Office of Missouri State Auditor

Nicole Galloway, CPA

Tax Credit Programs

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CITIZENS SUMMARY

Findings in the audit of Tax Credit Programs

Background	Tax credits are created by the General Assembly, codified in state statutes and generally are a dollar-for-dollar reduction in the amount of taxes otherwise due from taxpayers. Most tax credits are used as an incentive to help induce businesses or individuals into specified activities, while some others provide social benefits. The state currently has 63 active tax credit programs. Administering agencies are generally responsible for the authorization and issuance of the credits. Administering agencies are also required to submit annual estimates of tax expenditures and benefit/cost analyses to the state budget director for submission to the chairman of the Senate Appropriations Committee and the chairman of the House Budget Committee.
Tax Credit Redemption Trends	Total redemptions of tax credits have increased an average of 2.8 percent per year over the past decade, and have exceeded $500 million every year since 2009. Tax credit redemptions offset revenues of the General Revenue Fund, thereby reducing amounts available for appropriation for general government purposes. Over the past 4 fiscal years, 7 tax credit programs accounted for 76 percent of redemptions.
Significant Tax Credit Liabilities Exist	Unredeemed tax credits authorized or issued in prior years have resulted in significant tax credit liabilities to the state. As of June 30, 2016, the amount of tax credits authorized but unredeemed was approximately $3 billion according to data from the Department of Economic Development (DED). In addition, the totals reported as outstanding and obligated (authorized but unissued) for the Historic Preservation program were understated on the tax credit analysis form prepared by DED and presented to the General Assembly for fiscal year 2016.
Previous Audits Have Noted Concerns	Problems noted in previous audits continue to persist regarding the design of several high cost tax credit programs that create concerns about the cost effectiveness and efficiency of the credits. As noted in previous reports for the Low Income Housing Tax Credit and Historic Preservation Tax Credit, inefficiencies result in a low return on the state's investment. Prior concerns also continue to exist regarding tax credits that are awarded non-competitively, programs that have no funding limits or unclear funding limits, and programs that do not have sunset provisions. State law does not include a sunset provision for 27 tax credits, including 4 of the 7 high-cost tax credits (Historic Preservation Tax Credit, Low Income Housing Tax Credit, Senior Citizen Property Tax Credit, Infrastructure Development Tax Credit).
Economic Benefit Projections	Economic benefit projections reported to the General Assembly annually on the tax credit analysis reports overstate the economic impact of several tax credits. In addition, $418 million in fiscal year 2016 redemptions (73 percent of total redemptions) were for programs with benefit/cost ratios of less than 1.00, meaning the program returns less to the state than it costs.

Because of the nature of this review, no overall rating is provided.

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NICOLE GALLOWAY, CPA
Missouri State Auditor

Honorable Eric Greitens, Governor
and
Members of the General Assembly
Jefferson City, Missouri

We have audited certain operations of the state's tax credit programs in fulfillment of our duties under Chapter 29, RSMo, and Section 620.1300, RSMo. The scope of our audit included, but was not necessarily limited to, tax credit activity occurring during the 4 years ended June 30, 2016. Tax credit redemptions have increased over the past decade and continue to impact the state budget, while tax credit liabilities will continue to impact the state's budget well into the future. The objectives of our audit were to:

1. Analyze data on tax credits authorized, issued, and redeemed, and evaluate the key factors influencing the data.

2. Evaluate procedures to determine the economic impact of the tax credits.

3. Evaluate the economy and efficiency of certain management practices and operations.

4. Evaluate compliance with certain legal provisions.

Except as discussed in the following paragraph, we conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

Government Auditing Standards require us to obtain and report the views of responsible officials of the audited entity concerning the findings, conclusions, and recommendations included in the audit report. Due to the nature of this report, and due to the majority of the findings being legislative in nature, we were unable to obtain views of responsible officials for the findings, conclusions, and recommendations outlined in findings 1, 3 and 4 of the Management Advisory Report. The views of a responsible administering agency were obtained and included where appropriate. In addition, portions of this report include information presented in previously issued audit reports. Management responses to those issues are included in the original audit report.

