Oversight Division

Committee On Legislative Research

PROGRAM EVALUATION

Review of the
State of Missouri
Tax Credit Programs

Program Evaluation

State of Missouri
Tax Credit Programs

Prepared for the Committee on Legislative Research
by the Oversight Division

Mickey Wilson, CPA, Director

Review Team: Steve Shiery, CPA, Team Leader, Helen Webster-Cox, CPA, Ross Strope

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TABLE OF CONTENTS

COMMITTEE ON LEGISLATIVE RESEARCH ii

LETTER OF TRANSMITTAL iii

EXECUTIVE SUMMARY iv

PURPOSE / OBJECTIVES . . . . . page 1

SCOPE . . . . . page 1

METHODOLOGY . . . . . page 1

BACKGROUND . . . . . page 2

COMMENTS . . . . . page 3

APPENDICES . . . . . page 12

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THE COMMITTEE ON LEGISLATIVE RESEARCH, Oversight Division, is an agency of the Missouri General Assembly as established in Chapter 23 of the Revised Statutes of Missouri. The programs and activities of the State of Missouri cost approximately $24 billion annually. Each year the General Assembly enacts laws which add to, delete or change these programs. To meet the demands for more responsive and cost effective state government, legislators need to receive information regarding the status of the programs which they have created and the expenditure of funds which they have authorized. The work of the Oversight Division provides the General Assembly with a means to evaluate state agencies and state programs.

THE COMMITTEE ON LEGISLATIVE RESEARCH is a permanent joint committee of the Missouri General Assembly comprised of the chairman of the Senate Appropriations Committee and nine other members of the Senate and the chairman of the House Budget Committee and nine other members of the House of Representatives. The Senate members are appointed by the President Pro Tem of the Senate and the House members are appointed by the Speaker of the House of Representatives. No more than six members from the House and six members from the Senate may be of the same political party.

PROJECTS ARE ASSIGNED to the Oversight Division pursuant to a duly adopted concurrent resolution of the General Assembly or pursuant to a resolution adopted by the Committee on Legislative Research. Legislators or committees may make their requests for program or management evaluations through the Chairman of the Committee on Legislative Research or any other member of the Committee.

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Members of the General Assembly:

The Joint Committee on Legislative Research adopted a resolution in June 2009, directing the Oversight Division to perform a program evaluation of Missouri Tax Credit Programs to determine and evaluate program performance in accordance with program objectives, responsibilities, and duties as set forth by statute or regulation.

The report includes Oversight's comments on internal controls, compliance with legal requirements, management practices, program performance and related areas. We hope this information is helpful and can be used in a constructive manner for the betterment of the state program to which it relates. You may obtain a copy of the report on the Oversight Division's website at http://www.moga.mo.gov/oversight/audits.htm.

Respectfully,

Senator Tom Dempsey
Chairman

EXECUTIVE SUMMARY

The State of Missouri offers a wide range of tax credits as a part of its economic development programs. Additional tax credit programs are offered to participants in designated business and social activities. Participants are generally required to make qualifying expenditures or undertake qualifying business or social activities in exchange for the credits. Tax credits are not a direct government expenditure subject to the normal budget and appropriation controls; instead, they result in a reduction of a government entity's tax revenues.

The Department of Economic Development and the Department of Revenue are the state agencies primarily involved in tax credit programs; however other state agencies such as the Department of Insurance, Financial Institutions, and Professional Registration, the Department of Agriculture, the Department of Natural Resources, the Department of Social Services, and the Department of Health and Senior Services also offer tax credit programs.

Significant efforts have been made to identify, record, track, and account for the impact of tax credits on the state's revenues, and these efforts continue. Since no state agency has complete records of all state tax credit programs, it is not currently possible to determine the exact cost of the tax credits nor the amount of tax credits that are issued and outstanding. Instead, estimates are prepared by the University of Missouri under contract with the Department of Revenue, by legislative staff, and by the Office of Administration, Division of Budget and Planning.

Active tax credit programs have reduced state revenues in increasing amounts since the previous Oversight review of tax credit programs, and the recommendations in that report have not been fully implemented since no comprehensive information exists as to these programs. In 1999, tax credit redemptions amounted to 2.97% of related taxes; redemptions were 8.04% of related taxes in 2009. Available records indicate that the impact of tax credits on state revenues will continue to increase due to growth in current programs.

Managing the cost of tax credit programs and subjecting those costs to budget controls will be complicated by the multi-year cycle in which tax credit programs operate. Any significant program expansion or restriction could be expected to impact state revenues over a period from two years to twenty years.

Oversight wishes to thank the Department of Economic Development and the Department of Revenue for their cooperation and assistance during the program evaluation.

Chapter 1

Purpose/Objectives

The General Assembly has provided by law that the Committee on Legislative Research may have access to and obtain information concerning the needs, organization, functioning, efficiency and financial status of any department of state government or of any institution that is supported in whole or in part by revenues from the state of Missouri. The General Assembly has further provided by law for the organization of an Oversight Division of the Committee on Legislative Research and, upon adoption of a resolution by the General Assembly or by the Committee on Legislative Research, for the Oversight Division to make investigations into legislative and governmental institutions of this state to aid the General Assembly.

The Joint Committee on Legislative Research directed the Oversight Division to conduct a program evaluation of the Missouri Tax Credit programs. The purpose of the evaluation was to develop and compile a list of all Missouri Tax Credit programs, to evaluate the administrative and management controls in place for those tax credit programs, and to examine the potential for budgetary control over those programs. No conclusions are drawn nor are recommendations made regarding whether any tax credit program should be continued, repealed, expanded, or restricted.

Oversight's review addressed, but was not limited, the following:

* Compiling a list of state tax credit programs.
* Compiling historical data for the tax credit programs.

Scope

The Oversight Division reviewed information regarding tax credit programs active from 1999 through 2009.

Methodology

The methodology used by the Oversight Division included reviewing Missouri statutes, rules and regulations, organizational charts, and legislation and fiscal notes pertaining to the tax credit programs. In addition, personnel from the Department of Revenue, the Department of Economic Development, the Department of Insurance, Financial Institutions, and Professional Registration, and other legislative staff were interviewed.

Background

During the year ended June 30, 2009, the state of Missouri redeemed approximately $588 million in tax credits. That amount represents a significant increase from $512 million in 2008, $486 million in 2007, $417 million in 2006, and $418 million in 2005. The state of Missouri has a broad range of tax credit programs active over the past five years, administered by a number of state agencies. The number of active programs fluctuates as new programs are authorized, and existing programs expire or are fully subscribed.

Tax Credit Programs in General

Tax credits are a form of economic incentive issued by government entities to participants in eligible program activities. The participants may be individuals, businesses, or nonprofit organizations. Participants are generally required to make qualifying expenditures or undertake qualifying business or social activities in exchange for the credits. Tax credits are not a direct government expenditure subject to the normal budget and appropriation controls; instead, they result in a reduction of a government entity's tax revenues.

Tax credits may be described as either refundable or non-refundable. A refundable tax credit can be used to reduce the balance due from a taxpayer below zero, and can result in a net refund payment to the taxpayer. A non-refundable tax credit can only reduce the taxpayer's liability to zero. A non-refundable tax credit in excess of the taxpayer's liability may also be available for carryback and carryforward to other tax years. The years to which the credits can be carried back and carried forward are determined by state law.

Department of Economic Development

The Department of Economic Development (DED) is the primary state agency involved in administering state tax credit programs. DED manages a wide array of programs designed to enhance Missouri's economy in the 21st Century. DED is composed of divisions, boards, and commissions which execute statutory requirements, develop program regulations, and implement department policy in the areas of community, economic, and workforce development. The divisions, boards, and commissions work with businesses and communities to help firms create jobs, increase sales, find and train qualified workers, identify sites and obtain financing support to locate or expand in Missouri, promote capital investment, and increase the self-sufficiency of communities in the state. The following DED agencies administer tax credit programs.

The Division of Business and Community Services (BCS) offers programs and incentives for businesses and communities to create a pro-business climate and strong community partnerships where businesses can thrive. BCS administers a number of tax credit programs, including Historic Preservation and Brownfield Redevelopment. The BUILD Program is administered jointly with the Missouri Development Finance Board.

The Missouri Development Finance Board (MDFB) is a body corporate and politic of the state of Missouri created within the Department of Economic Development. MDFB is authorized by state law to grant tax credits equal to 50% of any moneys contributed by a taxpayer to one of three MDFB funds; the "industrial development and reserve fund," the "infrastructure development fund," or the "export finance fund." For approved bond issuances, MDFB is authorized to issue tax credits to bond holders equal to the remaining unpaid principal and interest due in the event of default.

The Missouri Housing Development Commission (MHDC) is an instrumentality of the state of Missouri which constitutes a body corporate and politic. With regards to the production of affordable rental housing, MHDC functions as a specialized bank, providing financing directly to developers. MHDC also provides funding for home loans to qualified first-time home buyers through a network of certified private mortgage lenders. MHDC mortgage financing is funded through the sale of tax-exempt bonds.

MHDC manages a number of housing-related programs including the federal HOME Investment Partnership Program, U.S. Department of Housing and Urban Development (HUD) Project Based Section 8 rental assistance contracts, federal and state Low Income Housing Tax Credit (LIHTC) programs, the Affordable Housing Assistance Program Tax Credit, and the Missouri Housing Trust fund.

The Missouri Film Commission was created in 1983 to attract film, television, video and cable productions to Missouri, and to promote the growth of the film and video production industry within Missouri. The Missouri Film Commission and the Department of Economic Development jointly administer the Film Production Tax Credit for up to 35 percent of the amount expended by film production companies in Missouri, for production or production-related activities.

Department of Revenue

The Missouri Department of Revenue (DOR) serves as the central collection agency for all state revenues. The department's primary duties include collecting taxes, titling and registering motor vehicles, and issuing driver licenses. DOR administers a number of tax credit programs which are claimed directly on a taxpayer's filed return, including the Senior Citizen or Disabled Person Property Tax Credit, the Special Needs Adoption Tax Credit, the Disabled Access Tax Credit for Individuals, the Disabled Access Tax Credit for Small Business, the Food Pantry Tax Credit, the Surviving Spouse Tax Credit, the Bank Franchise Tax Credit, the Bank Tax Credit for S Corporations, and the Self-Employed Health Insurance Tax Credit. DOR also redeems tax credits administered by other state agencies when they are submitted in lieu of payments by Missouri taxpayers.

Department of Insurance, Finance, and Professional Registration

The Missouri Department of Insurance, Finance, and Professional Registration, (DIFP) is the primary regulatory agency for consumer service industries in Missouri. The Insurance Solvency and Company Regulation Division monitors and analyzes the financial condition, accounting practices and legal compliance of insurance companies licensed in the state through financial examinations. DIFP certifies and collects premium taxes due the state, and administers four tax credit programs including the Missouri Examination Fee Tax Credit, the Property and Casualty Guaranty Tax Credit, the Life and Health Insurance Guaranty Tax Credit, and the Health Insurance High Risk Pool Tax Credit.

Department of Natural Resources

The Missouri Department of Natural Resources (DNR) is the primary state agency responsible for environmental matters. DNR manages three tax credit programs, the Charcoal Producers Tax Credit program, the Wood Energy Tax Credit program for production of wood energy products from wood scraps, and the Alternative Fuel Stations Tax Credit program for construction of alternative energy storage equipment.

