing entitlement and discretionary components within the same credit, to provide both the certainty offered by an entitlement credit along with the project-specific flexibility offered by a discretionary credit.
- **Broad Applicability**
    - Business development tax credits should work in both urban and rural areas of the state and should be available for large and small businesses.

**2. <u>Specific tax credit review and recommendations</u>**

Applying the above principles, the committee review each of the assigned tax credits and developed the following general recommendations (1) Improve; (2) Reduce; (3) Eliminate; (4) Appropriate.

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