For the areas audited, we identified (1) overall increases in tax credit redemptions have occurred and are primarily due to a small number of large tax credit programs, and significant tax credit liabilities have accrued; (2) estimated economic benefits reported to the legislature are generally overstated, and many tax credit programs have projected costs exceeding benefits, (3) improvement is needed in certain management practices and procedures, and (4) no significant instances of noncompliance with legal provisions.

The accompanying Management Advisory Report presents our findings arising from our audit of the state's tax credit programs.

Nicole R. Galloway, CPA
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits:	Robert E. Showers, CPA, CGAP
Audit Manager:	John Lieser, CPA
In-Charge Auditor:	Tessa Rusatsi, CPA
Audit Staff:	Stephanie M. Kroner

Tax Credit Programs
Introduction

Background

Tax credits are created by the General Assembly, codified in state statutes and generally are a dollar-for-dollar reduction in the amount of state taxes otherwise due from taxpayers. Since tax credits reduce tax revenues and are not considered state expenditures, they are not subject to the annual appropriation process. However, tax credits are similar to state expenditures in that the credits reduce monies available for current and future spending. Depending on the authorizing statutes, tax credits may offset taxes on individual income, corporate income, corporate franchise, financial institutions income, and insurance company premiums. Also, the provisions of some tax credit programs allow employers to reduce the amounts remitted for withholdings of employee income taxes. No tax credits can be used to offset other major state taxes such as sales, motor fuel, and cigarette taxes.

Program purposes

Most tax credits are used as an incentive to help induce businesses or individuals into specified activities, while some others provide social benefits. Section 135.800, RSMo groups the state's 63 active tax credit programs into one of 10 categories, roughly corresponding to the overall purpose of the credits. Table 1 depicts the category breakdown of the state's active tax credit programs.

Table 1: Tax Credit Programs, by Category

Tax Credit Category	Number of Tax Credits
Business Recruitment	16
Domestic and Social	13
Redevelopment	8
Financial and Insurance	6
Entrepreneurial	6
Agricultural	5
Community Development	4
Environmental	3
Housing	3
Training and Educational	0
Undetermined [1]	1
Total [2]	65

[1] The program of Advanced Industrial Manufacturing Zones was created in fiscal year 2016 and has not been classified.
[2] Two programs are each listed in two categories.
Source: Office of Administration, Division of Budget and Planning

Administration

Seven state agencies administer the 63 active tax credit programs, as depicted in Table 2.

Table 2: Administering Agencies

Agency	Number of Programs
Economic Development	38
Revenue	11
Social Services	5
Agriculture	4
Insurance, Financial Institutions and Professional Registration	3
Natural Resources	1
Health and Senior Services	1

Administering agencies are generally responsible for the authorization and issuance of the credits. Authorization occurs when the agency determines that a proposed project or activity is eligible for tax credits and assigns an amount of credits, pending performance of the eligible project or activity. Issuance occurs when the agency provides an authorized credit to a recipient who has met program requirements. After issuance, the recipient redeems the credit by applying it to an outstanding tax liability. Some tax credits such as the Senior Citizen Property Tax Credit, are neither authorized nor issued, but redeemed directly on the qualifying individual's tax return. The Department of Revenue (DOR) has responsibilities for tracking redemption amounts for all tax credit programs.

Reporting

Administering agencies are also required to submit annual estimates of tax credit redemptions and benefit/cost analyses to the state budget director for submission to the chairman of the Senate Appropriations Committee and the chairman of the House Budget Committee. If those estimates are not approved by a majority of the committees' members, no new credits, except the Senior Citizen Property Tax Credit, may be issued or certified after July first of the following year. The annual estimates are submitted on tax credit analysis forms, also commonly referred to as Form 14s. Those forms also contain other information about the credits including current and former annual authorizations, issuances, and redemptions; amounts outstanding and amounts authorized-but-unissued; and information on benefit/cost analyses. The benefit/cost analyses compare the costs of the credits (amounts authorized) to the expected increase in state revenues resulting from direct and indirect economic program activity. Program activity can take the form of construction, increases in payrolls, or other spending.