Department of Agriculture

The Missouri Department of Agriculture (AGR) is the primary state agency for farming, agricultural, and agri-business issues. AGR manages four tax credit programs; the Agricultural Product Utilization Contributors Tax Credit, the New Generation Cooperatives Tax Credit, the Qualified Beef Tax Credit, and the Family Farm Breeding Livestock Loan Tax Credit program.

Department of Social Services

The Missouri Department of Social Services (DOS) is responsible for coordinating programs to provide public assistance to children and their parents, access to health care, child support enforcement assistance, and specialized assistance to troubled youth. While many programs provide direct financial assistance and services, other units work toward reducing the financial dependency of the citizens on government.

DOS manages several tax credit programs including the tax credits for contributions to Shelters for Victims of Domestic Violence, Maternity Homes, Residential Treatment Agencies, and Pregnancy Resource Centers.

The Department of Health and Senior Services

The Department of Health and Senior Services (DHSS) serves the citizens of Missouri by working to improve the health and quality of life for residents of all ages. The department is organized into three program divisions: Community and Public Health, Regulation and Licensure, and Senior and Disability Services. The Division of Community and Public Health administers programs that impact family health, the prevention of chronic diseases, nutrition, and other programs that improve the health of communities. The Division of Regulation and Licensure licenses and supervises health care providers, including child care facilities, hospitals and ambulatory surgical centers, home health and hospice providers, long-term care facilities including residential care, intermediate care and skilled nursing facilities, emergency medical services, pharmacies, and persons authorized to prescribe or dispense controlled substances. The Division of Senior and Disability Services administers programs designed to maximize independence and safety for adults who are at risk of abuse, neglect, and financial exploitation, or have long term care needs that can be safely met in the community.

DHSS manages two tax credit programs; the Shared Care Tax Credit for those who provide uncompensated care for an elderly person, and the Missouri Healthcare Access Fund Tax Credit for donations to the Missouri Health Care Access Fund.

A complete listing of Missouri tax credits is provided on Appendices B and C.

Chapter 2

Comments

I. Tax Credit Program Records

Information needed to track the impact of tax credit programs on the revenues of the State of Missouri is incomplete and uncoordinated, and recorded in multiple systems which are not consistently compared for accuracy or completeness.

A. Customer Management System

The Customer Management System (CMS) is the primary tracking system for Missouri tax credit programs. CMS was originally developed by the Department of Economic Development (DED) as a way to track information regarding taxpayers receiving assistance from DED programs. CMS has been expanded to incorporate tax credit programs managed by other agencies and to include redemption information from the Department of Revenue (DOR).

An agency which uses CMS will record information regarding the tax credit program and the applicant or proposed recipient into the system. The information is reviewed by DOR to determine if the applicant or proposed recipient has an outstanding state tax liability which would result in disallowing some or all of the credits. Upon clearance of the application by DOR and review by the agency which manages the program, the application is approved. Upon the completion of any required program activities, the applicant is issued tax credit certificates.

If the owner subsequently sells or transfers the credits to another organization, the buyer and seller send a completed transfer application to the issuing agency. The agency then updates CMS records and sends new tax credit certificates to the buyer and seller, documenting the updated balance of credits for each owner. The registered tax credits can be used in lieu of actual payment of certain taxes owed the State of Missouri including personal and corporate income tax, and sometimes in lieu of insurance company premium taxes.

CMS is currently used by all of the state agencies that issue or redeem credit certificates, but certain DOR programs are only documented on forms attached to income tax returns. Those tax credits are recorded in a DOR legacy system but not on CMS. There are also programs operated by the Department of Insurance, Financial Institutions, and Professional Registration (DIFP) for which CMS records are incomplete. Those programs will be discussed in the following comments relating to those agencies.

DED was the originator of CMS and is still the primary system user. When CMS was originally developed, the information technology staff on the project reported to DED. With the transfer and consolidation of information technology staff to the Office of Administration - Information Technology Services Division (OA-ITSD), OA-ITSD became responsible for maintaining CMS.

We recommend DED and OA-ITSD work with the other agencies which manage tax credit programs to incorporate all tax credit programs in CMS. Modification or expansion of CMS may be required to meet the needs of some agencies.

B. Department of Revenue Legacy System

Tax credit programs directly administered by the Department of Revenue including the Special Needs Adoption credit, Food Pantry credit and the Senior Citizen or Disabled Person Property credit, are not recorded in the Customer Management System. Rather, they are recorded in a legacy system originally designed by DOR. DOR management told Oversight that many of the tax credit programs they directly administer are entitlement programs which reduce the tax due for qualified filers. Those credits are claimed and redeemed on forms attached to the tax return and most of those programs have no carry-back or carry-forward provisions.

DOR managers also said that tax credits for the Processed Wood Energy Credit are recorded only in the legacy system. DOR managers said the level of activity for this program is limited to the redemption of a small number of old outstanding tax credit certificates.

Oversight is concerned that the existence of dual tax credit accounting systems results in some duplication of effort. More importantly, the current dual-system situation means that information for all tax credit programs can not be obtained from one reliable system. Oversight assumes it would be beneficial for administrative reporting purposes for the state to have all tax credit program records in a single comprehensive system.

We recommend Department of Revenue managers work with managers in the Department of Economic Development and the Office of Administration - Information Technology Services Division to expand CMS so that information required for Department of Revenue processes is available from CMS. We recommend the Department of Revenue eliminate the legacy system when the CMS upgrade or upgrades have been completed.

C. Department of Insurance, Financial Institutions, and Professional Registration System

The Insurance Solvency and Company Regulation Division of the Department of Insurance, Financial Institutions, and Professional Registration, (DIFP) processes insurance tax returns for the companies it regulates to ensure that the amount of tax calculated is correct. DIFP forwards the tax returns to DOR for further processing and the taxes paid by the companies are collected, recorded, and deposited on DOR systems.

Two types of tax credits may be used by insurance companies in lieu of payment for their premium taxes.

* Insurance companies may receive and/or purchase tax credits issued by other agencies. If those tax credits are included in CMS, the tax credits would be tracked by the issuing agency and their redemption would be recorded by DOR employees during routine processing of the company's insurance tax return.

* DIFP assesses fees for certain services it provides to insurance companies and the insurance companies are allowed to deduct those amounts from the insurance tax due when they file their insurance tax return. Those deductions are equivalent to other tax credit programs although there are no tax credit certificates for those deductions.

  DIFP processes the fee assessments and related tax credits in an internal system as they process the company's premium tax return. The DIFP system can provide a report of outstanding tax credits on a current basis but can not provide historical data such as tax credits allowed by fiscal year. Instead, the DIFP system tracks these credits by tax return year. DIFP managers told Oversight that tax credits are reported to DOR in a spreadsheet provided by DOR, and DIFP officials said they considered the DOR spreadsheet as the primary DIFP fiscal record for tax credits.

Oversight recommends that DED and OA-ITSD work with DIFP to develop CMS upgrades which will allow the insurance tax credit programs to be recorded in CMS. Oversight also recommends that DIFP develop a methodology to provide and maintain tax credit information in their internal system, including the dates on which tax credits are created and redeemed, so that amounts reported on the DOR spreadsheet can be verified. In addition, we recommend that DIFP review the data recorded in CMS for its programs, and update that information as needed.

D. Department of Revenue Redemption Procedures

Tax credits can be redeemed in payment of certain taxes owed the State of Missouri, such as personal and corporate income tax, and insurance company premium tax. Those tax credits reduce the amounts due from the taxpayer and thus, state revenues.

Officials from the Department of Revenue told us that tax credits managed by their department are processed automatically during tax return processing and recorded in the legacy system discussed earlier. When a taxpayer submits tax credit certificates from CMS with their tax return, DOR records the credits submitted for redemption in CMS, determines if the tax credit certificate is valid, and reduces the remaining amount of tax credits available for the taxpayer by the amount redeemed. The tax credit redemptions for programs included in CMS are entered into CMS manually, however. Department officials told Oversight that the number of transactions involved in the manual process is relatively low compared to the number of tax returns processed, and that CMS and tax return processing system upgrades to automate this process is a low priority.

Because tax credit redemptions are split between CMS and the legacy system, redemption reports must be compiled manually. DED and DIFP staff report redemptions on a Department of Revenue spreadsheet form. Department of Revenue officials incorporate the information from other agencies into a spreadsheet which is used to provide quarterly redemption reports for the Office of Administration, Division of Budget and Planning, and for staff of the General Assembly.

Oversight believes the maintenance of multiple computer systems and the manual preparation of important state financial records requires extra work and increases the risk of error. In addition, the manual reports require significant additional review and comparison with underlying records to verify the accuracy of reported amounts. An integrated and automated system would allow for more convenient and timely retrieval of summary reports and would eliminate passing information around by hand. Oversight assumes that correcting the current situation would require updates to CMS, the DIFP system, and the DOR tax return processing system.

Oversight recommends Department of Revenue managers implement automated redemption processing for all tax credit programs in their tax return processing systems, and work with managers from DED and OA-ITSD to link the tax return processing systems with CMS.

Oversight also recommends that managers from the Department of Revenue work with managers from the Department of Economic Development and the Office of Administration - Information Technology Services Division, DED, DOR, and OA-ITSD on CMS updates to implement automated verification of taxpayer eligibility and tax credit ownership, and expanded reporting on all phases of tax credit program administration.

E Tracking System Concerns and State Budget Preparation

Managers from the Office of Administration, Division of Budget and Planning (BAP) told us that BAP staff prepare budget estimates of the annual revenue reduction resulting from tax credit redemptions using budget forms submitted by agencies which manage the tax credit programs. The BAP amounts are calculated and interpreted using a combination of staff experience and economic forecasting tools, beginning with the agency estimates.

BAP managers also said they do not use CMS data since it is incomplete. Oversight assumes that BAP staff could also have reservations about using data available from CMS and the DOR legacy systems because of the concerns we have discussed above. An updated CMS, as we have recommended in our earlier comments, would provide more accurate and complete information for tax credit programs. This would, in turn, allow agencies to provide more complete and accurate budget information regarding tax credit programs. This would reduce the need for BAP to adjust the amounts reported on agency budget forms during the preparation of revenue estimates.

Oversight recommends BAP consider the use of CMS data in preparing revenue estimates when the necessary system upgrades and record consolidations are completed.

II. Tax Credit Program Cost

Recent Tax and Tax Credit Amounts

Tax credits redeemed by Missouri taxpayers have a significant and growing impact on the state's finances and budget. Tax credits reduce state revenues available for government operations and have grown from approximately $145 million in 1999 to nearly $588 million in 2009. The following chart shows the revenues, tax credits redeemed, and the increasing impact of tax credits on revenues.

Year	Personal, Corporate, and Insurance Tax Revenue Before Credits	Tax Credits Redeemed	Tax Credits as a Percent of Related Taxes
1999	$4,885,366,648	$144,880,776	2.97%
2000	$5,152,554,667	$226,051,722	4.39%
2001	$5,449,987,577	$300,920,850	5.52%
2002	$5,438,967,714	$289,778,261	5.33%
2003	$5,354,999,481	$309,591,954	5.78%
2004	$5,582,477,851	$367,040,695	6.57%
2005	$5,957,007,619	$418,494,176	7.03%
2006	$6,582,297,030	$417,072,278	6.34%
2007	$7,067,731,690	$485,562,755	6.87%
2008	$7,499,997,826	$512,121,793	6.83%
2009	$7,309,991,487	$587,850,147	8.04%

Continued Growth Expected in Tax Credit Programs

The current structure of Missouri tax credit programs generates continued growth in the amount of tax credits issued and redeemed.

* During the 2009 legislative session, House Bill 191 increased the amount of tax credits allowed in certain programs and made other law changes which will increase the amounts issued in tax credit programs. The bill included provisions with varying effective dates and will result in the issuance of additional tax credits as new qualified projects are approved. The fiscal note for this legislation indicated a reduction in revenue from $1.5 million to $35 million for FY 2010, from $10 million to $51 million for FY 2011, and from $12 million to $63 million for FY 2012. Increases similar to those made in 2009 have been noted in previous years' legislation.

* As shown on Appendix C, there were 38 tax credit programs created from 1973 to 1998; and 31 additional tax credit programs were created from 1999 to 2008.

* Oversight estimates that current tax credit programs could result in as much as $857 million in tax credits issued and redeemed each year. This would happen if tax credits are issued and redeemed up to the existing program limit (cap) for programs with a cap, and if tax credits equal to the highest annual amount issued over the past ten years are issued and redeemed for programs without a cap. Oversight notes that tax credits issued and redeemed could exceed this estimate, but we consider it unlikely that all of the tax credit programs would exceed their previous maximum activity in the same year.

Based on our review of current tax credit programs, the amount of tax credits redeemed will continue to grow unless changes are made to the programs.

Predicting Tax Credit Redemption Amounts

Although the information above indicates a strong trend toward continued growth in tax credit redemptions, a more detailed and precise estimate of the future cost of tax credits under existing conditions is difficult.

Some tax credits, particularly those managed by the Department of Revenue and the Department of Insurance, Financial Institutions, and Professional Registration, are issued and redeemed in the same year. Most of these credits are claimed on a form attached to the tax return on which they are redeemed. Tax credit programs managed by other agencies are documented with a tax credit certificate (or a similar form) and can be redeemed at any time after they are issued.

* Many tax credit programs provide credits which can be "carried back" and used as an offset of earlier years' taxes and/or "carried forward" and used as an offset of later years' taxes. The taxpayers who hold the certificates determine when they will redeem the credits. Each year Oversight calculates an average ratio of total tax credits redeemed to total tax credits issued. That ratio is provided to the General Assembly as an additional indicator of the potential budget impact of tax credit program changes in legislative proposals.

  The ratio averaged 84.5% from 2005 through 2008 - that is, the amount of tax credits redeemed was approximately 84.5% of the amount of tax credits issued. Taxpayers held the balance of tax credits issued for future redemption. As shown on Appendix B, however, the amount of tax credits redeemed in FY 2009 was 105.8% of tax credits issued. This means that taxpayers redeemed credits which had been issued in previous years in addition to tax credits issued in 2009. These redemptions of previous year tax credits could have been made with current year tax returns or on amended returns for the three prior years.

* Oversight has estimated the amount of tax credits issued in previous years and not yet redeemed as of June 30, 2009, to be approximately $496 million. Our estimate of the amount outstanding was based on available records and on conversations with managers at DED, DOR, DIFP, and the General Assembly. As discussed in our comments on Tax Credit Tracking, the records are incomplete; and the outstanding amount could be larger than our estimate.

  These tax credits are available for redemption at any time. As a result, tax credits redeemed could exceed tax credits issued for several more years.

* Tax credits issued under some Missouri programs can be sold and re-sold. The sale and purchase of tax credits would likely accelerate the redemption of tax credits since one entity could hold tax credits and then sell them to an entity which would redeem them immediately.

The existence of the "pool" of $496 million in tax credits issued but not redeemed, along with the potential for growth due to currently authorized but unused program caps, indicates that continued growth is highly likely and that management of the impact of tax credit programs will require legislative action.

Tax Credit Information for the General Assembly

Tax credit redemptions affect the amount of revenue available for appropriations, but the information made available to the General Assembly regarding tax credit programs does not adequately disclose the effect of tax credit programs on state revenues.

* The starting point for Missouri budget work is the Consensus Revenue Estimate (CRE) developed by the Office of Administration, Division of Budget and Planning, in consultation with staff from the General Assembly. Although an estimate of tax credit redemptions is made in determining the CRE, the announcement by the Governor and the press release provide only the overall net amount. Detailed information regarding the impact of tax credits on the CRE is not released.

* Information regarding tax credits, including amounts issued and redeemed each year, amounts expected to be redeemed in the next year, and amounts outstanding, is available from budget forms submitted by the agencies which manage tax credit programs. This information is not summarized to provide an overall estimate of the cost of programs. The forms are used in reviewing budget information for the agencies which manage the programs but not in considering the overall state budget.

* As discussed in our comments regarding tax credit tracking, information for most, but not all, tax credit programs is maintained in the Customer Management System (CMS). An overall analysis of tax credit information must be taken from several systems and then compiled to develop an estimate of total activity. Currently, that overall data is only available by compiling the information manually. Staff from the General Assembly are working to develop reliable tax credit information from the various reporting and management systems involved.

Oversight believes that information regarding tax credits and other matters that impact state revenues should be summarized, analyzed, and reported to the General Assembly on a routine basis. The current manual compilation should be continued until an integrated system is available.

Oversight recommends the General Assembly request that DED, DOR, OA-ITSD, and other agencies involved with tax credit programs meet and develop an integrated system to provide complete, accurate, and detailed information for all tax credits programs. At a minimum, data from budget forms, CMS, and other systems should be combined and reported to ensure that all the parties are working with the same reliable information.

Managing the Cost of Tax Credit Programs

A. Budget Process Changes and Agency Coordination

Limiting or prohibiting the redemption of tax credits that have already been issued could undermine the effectiveness of Missouri tax credit programs and reduce the chances of favorable program results. However, based on our review, Oversight believes that some of the barriers to better management of tax credit program cost can be overcome by improved coordination with the agencies which administer tax credit programs. Legislative changes may be needed in other areas.

* The Low Income Housing Tax Credit (LIHTC) program managed by the Missouri Housing Development Commission (MHDC) provides authorization for a series of tax credits for approved projects to be issued over a period of ten years. MHDC maintains records of the LIHTC tax credits authorized by year, and the amount of tax credits issued based on those authorizations can be predicted since the credits are issued as scheduled unless the project does not meet technical compliance requirements.

* Many other programs, managed by the Department of Economic Development and other agencies, allow the issuance of tax credits only after eligible construction is complete or after eligible expenditures are made for program activities. The amount of tax credits to be issued under these programs could be estimated but an estimate for those programs would be less reliable than for the LIHTC program.

Analyses of expected tax credit issuances and redemptions are currently done manually in conjunction with agency budget preparation, and a compilation of that information would have to be done manually. Although automated analyses of expected future tax credit issuances would be preferable, the current records for tax credit transactions are not adequate to allow such an automated analysis. When improved records are available, tax credit programs can be reviewed in terms of budget impact as well as program effectiveness. Managing the impact of tax credits on tax revenues will also require the General Assembly to consider the impact of tax credits on revenues on a multi-year basis because of the carry-forward and carry-back provisions.

Oversight recommends the General Assembly consider the development of a formal multi-year plan for tax credit programs so that the impact of tax credits on state tax revenues can be better predicted.

B. Potential Legislative Initiatives

As discussed earlier, Oversight calculated that the amount of tax credits issued and redeemed each year could increase to as much as $857 million based on our observations of tax credit program results. Because limits or caps on many programs significantly exceed current activity levels, a much larger fiscal impact would result if the maximum amount of tax credits under every current tax credit program was issued and redeemed.

* There are only a few tax credit program, for Alternative Fueling Station owners, Railroad Rolling Stock, New Jobs Training, and Job Retention, which are currently subject to appropriation.

* There are twenty-three programs in which the limit, or cap, on tax credits is more than fifty percent higher than the amount of tax credits issued in FY 2009.

* There are twenty-four tax credit programs which have no limit on the amount of tax credits that can be issued.

* There are three programs in which the limit on tax credits is external to the program. For example, the Missouri Housing Development Commission is authorized to issue tax credits up to the tax credit limit for the federal Low Income Housing Tax Credit program.

There are a number of legislative initiatives which could improve the General Assembly's ability to manage the financial impact of tax credits, but the primary method for managing the impact of tax credit programs on Missouri tax revenues would appear to be the establishment of effective limits on the amounts of tax credits that can be issued for those programs. Those limits could be set at levels which would allow the programs to operate successfully and allow for planned growth as program needs increase, but would not allow unlimited growth as is the case with many current programs.

Oversight recommends the General Assembly consider setting limits, or caps, on all tax credit programs, and reducing limits, or caps, on tax credit programs at levels which would allow successful operation of those programs but not allow the current potential for unlimited cost. Requests for new programs, additional tax credit authority, and consideration of program responses to special situations should be specifically addressed by the General Assembly.

III. Competition With Other States

According to Department of Economic Development (DED) managers, Missouri is often in competition with another state or even with another country for a given project. In those situations, DED and other state agencies and officials work with Missouri local government agencies to recruit and retain businesses that employ Missouri residents. State tax credit programs frequently play an important part of the package of incentives offered to a prospective employer.

Oversight reviewed tax credit programs offered by other states, and particularly the programs offered by those states which adjoin Missouri, to determine whether other states offer programs similar to the Missouri programs. Oversight reviewed information available on the internet for the eight states contiguous to Missouri: Iowa, Nebraska, Kansas, Oklahoma, Arkansas, Tennessee, Kentucky, and Illinois. Most of the states provided internet access to program descriptions and requirements, as Missouri does. Illinois did not provide significant information on tax credit programs on the internet.

Oversight staff also contacted economic development or revenue collection agency personnel from most of the adjoining states in an effort to obtain additional information. Information for Arkansas tax credit programs, not available on the internet, was provided when we contacted Arkansas officials. Illinois and Tennessee do not report tax credit information. Reporting periods differ from state to state, and the amount and quality of information available for tax credit programs varies significantly by state.

As we have discussed at length in other parts of this report, the state of Missouri currently offers 69 different tax credit programs. The nature, size, and requirements of those programs are shown on the Appendices. Our observations on tax credit programs in adjoining states follow.

* Iowa offers 44 programs but not all tax credits appear on an individual single report. Some tax credits reported appear to have been repealed or replaced but were still reported.

* Nebraska offers 44 programs. Since Nebraska develops budgets on a biennial basis, information on Nebraska tax credits is issued every 2 years.

* Oklahoma offers 65 tax credits. Oklahoma also reports tax credit activity on a biennial basis.

* Kansas offers 45 tax credit programs.

* Tennessee offers 15 tax credit programs. Since Tennessee does not have a personal income tax, there are no tax credits related to individual taxpayer personal income.

* Arkansas offers 42 tax credit programs.

* Kentucky offers 34 tax credit programs. Kentucky provided only tax expenditure information for fiscal year 2008 through fiscal year 2010.

* Illinois offers 17 tax credit programs. No tax expenditure information was available. Illinois personnel said a report was being prepared, but was not yet available.

Since only limited descriptions of other states' tax credit programs were available, our comparison of those programs with Missouri programs was limited to the information provided on the internet or by state officials.

* Missouri has 9 current tax credit programs related to business expansion and/or recruitment of new businesses. Each of the adjoining states had between five and twelve similar programs. Although most of those programs relate to new and/or expanding businesses, enterprise zones, the development and retention of jobs, and rebuilding distressed communities, individual states' program specifications resulted in substantial differences in the operation of the programs.