The Department of Economic Development (DED) uses a commercial software program designed to derive the economic benefits based on specified assumptions input by the DED such as number of jobs or amounts invested. Other agencies use different methods to derive the economic benefits. The DED conducts benefit/cost analyses for each program based on the estimated activity the program will produce. The benefit/cost of each program is calculated separately for the current year, and also for multiple years, where the number of years relate to the expected duration of the credit (from authorization to redemption). The benefit/cost of each program is expressed as a ratio of benefits to costs, with a ratio of 1 or greater meaning expected benefits exceed costs. Conversely, a benefit/cost ratio of less than 1 means program costs exceed expected benefits. For example, a program with a benefit/cost ratio of .50 returns $0.50 in state revenue for every $1 of cost.

Scope and Methodology

Our analysis focused on tax credit trends, including credits authorized, issued, redeemed, and outstanding using data from the Customer Management System (maintained by DED) and Missouri Integrated Revenue System (maintained by DOR). The scope of our audit included, but was not necessarily limited to, tax credit activity occurring during the 4 years ended June 30, 2016.

After our initial analysis determined a significant portion of tax credit activity was attributable to a small number of programs, we focused our review on the following 7 high-cost tax credit programs:

- Low Income Housing Tax Credit (LIHTC)
- Senior Citizen Property Tax Credit (SCPTC)
- Historic Preservation Tax Credit (HPTC)
- Missouri Quality Jobs (MQJ)
- New Market Tax Credit (NMTC)
- Infrastructure Development Tax Credit (IDTC)
- Missouri Works (MW)

The DED administers each of these programs except the SCPTC, which is administered by the DOR. For additional information on each of these programs, see Appendixes A through G.

We obtained and analyzed redemption data on these programs from the DOR for the 4 years ended June 30, 2016. The data included individual redemption amounts by type of tax. For all other programs, we analyzed summarized quarterly redemption amounts reported by the DOR.

We reviewed the 2017 tax credit analysis forms for the high-cost programs and reviewed procedures of the administering agency to prepare the benefit/cost analysis and derive the totals reported for amounts authorized, issued, outstanding and authorized-but-unissued. We also compared summarized annual data on authorized and issued credits and calculated historical averages of issued credits relative to authorized credits. We also reviewed the 2017 tax credit analysis forms for the other tax credit programs for various comparative purposes.

We reviewed the statutes related to the 7 high-cost programs and reviewed findings from any previous audit reports related to these programs.

Prior audit reports referenced

The following audit reports are referenced throughout this report:

- Report No. 2008-023, Tax Credit, Analysis of Low Income Housing Tax Credit Program, issued in April 2008
- Report No. 2010-047, General Assembly and Supporting Functions Tax Credit Cost Controls, issued in March 2010
- Report No. 2012-065, Missouri Quality Jobs Tax Incentive Program, issued in July 2012
- Report No. 2014-014, Low Income Housing Tax Credit Program, issued in March 2014
- Report No. 2014-018, Historic Preservation Tax Credit Program, issued in March 2014
- Report No. 2014-142, Missouri Development Finance Board Infrastructure Development Tax Credit Program, issued in December 2014
- Report No. 2015-092, Neighborhood Assistance Program Tax Credit, issued in October 2015

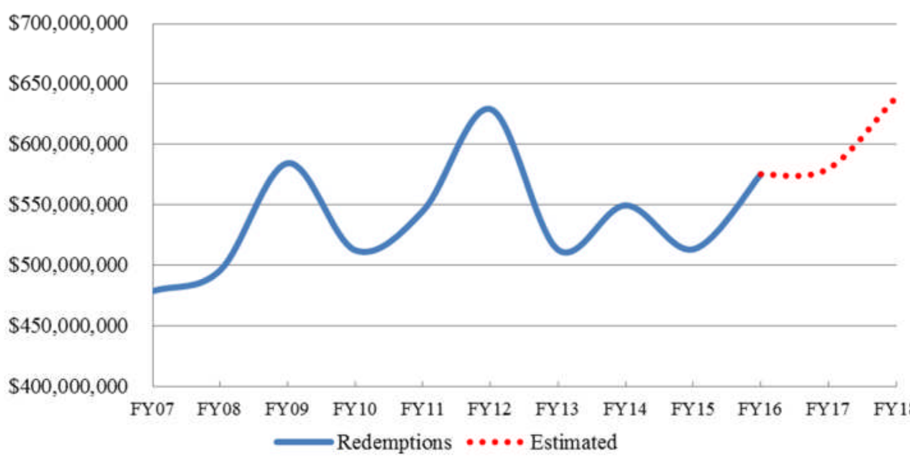
1. Tax Credit Redemption Trends

Total redemptions of tax credits have increased over the past decade, and have offset revenues of the General Revenue Fund, thereby reducing amounts available for appropriation for general government purposes. Additionally, redemptions are concentrated to 7 tax credit programs.