* Every state except Nebraska, Tennessee, and Kentucky offered a tax credit related to film/movie production. However, Iowa's governor recently suspended its film production program because of suspected abuse of the program by film companies.

* Missouri offers thirteen domestic and social tax credit programs. Kansas has six domestic and social tax credit programs and, based on program descriptions, two of these are similar to Missouri programs. The Kansas adoption credit and disabled access tax credit appear similar to the Missouri programs. Arkansas also offers an adoption tax credit program.

* Several states, including Iowa, Nebraska, Kansas, Oklahoma, Arkansas, and Kentucky have state tax credit programs tied to federal tax credit programs in some way.

* Seven of the eight states adjoining Missouri have some kind of research credit. In most cases, the credits were based on a percentage of the amount expended.

* None of the states adjoining Missouri offered environmental tax credits similar to Missouri programs.

* Missouri is joined by Arkansas, Tennessee and Illinois in offering Affordable Housing tax credits. None of the other states offered a similar program.

* All of the adjoining states except Kentucky offered redevelopment tax credit programs. The ratio of tax credits to redevelopment costs varied.

* The Iowa Industrial New Jobs Training Program and Accelerated Career Education Program appear to be similar to the Missouri Community College New Jobs Training Program. In addition, Kansas offers educational tax credits for employers. No other adjoining state appeared to have similar training and education program tax credits.

* Nebraska offers a tax credit program for assessments paid to its Comprehensive Health Insurance Pool, similar to the Missouri Health Insurance Pool Assessment Credit. No other contiguous state had financial and insurance-related tax credits that appeared to be similar to the Missouri programs.

In summary, we noted that each of the states adjoining Missouri offer tax credits related to business expansion and recruitment, and some type of research credit. Other tax credit programs were offered by some states and not others, and program specifications for individual tax credit programs cause significant differences in actual program operations. Oversight has no recommendations regarding these observations.

IV. Significant Subsequent Event

On October 9, 2009, two St. Louis residents filed a suit in Cole County Circuit Court which seeks to have tax credit legislation passed by the General Assembly in 2009 declared unconstitutional. The suit was amended on November 3, 2009, to include related legislation passed by the General Assembly in 2007.

The plaintiffs claim that the tax credit legislation violates constitutional provisions against granting public money to any private person, association or corporation. In addition, the plaintiffs claim that the legislation improperly included more than one subject in the title and was "overly inclusive and amorphous".

The outcome and potential impact of this litigation is not known at this time; however, the outcome of the pending lawsuit could impair the effectiveness of some or all Missouri tax credit programs.

APPENDICES

Missouri Tax Credit Program Descriptions

Agricultural Tax Credits:

Agricultural Product Utilization Contributor Tax Credit: administered by the Department of Agriculture under Section 348.430, RSMo, and adopted in 1999. A contributor who providess funds to the Missouri Agricultural and Small Business Development Authority may receive a tax credit in an amount up to 100% of such contribution. The funds derived from contributions shall be used for financial assistance or technical assistance in the form of value-added grants to rural agricultural business concepts. Annual cap of $6 million shared with New Generation Cooperative tax credit.

New Generation Cooperative Incentive Tax Credit: administered by the Department of Agriculture under Section 348.432, RSMo, and adopted in 1999. Any member who invests cash funds in an eligible new generation cooperative may receive a credit in an amount equal to the lesser of 50% of the investment or $15,000. Annual cap of $6 million shared with Agricultural Product Utilization Contributor tax credit.

Qualified Beef Tax Credit: administered by the Department of Agriculture under Section 135.679, RSMo, and adopted in 2007. This program provides a tax credit to Missouri cattle farmers to background and/or finish Missouri born and raised qualified beef cattle in this state. Qualified beef animals must be born on or after August 28, 2008 to qualify. The tax credit is ten cents per pound with an annual limit of $3 million.

Family Farm Breeding Livestock Loan Program Tax Credit: administered by the Department of Agriculture under Section 348.500 - 348.506, RSMo, and adopted in 2006. This program provides tax credits to lenders in lieu of the first year interest being paid on breeding livestock loans made to small farmers. The maximum eligible loans cannot exceed 90% of the cost of purchasing breeding livestock. There is no annual limit for this program.

Wine Producers and Grape Growers Tax Credit: administered by the Department of Economic Development under Section 135.700, RSMo, and adopted in 1998. Any grape grower or wine producer within the state can claim a tax credit for 25 percent of the purchase price of all new equipment and materials used directly in growing grapes or producing wine within the state. The taxpayer may apply annually for up to five years. There is no annual limit for this program.

Missouri Tax Credit Program Descriptions

Business and Recruitment Tax Credits:

New and Expanded Business Facility Tax Credit: administered by the Department of Economic Development under Sections 135.100 - 135.150 and 135.258, RSMo, and adopted in 1980. This program provides a credit for establishing new facilities or expanding existing ones. At least two new jobs must be created or maintained and at least $100,000 of new investment must occur. There is no annual limit for this program. Senate Bill 1155 (2004) stated that no revenue-producing enterprise shall receive these incentives for facilities commencing operations on or after January 1, 2005; however, the benefits were re-opened for certain headquarters through 2020 by HB 191 (2009).

Enterprise Zone Benefits: administered by the Department of Economic Development under Sections 135.200 - 135.270 and 135.283 RSMo, and adopted in 1982. This program gives tax credits, exemptions and refunds to taxpayers who establish new facilities or expand existing ones in state designated enterprise zones. The program was sunset on facilities commencing operations on or after January 1, 2005 (SB 1155 in 2004).

Business Use Incentives for Large-scale Development (BUILD): administered jointly by the Department of Economic Development and the Missouri Development Finance Board under Sections 100.700 - 100.850, RSMo, and adopted in 1996. The incentives are designed to provide financial incentives in the form of state income tax credits to businesses in the amount of debt service payments for industrial revenue bonds issued for portions of projected costs. The annual limit for this program was increased from $15 million to $25 million in HB 191 (2009).

Development Tax Credits: administered by the Department of Economic Development under Sections 32.100 - 32.125, RSMo, and adopted in 1989. The purpose of the program is to facilitate a business project in order to create new jobs (created within 2 years and maintained for 5 years). The program offers credits to eligible donors who make contributions to a non-profit corporation for projects approved by DED. The program has an annual limit of $6 million.

Rebuilding Communities: administered by the Department of Economic Development under Section 135.535, RSMo, and adopted in 1998. This program provides a tax credit for eligible businesses locating, relocating or expanding within a distressed community. This program has an annual limit of $8 million.

Film Tax Credit Program: administered by the Department of Economic Development under Section 135.750, RSMo, and adopted in 1998. This program provides a tax credit for in-state expenditures for film production projects. Films under 30 minutes in length must have an in-state budget in excess of $50,000; films over 30 minutes in length must have an in-state budget in excess of $100,000. The annual limit for this program is now $4.5 million annually.

Missouri Tax Credit Program Descriptions

Enhanced Enterprise Zones: administered by the Department of Economic Development under Sections 135.950 - 135.973, RSMo, and adopted in 2004. This program provides tax credits to new or expanding businesses in enhanced enterprise zones. The annual cap has been increased to $24 million.

Quality Jobs: administered by the Department of Economic Development under Sections 620.1875 - 620.1890, RSMo, and adopted in 2005. This program provides for the retention of 100% of the state withholding tax of the new jobs for three or five years and potentially tax credits for a percentage of the payroll of the new jobs. The annual limit has been increased to $80 million.

Rolling Stock: administered by the Department of Revenue under Section 137.1018, and adopted in 2008. This program provides a credit against property taxes for eligible expenses incurred by a freight line company. This program is subject to appropriation.

Community Development Tax Credits:

Neighborhood Assistance Program (NAP) Tax Credit: administered by the Department of Economic Development under Sections 32.100 - 32.125, RSMo, and adopted in 1977. Programs are designed to give assistance to endangered neighborhoods and their residents in the improvement of the quality of life. Assistance can be granted if the neighborhood does not have the ability within its own resources to deal with the factors which are endangering its existence as a viable and stable neighborhood. A NAP is any type of community development project which improves the neighborhood by community services, crime prevention, education, job training, physical revitalization or economic development. This program has an annual limit of $16 million.

Family Development Account: administered by the Department of Economic Development under Section 208.750 - 208.775, RSMo, and adopted in 1999. This program promotes self-sufficiency through asset development for low-income persons through a matched savings program. Tax credits are provided to a contributor (based on 50% of the contribution) that donates to an approved organization administering the program. The annual limit for this program was reduced to $300,000 by HB 191, adopted in 2008.

Dry Fire Hydrant: administered by the Department of Economic Development under Section 320.093, RSMo, and adopted in 1999. A tax credit program designed for any person, firm or corporation who purchases a dry fire hydrant or provides an acceptable means of water storage for such dry fire hydrant. This program has an annual limit of $500,000.

Missouri Tax Credit Program Descriptions

Transportation Development: administered by the Department of Economic Development under Section 135.545, RSMo, and adopted in 1998. This program awards 50% credits to non-profits doing transportation development in aviation, mass transportation, railroads, ports, waterborne transportation, or rolling stock where the proposed activities are part of a local development plan and located in a distressed area. Credits are awarded based on an open cycle and are awarded at 50% of the approved contribution to or investment in an eligible project. This program has an annual limit of $10 million. No new projects can be approved after December 31, 2004 and no new credits can be issued after December 31, 2006 (SB 155 in 2004).

Domestic and Social Tax Credits:

Youth Opportunities Program Tax Credit: administered by the Department of Economic Development under Sections 135.460 and 620.1100 - 620.1103, RSMo, and adopted in 1995. This is a contribution tax credit program which broadens and strengthens opportunities for positive development and participation in community life for youth and discourages criminal and violent behavior. Credits are awarded at 50% of the approved project budget. This program has an annual limit of $6 million.

Shelter for Victims of Domestic Violence: administered by the Department of Social Services under Section 135.550, RSMo, and adopted in 1997. This program allows a tax credit in the amount not to exceed 50% of a contribution made to a qualifying domestic violence shelter. Contributions must have a value of at least $100. This program has an annual limit of $2 million.

Senior Citizens Property Tax Credit: administered by the Department of Revenue under Sections 135.010 - 135.035, RSMo. This program allows certain senior citizens to file a claim for a refund of a portion of their property taxes or rent. The program sets the cap at $750 per claim for rent paid and $1,100 for property taxes paid. This program has no annual limit.

Special Needs Adoption Tax Credit: administered by the Department of Revenue under Section 135.327, RSMo, and adopted in 1987. This program provides a tax credit of up to $10,000 for non-recurring adoption expenses for any person residing in Missouri who legally adopts a special needs child. Annual cap of $4 million is shared by adoption of resident children and non-resident children as well as the Children in Crisis tax credit.

Maternity Homes Tax Credit: administered by the Department of Social Services under Section 135.600, RSMo, and adopted in 1997. This program provides a tax credit against a taxpayer's state tax liability equal to 50% of contributions to maternity homes. Credits shall not be less than $50 and cannot exceed $50,000 to an individual taxpayer in a fiscal year. This program has an annual limit of $2 million.

Missouri Tax Credit Program Descriptions

Shared Care Tax Credit: administered by the Department of Health and Senior Services under Sections 660.053 - 660.055, RSMo, and adopted in 1999. Shared Care is a program in which families who provide care to an elderly family member in their home may request help to locate community and state supportive services. Caregivers who meet the requirements are eligible for a Shared Care tax credit in an amount not to exceed $500. The program does not have an annual limit.

Residential Treatment Agency: administered by the Department of Social Services under Section 135.1150, RSMo, and adopted in 2006. A qualified residential treatment agency may apply for tax credits on behalf of taxpayers who make eligible donations to the agency. Qualified residential treatment agencies that accept these donations are required to remit payment equivalent to the amount of credit to the State of Missouri. This program has no annual limit.

Residential Dwelling Accessibility Tax Credit: administered by the Department of Revenue under Section 135.562, RSMo, and adopted in 2007. Any taxpayer who incurs costs for the purpose of making all or any portion of their principal dwelling accessible to an individual with a disability and permanently resides with the taxpayer, may receive a tax credit in an amount of equal to the lesser of 50% of such costs or $2,500 per taxpayer, per year. This program has an annual limit of $100,000, which is taken from unutilized Rebuilding Communities tax credits (Section 135.535).

Disabled Access Tax Credit - Small Business: administered by the Department of Revenue under Section 135.490, RSMo, and adopted in 1999. An eligible small business shall be allowed a credit not to exceed $5,000 for 50% of all eligible access expenditures in order to comply with the Americans with Disabilities Act of 1990.

Food Pantry Tax Credit: administered by the Department of Revenue under Section 135.647, RSMo, and adopted in 2007. Any taxpayer who donates cash or food to a local food pantry shall be allowed a credit of up to 50% of the value of the donation. This program has a $2 million annual limit.

Missouri Healthcare Access Fund Tax Credit: administered by the Department of Revenue and the Department of Health and Senior Services under Section 135.575, RSMo, and adopted in 2007. A taxpayer shall be allowed a tax credit for donations in excess of $100 made to the Missouri Healthcare Access Fund. The credit shall be one-half of the total donation made, but shall not exceed $25,000 per taxpayer. This program has a $1 million annual limit.

Surviving Spouse Tax Credit: administered by the Department of Revenue under Section 135.090, RSMo, and adopted in 2007. A surviving spouse of a public safety officer shall be allowed a credit in an amount equal to the amount of property taxes on the surviving spouse's homestead paid during the year the credit is claimed.

Missouri Tax Credit Program Descriptions

Pregnancy Resource Center Tax Credit: administered by the Department of Social Services under Section 135.630, RSMo, and adopted in 2006. A qualified pregnancy resource center may apply for tax credits on behalf of taxpayers who make contributions to the agency. The tax credit may be up to 50% of the contribution, shall not be less than $50 and can not exceed $50,000. This program has a $2 million annual limit.

Entrepreneurial Tax Credits:

Capital Tax Credit (also known as Small Business Investment Program): administered by the Department of Economic Development under Sections 135.400 - 1335.429, RSMo, and adopted in 1992. This program provided a tax credit (either 60% or 40%) for investment in an approved small business and an equity position in the business. The cumulative cap of $13 million has been exhausted.

Certified Capital Companies (CAPCO): administered by the Department of Economic Development under Sections 135.500 - 135.529, RSMo, and adopted in 1996. Insurance companies that invest in a certified CAPCO can receive a credit of 100% of their investment. The credits can be claimed at up to 10% of authorized amount per year over a 10-year period. The cumulative cap of $140 million has been completely authorized and allocated.

Seed Capital Tax Credit: administered by the Department of Economic Development under Sections 348.300 - 348.318, RSMo, and adopted in 1986. This program was designed to provide seed capital for research, development and pre-commercialization activities by offering tax credits for contributions for qualified projects. The cumulative cap of $9 million has been exhausted.

New Enterprise Creation: administered by the Department of Economic Development under Sections 620.635 - 620.653, RSMo, and adopted in 1999. An accredited investor who makes an investment into a specified fund may receive a credit equal to 100% of the contribution. The cumulative cap of $20 million has been exhausted.

Qualified Research Expense Tax Credit Program: administered by the Department of Economic Development under Section 620.1039, RSMo, and adopted in 1993. The tax credit was equal to up to 6.5% of qualified research expenses above the average incurred in Missouri during the preceding three tax years. The program was sunset for expenses incurred on or after January 1, 2005 (SB 1155 in 2004).

Small Business Incubator Tax Credit Program: administered by the Department of Economic Development under Section 620.495, RSMo, and adopted in 1986. A taxpayer who makes a contribution to an approved incubator sponsor or fund can claim a state tax credit of 50% of such contribution. The program has a $500,000 annual limit.

Missouri Tax Credit Program Descriptions

Loan Guarantee Fee Tax Credit: administered by the Department of Economic Development under Section 135.766, RSMo, and adopted in 1999. Under this program, a tax credit was given to an eligible small business that paid a guarantee fee to the U.S. Small Business Administration or the U.S. Department of Agriculture for a small business loan. No additional credits may be issued under this program (HB 191, 2009).

MODESA (Missouri Downtown Economic Stimulus Act): administered by the Department of Economic Development and the Missouri Development Finance Board under Sections 99.915 - 99.980, RSMo, and adopted in 2003. This program attempts to facilitate the redevelopment of downtown areas and the creation of jobs by providing essential public infrastructure. A portion of the new state and local taxes created by a project can be diverted to fund eligible public infrastructure and related costs for a period of up to 25 years. The annual limit for this program is $108 million.

MORESA (Missouri Rural Economic Stimulus Act): administered by the Department of Economic Development under Section 99.1000 - 99.1060, RSMo, and adopted in 2003. This program provides financial incentives for public infrastructure for the development of a renewable fuel production facility or eligible new generation processing entity facility, creating new jobs and agricultural product markets in rural Missouri. A portion of the new state and local taxes created by the production facility project may be diverted to fund construction of eligible public infrastructure and related costs for a period of up to 25 years. The annual limit for this program is $12 million.

Environmental Tax Credits:

Charcoal Producer Tax Credit: administered by the Department of Natural Resources under Section 135.313, RSMo, and adopted in 1998. Any person who engages in the business of producing charcoal or charcoal products in the state is eligible for a tax credit as an incentive to implement safe and efficient environmental controls. The credit is equal to 50% of the purchase price of the best available control technology equipment connected with the production of charcoal. The eight year window for applying for this credit ran from 1998 through 2005. Any credits remaining may be carried forward through 2012.

Wood Energy Tax Credit: administered by the Department of Natural Resources under Sections 135.300 - 135.311, RSMo and adopted in 1985. A Missouri wood energy producer that engages in the business of producing wood products from Missouri forest industry residue to be used as an energy source is eligible for a tax credit. The credit is equal to $5 per ton for products from processed wood residue and/or $5 per ton for wood used in charcoal production (wood usage is inferred at 4 tons of wood residue used per ton of wood char produced). The program expires in 2013.

Missouri Tax Credit Program Descriptions

Alternative Fuel Stations: administered by the Department of Natural Resources under Section 135.710, RSMo, and adopted in 2008. The program is for the costs of construction of qualified alternative fuel vehicle refueling properties. The credit shall not exceed the lesser of $20,000 or 20% of the costs directly associated with the alternative fuel storage and dispensing equipment. The annual limit for this program is $3 million for 2009, $2 million for 2010 and $1 million for 2011.

Manufacturer Recycling Flexible Cellulose Casing Tax Credit: administered by the Department of Revenue under Section 260.285, RSMo, and repealed in 2008. This program provided a credit/refund for manufacturers engaged in the production of a meat or poultry product intended for human consumption that is recycling flexible cellulose casing.

Housing Tax Credits:

Neighborhood Preservation Tax Credit: administered by the Department of Economic Development under Sections 135.475 - 135.487, RSMo, and adopted in 1999. This program provides an incentive for homeowners in certain lower income areas to rehabilitate their homes, or incentive for "in-fill" new construction of owner-occupied housing. The credit is for 25% - 35% of eligible renovation costs, or 15% of new construction. The program has a $16 million annual limit which is split between 'eligible areas' and 'qualifying areas'.

Low Income Housing Tax Credits (LIHTC): administered by the Missouri Housing Development Commission under Sections 135.350 - 135.363, RSMo, and adopted in 1990. This program is modeled after the federal Low Income Housing Tax Credit program and provides a ten year state tax credit to qualified owners and investors in affordable rental housing. The LIHTC generates equity investments from the private sector for the development of new or rehabilitated rental housing in order to lower rents to affordable levels for qualified low-income families. There are two types of LIHTCs, a 9% discretionary credit and a 4% credit which formerly operated as an entitlement program. HB 191 (2009) limited the 4% credit program to $6 million per fiscal year.

Affordable Housing Assistance Tax Credit: administered by the Missouri Housing Development Commission under Sections 32.105 - 32.125, RSMo, and adopted 1990. A business or qualified individual may donate cash, professional services or real/personal property to a non-profit housing organization to assist with the acquisition, rehabilitation and/or new construction of a specific affordable housing development. The credit is equal to 55% of the amount contributed. This program has an annual $11 million cap.

Missouri Tax Credit Program Descriptions

Redevelopment Tax Credits:

Historic Preservation Tax Credit: administered by the Department of Economic Development under Sections 253.545 - 253.561, RSMo, and adopted in 1997. Under the program, credits are issued for a percentage of qualified rehabilitation costs on historic structures. Various changes were made to the program with HB 191 in 2009.

Brownfield Redevelopment - (Remediation, Demolition, and Jobs and Investment): administered by the Department of Economic Development under Sections 447.700 - 447.718, RSMo, and adopted in 1995 and 2001. This program provides an incentive to businesses/developers to redevelop property contaminated with hazardous wastes. This tax credit is for up to 100% of eligible remediation costs (75% upon payment of remediation costs and 25% upon issuance of 'clean letter' from the Department of Natural Resources. Also, additional credits are for businesses at an eligible project that create at least 2 new jobs or retain at least 25 jobs which locates at a contaminated site.

Community Development Bank Tax Credit: administered by the Department of Economic Development under Sections 135.400 - 135.430, RSMo, and adopted in 1992. The credit is for 50% of the contribution/investment into a pre-approved community bank or CDC. When the program was initiated, it received a one time allocation of $6 million. In 2000, SB 894 was passed that would have allowed for an *annual* allocation of the credits. However, SB 894 was found to be unconstitutional by the Missouri Supreme Court. Currently all of the initial allocation has been authorized to approved community banks/CDC's. No new applications are being accepted.

Missouri Development Finance Board (MDFB) - Infrastructure Development Fund Contribution Tax Credit: administered by the MDFB under Section 100.286.6, RSMo, and adopted in 1985. The MDFB is authorized to grant tax credits equal to 50% of the contributions that are used to pay the cost of infrastructure construction. The total tax credits awarded in any calendar year beginning after January 1, 1994, shall not be the greater of ten million dollars or five percent of the average growth in general revenue receipts in the preceding three fiscal years. The annual limit for this program can be increased with proper approval. In 2009, HB 191 changed the annual limit for this program to $10 million with the opportunity for an additional $15 million in credits with proper approval.

Missouri Development Finance Board - Infrastructure Bond Guarantee Tax Credit: administered by the MDFB under Section 100.297, RSMo, and adopted in 1985. This program allows owners of revenue bonds and notes issued for infrastructure facilities to take a credit for unpaid principal of and accrued interest on those bonds if the borrower defaults.

Missouri Tax Credit Program Descriptions

New Markets Tax Credit: administered by the Department of Economic Development under Section 135.680, RSMo, and adopted in 2007. Taxpayers making a qualified equity investment into a qualified community development entity (CDE) earn a right to a tax credit. The tax credit is equal to the applicable percentage of the adjusted purchase price paid to the CDE. The credit percentages are zero percent for the first two years, seven percent for the third year and eight percent for the next four years. The annual limit for this program was increased by HB 191 in 2009 to $25 million.

Distressed Areas Land Assemblage Tax Credit: administered by the Department of Economic Development under Section 99.1205, RSMo and adopted in 2007. A tax credit amount equal to 50% of the acquisition costs and/or 100% of the interest costs for a period of five years of a specified number of acres in an eligible project area. This program has a $20 million annual cap and a $95 million cumulative cap.

Training and Educational Tax Credits:

Community College New Jobs Training Program: administered by the Department of Economic Development under Sections 178.892 - 178.896, RSMo, and adopted in 1988. Companies creating a substantial number of new jobs may qualify for training assistance through this program. Generally, funds for the training are generated through the sale of certificates by the community college district. The debt is then retired by deferring a portion of the state employer withholding tax on new jobs. There is a statewide cap of $55 million on the amount of outstanding debt that can be given at any time.

Job Retention Training Program: administered by the Department of Economic Development under Section 178.760 - 178.764, RSMo, and adopted in 2004. This program provides training assistance for job retention efforts. Companies making a large capital investment (at least $1 million) and/or at risk of leaving the state may be eligible. There is a statewide cap of $45 million on the amount of outstanding debt that can be given at any time.

Banking and Insurance Tax Credits:

Bank Franchise Tax Credit: administered by the Department of Revenue under Section 148.064, RSMo, and adopted in 2000. Under this program, a banking institution shall be entitled to an annual tax credit equal to 1/60th of 1% of its outstanding shares and surplus employed if the outstanding shares and surplus exceed $1 million. There is no annual limit to this program.

Bank Tax Credit for S Corporation Shareholders: administered by the Department of Revenue under Section 143.471, RSMo. This credit is for shareholders of banks or bank holding companies. This credit shall be equal to the bank tax calculated pursuant to Chapter 148, RSMo.

Missouri Tax Credit Program Descriptions

Missouri Examination Fee and Other Fee Credit: administered by the Department of Insurance, Financial Institutions and Professional Registration under Section 148.400, RSMo. This section allows the total cost of an examination paid by an insurance company to be taken as a credit. Also, income taxes, franchise taxes, personal property taxes, valuation fees and/or registration fees paid may also be taken as a tax credit.

Property and Casualty Insurance Guarantee Association Credit: administered by the Department of Insurance, Financial Institutions and Professional Registration under Section 375.774, RSMo, and adopted in 1989. All insurers issuing property and casualty insurance in the state are members of the Missouri Property and Casualty Insurance Guarantee Association. The association pays Missouri policyholders for claims against insolvent property and casualty companies. The association then assesses all members in the state to pay claims of the insolvent insurer. Members are allowed to take these assessments as an offset against premium tax collected by the state.

Missouri Life and Health Insurance Guarantee Association Credit: administered by the Department of Insurance, Financial Institutions and Professional Registration under Section 376.745, RSMo, and adopted in 1988. All insurers issuing life and health insurance in the state are members of the Missouri Life and Health Insurance Guarantee Association. The association pays Missouri policyholders for claims against insolvent life and health companies. The association then assesses all members in the state to pay claims of the insolvent insurer. Members are allowed to take these assessments as an offset against premium tax collected by the state.

Missouri Health Insurance Pool Assessment Credit: administered by the Department of Insurance, Financial Institutions and Professional Registration under Section 376.975, RSMo, and adopted in 1990. The Missouri Health Insurance Pool serves Missouri residents who cannot purchase insurance in the regular market. All insurers issuing health insurance in the state are members of the pool. Individuals in the pool pay a premium and the difference between premiums paid and actual costs is assessed to members of the pool The insurers are then allowed a tax credit against their tax liability for the assessment.

Self-employed Health Insurance Tax Credit: administered by the Department of Revenue under Section 143.119, RSMo, and adopted in 2007. A self-employed taxpayer who is otherwise ineligible for the federal income tax health insurance deduction shall be entitled to a tax credit in an amount equal to the portion of their federal tax liability incurred due to their inclusion of such payments in federal Adjusted Gross Income.

Missouri Tax Credit Programs
Annual Limits and Amounts Issued and Redeemed for FY 2009, 2008, and 2007

Category	Annual Limit	FY 2009		FY 2008		FY 2007	
		Issued	*Redeemed*	*Issued*	*Redeemed*	*Issued*	*Redeemed*
Agricultural							
Agricultural Product Utilization Contributor	$6,000,000	$0	$145,162	$0	$1,207,849	$0	$2,248,989
New Generation Cooperative	Combined with Agricultural Product	$6,000,000	$4,190,256	$6,000,000	$5,873,381	$6,000,000	$4,136,380
Family Farm Breeding Livestock Loan Program	None	$135,281	$88,137	$150,000	$33,818	$0	$0
Qualified Beef Tax Credit Act	$3,000,000	$0	$0	$0	$0	$0	$0
Wine and Grape	None	$252,857	$153,821	$57,209	$118,844	$240,418	$174,736
Business and Recruitment							
Business Facility	None	$6,090,269	$5,896,799	$4,293,773	$2,815,251	$3,361,941	$6,066,136
Enterprise Zone	None	$10,366,073	$9,975,812	$15,194,162	$22,056,947	$14,964,927	$19,848,942
BUILD	$25,000,000	$5,620,504	$7,074,994	$7,489,456	$4,975,510	$7,032,080	$6,859,745
Development	$6,000,000	$1,228,570	$966,216	$1,266,706	$696,889	$111,482	$2,100,685
Rebuilding Communities	$8,000,000	$2,002,376	$1,548,622	$1,670,629	$1,967,262	$1,692,176	$1,390,803
Film Production	$4,500,000	$164,086	$970,673	$1,642,701	$1,920,709	$1,969,598	$1,240,972
Enhanced Enterprise Zones	$24,000,000	$2,262,259	$1,454,319	$1,199,842	$756,006	$115,319	$5,188
Quality Jobs	$80,000,000	$11,348,054	$6,203,572	$3,744,069	$2,805,251	$1,715,530	$1,715,530
Railroad Rolling Stock	Appropriated	$0	$0	$0	$0	$0	$0
Community Development							
Neighborhood Assistance	$16,000,000	$11,447,049	$13,202,082	$13,322,190	$11,039,982	$13,181,363	$13,924,340
Family Development Account	$300,000	$6,250	$0	$8,999	$8,749	$7,731	$11,761
Dry Fire Hydrant	$500,000	$5,850	$11,133	$10,000	$742	$0	$3,737
Transportation Development	Closed in 2006	$0	$1,066,386	$0	$2,223,821	$4,458,174	$910,421
Domestic and Social							
Youth Opportunities	$6,000,000	$4,821,723	$4,723,545	$5,669,063	$4,137,223	$5,249,869	$4,893,591
Shelter for Victims of Domestic Violence	$2,000,000	$858,589	$612,456	$1,029,681	$757,734	$899,043	$696,720
Senior Citizen or Disabled Person Property	None	$118,573,853	$118,573,853	$100,164,994	$100,164,994	$93,118,747	$93,118,787
Special Needs Adoption / Children in Crisis / CASA	$2,000,000	$2,625,706	$2,625,706	$3,401,671	$3,401,671	$3,100,095	$3,100,095
Maternity Home	None	$807,079	$842,674	$1,309,445	$983,441	$1,367,993	$983,797
Surviving Spouse	None	$9,583	$9,583	$0	$0	$0	$0
Residential Treatment Agency	$100,000	$675,877	$202,900	$530,910	$214,901	$31,500	$0
Pregnancy Resource Center	$2,000,000	$1,185,718	$951,744	$1,167,510	$563,689	$733,951	$0
Food Pantry Tax Credit	$2,000,000	$459,810	$459,810	$243,711	$243,711	$0	$0
Missouri Healthcare Access Fund	$1,000,000	$0	$0	$0	$0	$0	$0
Disabled Access - Individuals	None	$16,363	$16,363	$0	$0	$0	$0
Shared Care	None	$173,000	$92,803	$157,000	$78,360	$164,000	$105,757
Homestead Preservation	*Appropriated*	$87,920	$87,920	$1,031,018	$1,031,018	$2,927,751	$2,927,751
Entrepreneurial							
Capital Tax Credit	Exhausted	$0	$30,634	$0	$20,711	$0	$66,720
CAPCO	$14,000,000	$0	$4,754,869	$9,000,000	$9,874,295	$14,000,000	$13,121,442
Seed Capital	Exhausted	$0	$11,133	$0	$34,317	$0	$82,977
New Enterprise Creation	Exhausted	$0	$320,766	$0	$813,513	$0	$1,048,997
Research Tax Credit	$10,000,000	$0	$0	$0	$100,926	$0	$487,320
Small Business Incubator	$500,000	$189,967	$548,639	$309,664	$252,392	$420,775	$179,368
Guarantee Fee	None	$0	$30,812	$195,791	$39,694	$143,064	$68,607
New Generation Cooperative	Rpealed	$0	$0	$0	$0	$0	$0
MODESA & MORESA	$120,000,000	$0	$0	$0	$0	$0	$0

Missouri Tax Credit Programs
Annual Limits and Amounts Issued and Redeemed for FY 2009, 2008, and 2007

Category	Annual Limit	FY 2009		FY 2008		FY 2007	
		Issued	Redeemed	Issued	Redeemed	Issued	Redeemed
Environmental							
Charcoal Producer	None	$0	$134,663	$166,068	$106,952	$621,470	$180,987
Wood Energy	None	$3,741,073	$4,576,446	$3,199,223	$1,215,292	$3,386,998	$2,709,211
Alternative Fuel Stations	Set each year	$0	$0	$0	$0	$0	$0
Flexible Cellulose Casing	Repealed	$0	$0	$0	$0	$574,180	$574,180
Financial and Insurance							
Bank Franchise Tax Credit	None	$2,710,300	$2,710,300	$2,137,560	$2,137,560	$1,771,165	$1,771,165
Bank Tax Credit for S Corporation Shh	None	$1,862,266	$1,862,266	$1,149,975	$1,149,975	$1,248,932	$1,248,932
Missouri Examination Fee	None	$17,611,922	$4,393,290	$19,969,104	$5,298,049	$17,781,425	$4,922,041
Property and Casualty Guaranty	None	$16,404,323	$2,636,100	$15,386,084	$2,254,524	$16,166,902	$3,705,253
Life and Health Ins. Guaranty	None	$0	$0	$0	$0	$0	$0
Health Insurance High Risk Pool	None	$3,236,473	$2,212,505	$6,245,067	$4,107,228	$8,110,007	$5,757,082
Self-Employed Health Insurance	None	$1,729,167	$1,729,167	$1,039,564	$1,039,564	$0	$0
Housing							
Neighborhood preservation	$16 million	$5,434,477	$5,176,659	$6,417,853	$5,343,647	$3,053,661	$5,549,062
Low-Income housing	Up to Federal Credit	$145,997,420	$105,967,104	$133,724,820	$98,305,085	$114,584,066	$81,646,784
Affordable Housing	$11,000,000	$10,455,349	$9,917,951	$8,455,594	$11,392,907	$7,985,100	$10,497,793
Redevelopment							
Historic Preservation	Varies	$119,914,948	$186,426,164	$161,621,537	$140,111,002	$171,508,564	$132,841,728
Brownfield Redevelopment (Remediation)	None	$22,121,637	$29,194,784	$20,424,920	$26,466,007	$33,012,124	$16,710,519
Brownfield Redevelopment (Demolition)	None	$0	$5	$12,500	$27,245	$0	$22,755
Brownfield Redevelopment (Jobs/Investment)	None	$1,860,534	$1,965,406	$1,901,250	$1,726,005	$1,864,199	$1,701,408
Community Development Corporations	Exhausted	$0	$990	$2,957	$11,990	$19,873	$2,958
Infrastructure Development	Varies, with Contingency	$19,727,925	$26,916,508	$31,004,874	$19,877,329	$27,069,317	$24,706,809
Infrastructure Bond Guarantee	$50,000,000 Cumulative	$0	$0	$0	$0	$0	$276,241
Disabled Access - Small Business	None	$17,206	$17,206	$28,922	$28,922	$11,813	$11,813
New Markets	$25,000,000	$0	$0	$0	$0	$0	$0
Distressed Areas Land Assemblage	$20,000,000	$0	$0	$0	$0	$0	$0
Training and Education							
Community College New Jobs	Based on related debt.	$4,095,266	$4,175,590	$3,072,000	$4,762,743	$3,629,000	$4,920,374
Skills Development Account	Repealed	$0	$0	$0	$0	$0	$0
Mature Worker	Repealed	$0	$0	$0	$0	$0	$0
Sponsorship and Mentoring	Not active	$0	$0	$0	$0	$0	$0
Job Retention Training	Based on related debt.	$16,471,826	$9,992,850	$1,000,000	$5,546,166	$9,563,226	$4,285,366
Higher Education							
Higher Ed Scholarship	Expired	$0	$0	$0	$0	$0	$0
Advantage Missouri	Expired	$0	$0	$0	$0	$0	$0
TOTALS		$ 580,806,779	$ 587,850,147	$ 597,220,066	$ 512,121,793	$ 598,969,549	$ 485,562,755

Missouri Tax Credit Programs
Programs by Year Enacted

Program	Year Created
Senior Citizen Property Tax Credit	1973
Neighborhood Assistance Program	1977
Business Facility (sunset 01/05) (Reauthorized for Headquarters in HB191 of 2009)	1980
Enterprise Zone (sunset 01/05)	1982
Wood Energy Tax Credit	1985
MDFB Infrastructure Development	1985
MDFB Infrastructure Bond Guarantee	1985
Seed Capital	1986
Special Needs Adoption	1987
Community College New Job Training Program	1988
Life and Health Insurance Guarantee	1988
Development	1989
Small Business Incubator	1989
Property and Casualty Insurance Guarantee	1989
Low Income Housing	1990
Affordable Housing Assistance	1990
Life, Health, and Accident Insurance Pool	1990
Manufacturer Recycling Flexible Cellulose Casings	1991
Capital Small Business Investment	1992
Research (sunset 01/05)	1993
Community Bank	1994
Higher Education Scholarship (repealed)	1994
Youth Opportunities	1995
Brownfield Remediation	1995
Brownfield Jobs and Investment	1995
BUILD Program	1996
CAPCO	1996
Domestic Violence Center	1997
Maternity Homes	1997
Historic	1997
Skills Development (repealed in 2004)	1997
Wine and Grape	1998
Rebulding Communities	1998
Film Production	1998
Transportation Development (sunset 01/05)	1998
Charcoal Producer	1998
Mature Worker (sunset 08/04)	1998
Advantage Missouri (repealed)	1998
Agricultural Products Utilization Contributor	1999
New Generation Cooperative	1999
Family Development Account	1999
Dry Fire Hydrant (sunset 08/03)	1999

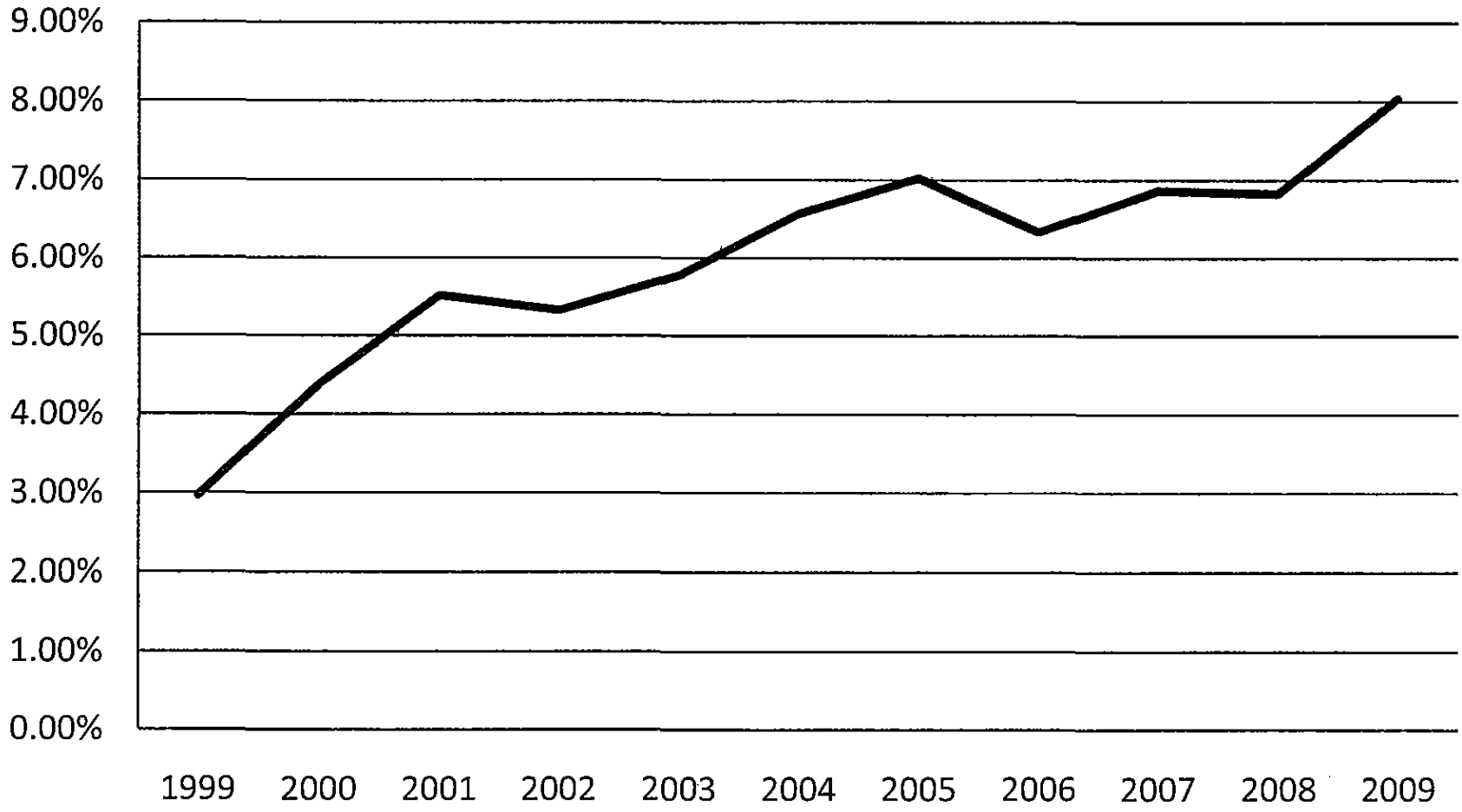
Missouri Tax Credit Programs
Programs by Year Enacted

Program	Year Created
Shared Care	1999
Disabled Access	1999
New Enterprise Creation	1999
SBA/USDA Loan Guarantee Fee	1999
Neighborhood Preservation	1999
Bank Tax Credit for S Corp Shareholders	1999
Bank Franchise	2000
Brownfield Demolition	2001
Examination Fee	2001
MODESA / MORESA	2003
Rural Empowerment Zones	2004
Enhanced Enterprise Zone	2004
Retain Jobs Training Bond	2004
Quality Jobs	2005
Family Farm Breeding Livestock	2006
Residential Treatment Agency	2006
Pregnancy Resource Center	2006
Children in Crisis	2006
Qualified Beef	2007
Dwelling Access	2007
Food Pantry	2007
Health Care Access Fund	2007
Self-Employed Health Insurance	2007
Surviving Spouse	2007
New Markets	2007
Distressed Area Land Assemblage	2007
Alternative Fuel Stations	2008
Railroad Rolling Stock	2008

Year shown is the year the tax credit legislation was passed by the General Assembly.

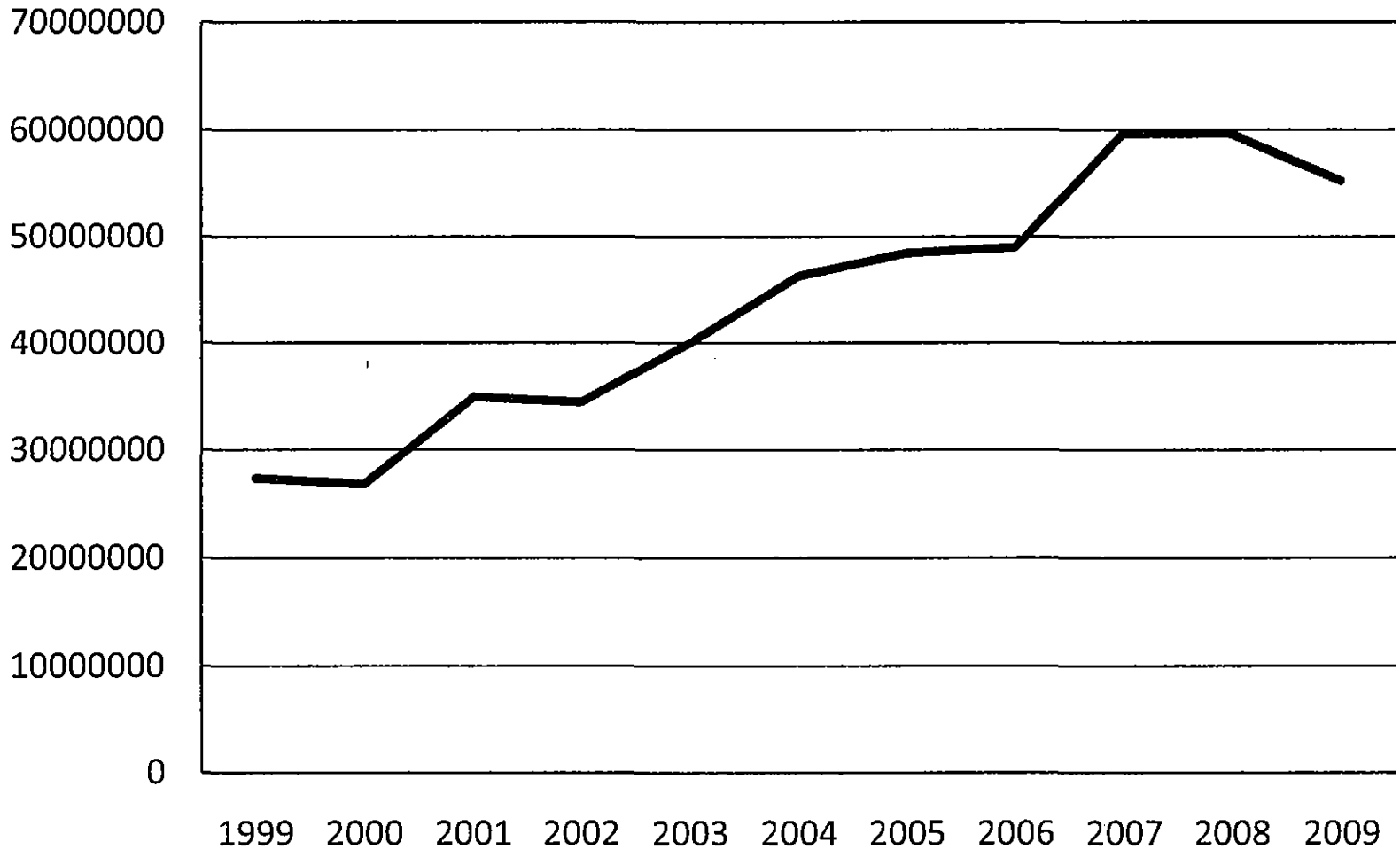
Appendix D

Tax Credit Redemptions as a Percent of Taxes

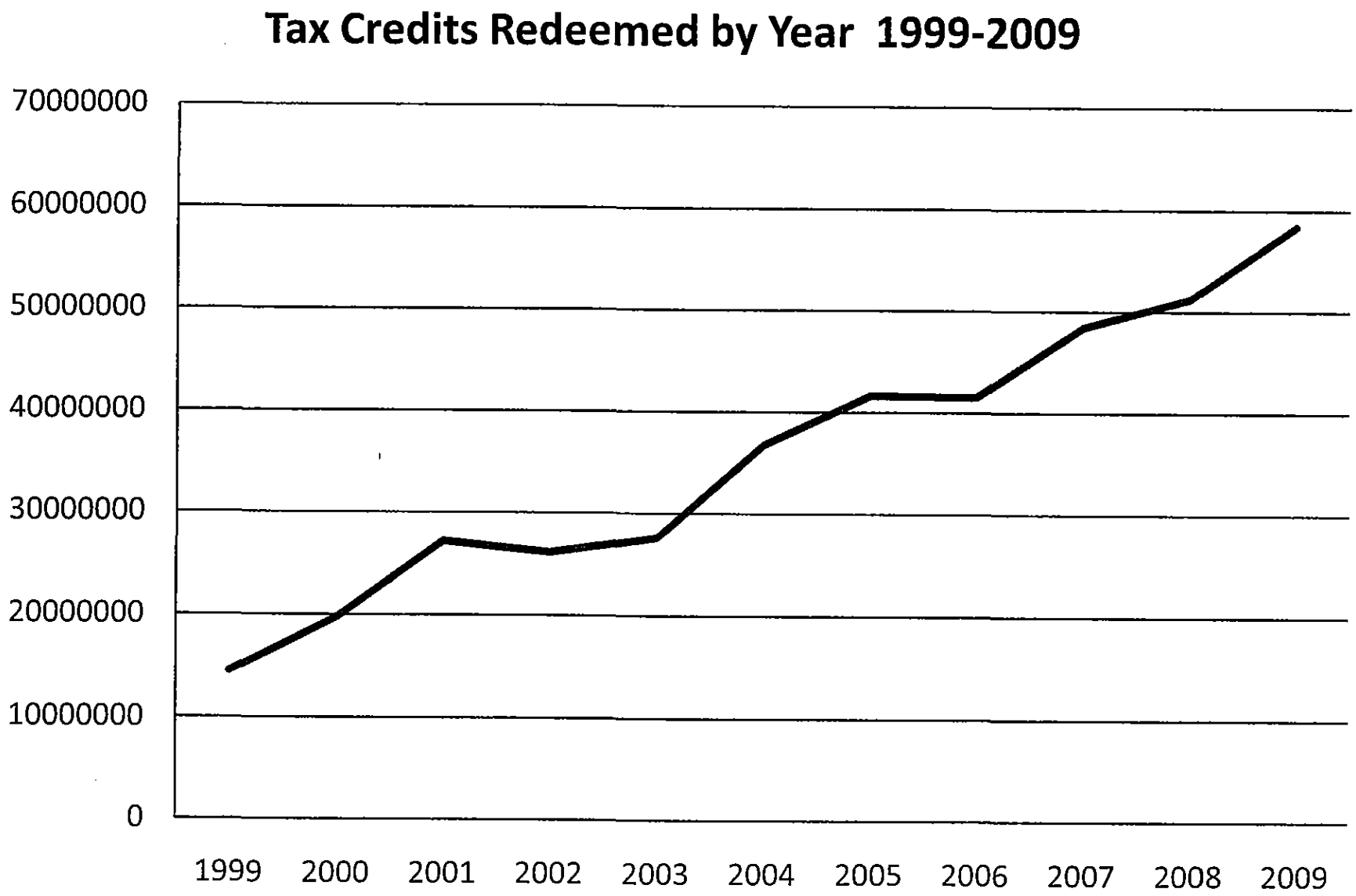


Appendix E

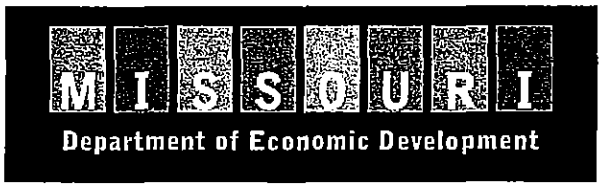
Tax Credits Issued by Year 1999-2009



Appendix F


Tax Credits Redeemed by Year 1999-2009
70000000
60000000
50000000
40000000
30000000
20000000
10000000
0
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009

Jeremiah W. (Jay) Nixon
Governor



David Kerr
Director

Oversight Division
Committee on Legislative Research
Program Evaluation
Review of the State of Missouri Tax Credit Programs

Missouri Department of Economic Development (DED) Responses to Report

January 29, 2010

- Chapter 2, Recommendation I. A.

Response:

Although the recommendation that all tax credits be incorporated into a single system is a good one, DED is not equipped to take on the responsibility of incorporating other agencies' programs in the CMS system. The recommendation would require a change in policy across department lines which DED has no authority or resources to implement.

- Chapter 2, Recommendation I. B.

Response:

- *All current DED tax credits are available in CMS for automated redemption by DOR. Note: The Community College New Jobs and Job Retention Training Programs are direct appropriations of state funds and are not tax credits "redeemed" in the traditional sense. Payments are made from regular withholding taxes collected for the new or retained jobs and are recorded in the statewide financial system (SAM II) rather than in CMS.*

- Chapter 2, Recommendation I.C.

Response:

It is not DED's responsibility to ensure CMS is upgraded to allow insurance tax credit programs to be recorded in CMS.

301 W. High St. • P.O. Box 1157 • Jefferson City, MO 65102-1157
www.ded.mo.gov • (573) 751-4962 • Fax (573) 526-7700
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- Chapter 2, Recommendation I.D.

Response:

All current DED tax credits are available in CMS for automated redemption by DOR. Verification of applicant tax payment delinquency status pursuant to Section 135.815, RSMo, is also an automated process in CMS. DED has no responsibility or authority regarding any other tax return processes performed by DOR. Note: The Community College New Jobs and Job Retention Training Programs are direct appropriations of state funds and are not tax credits "redeemed" in the traditional sense. Payments are made from regular withholding taxes collected for the new or retained jobs and are recorded in the statewide financial system (SAM II) rather than in CMS.

Other comments:

- Page 13, first bullet, last sentence

Response:

DED disagrees with the statement that tax credit records are incomplete and the outstanding amount as of June 30, 2009 could be larger than estimates. DED total projected "current year" redemptions on the form 14s were within one percent of total actual redemptions in FY 2005, and were higher than actual in years 2006 through 2009. DED total projected "budget year" redemptions on the form 14s were within .66 of 1% of actual in aggregate for the years 2006 through 2009. We believe estimated outstanding amounts for DED programs are reasonable and conservatively overstated. The precision of our redemption projections supports this belief.

- Appendices A, B, and C – references to MODESA (Missouri Downtown Stimulus Act) and MORESA (Missouri Rural Economic Stimulus Act)

Response:

DED disagrees with the inclusion of MODESA and MORESA in the Oversight Division's Review of the State of Missouri Tax Credit Programs report. MODESA and MORESA are not tax credit programs and are excluded from OA Budget and Planning's "Deductions, Exemptions, Credits and Other Tax Preferences" listing used in the instructions for the Form 14s. Accordingly, these programs are not included in quarterly or annual tax credit reporting to the General Assembly. In addition, MODESA and MORESA are not listed in Section 135.800, RSMo (the Tax Credit Accountability Act).

- Appendix B – Enterprise Zone redemptions

Response:

DED reported Enterprise Zone redemptions for fiscal years 2007, 2008 and 2009 as $13,600,881, $14,326,413 and $6,914,412, respectively, on the current Form 14.

JEREMIAH W. (JAY) NIXON
GOVERNOR

ALANA M. BARRAGÁN-SCOTT
DIRECTOR OF REVENUE

MISSOURI DEPARTMENT OF REVENUE
POST OFFICE BOX 311
JEFFERSON CITY, MISSOURI 65105-0311
PHONE: (573) 751-4450
FAX: (573) 751-7150
WEB SITE: www.dor.mo.gov
E-MAIL: dormail@dor.mo.gov

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OVERSIGHT DIVISION

January 15, 2010

Mr. Mickey Wilson, Director
Committee on Legislative Research, Oversight Division
State Capitol Building, Room 132
Jefferson City, MO 65101

Dear Mr. Wilson:

Please consider this the Department of Revenue's formal response to the recommendations made by your Division in its draft Program Evaluation, State of Missouri Tax Credit Programs:

Oversight recommends Department of Revenue managers work with managers in the Department of Economic Development and the Office of Administration – Information Technology Services Division to expand CMS so that information required for Department of Revenue processes is available from CMS. We recommend the Department of Revenue eliminate the legacy system when the CMS upgrade or upgrades have been completed.

The Department is prepared to move forward on this recommendation as soon as the Department of Economic Development can spare the resources.

Oversight recommends Department of Revenue managers implement automated redemption processing for all tax credit programs in their tax return processing systems, and work with managers from DED and OA-ITSD to link the tax return processing systems with CMS.

Our current tax processing systems are not capable of automating tax credit redemption processing. The Department will continue to seek authority to procure a modern tax processing system, which would allow for this and many other efficiencies in tax processing.

Oversight also recommends that managers from the Department of Revenue work with managers from the Department of Economic Development and the Office of Administration – Information Technology Services Division DED, DOR, and OA-ITSD on CMS updates to implement automated verification of taxpayer eligibility and tax credit ownership, and expanded reporting on all phases of tax credit program administration.

The Department will continue to work with the Department of Economic Development and other agencies to improve CMS. Acquisition of a modern tax processing system would make automated verification possible. The Department will continue to seek authority to procure a modern tax processing system, which would allow for this and many other efficiencies in tax processing.

If you have any additional questions, you may contact Todd Iveson, Director of the Taxation Division, P.O. Box 854, Jefferson City, Missouri 65105-0854 (telephone 573-751-3470 or todd.iveson@dor.mo.gov), or me.

Sincerely,

Alana M. Barragán-Scott

AMB:TI

c: Todd Iveson