Total redemptions have increased

Tax credit redemptions have totaled approximately $5.4 billion over the past decade, and have increased by an average of 2.8 percent annually from fiscal year 2007 to 2016. Redemptions are projected to stay relatively constant in fiscal year 2017,[1] and exceed $600 million for fiscal year 2018. Total redemptions first exceeded $500 million in fiscal year 2009 and have remained above $500 million every year since. Average redemptions for fiscal years 2012 through 2016 were approximately $556 million per year, an increase of 6.3 percent from the previous 5 year period. Figure 1.1 depicts total tax credit redemptions, by fiscal year, from 2007 to 2016, and projected redemptions for fiscal years 2017 and 2018.

Figure 1.1: Tax Credit Redemptions, by Fiscal Year



Source: DOR and DED data

As depicted in Figure 1.1, in addition to increasing over time, annual tax credit redemptions have also been volatile, with total redemptions varying significantly from year to year. For example, redemptions increased $88.5 million from fiscal year 2008 to 2009, decreased $72 million from 2009 to 2010, increased $84.2 million from 2011 to 2012, and decreased $116.4 million from 2012 to 2013. See MAR finding number 2 for additional discussion of the volatility of redemptions.

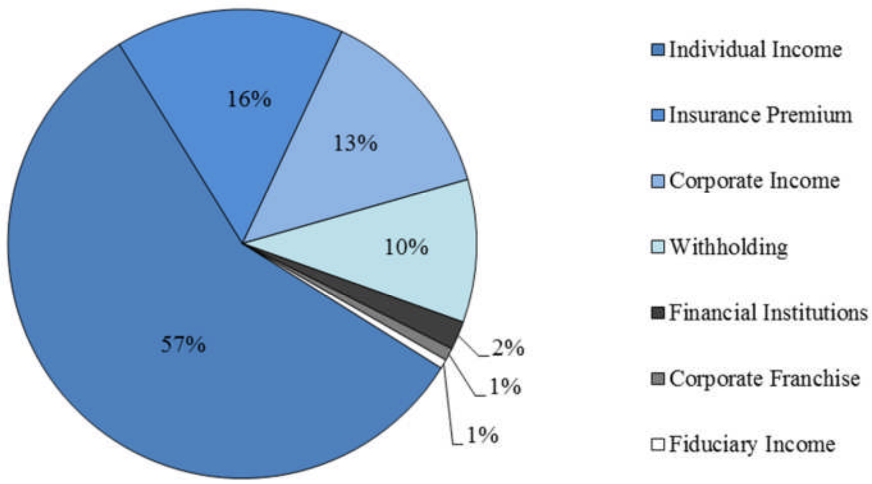
Redemptions reduce various taxes

Tax credit redemptions reduce taxes imposed on individual income, corporate income, corporation franchise assets (this tax was eliminated

[1] Projection for fiscal year 2017 is based on DOR redemption data for fiscal year 2017 through 3 quarters, projected to a full year based on historical redemption patterns. The fiscal year 2018 redemption figure is based on estimates from tax credit analysis forms prepared by the administering agencies.

effective January 1, 2016), insurance company premiums, financial institutions income, withholdings for individual income tax, and fiduciary income tax. Most tax credits allow redemption for multiple tax types, and many credits are transferable or sellable, resulting in credits being redeemed by entities other than the entity originally issued the credit. Other credits may not be sold or transferred and apply to only one tax type. For example, the Senior Citizen Property Tax Credit can only be applied to individual income tax returns. Figure 1.2 depicts redemptions, by tax type, for the 4 years ended June 30, 2016. See detailed data for tax credit redemptions by tax type at Appendix H.

Figure 1.2: Redemptions, by tax type, fiscal years 2013 to 2016



Source: DOR redemption data

According to DOR redemption data, for fiscal year 2016, as compared to the previous 4 fiscal years, an increased portion of redemptions have been made against withholding taxes, which is indicative of the growth in the job creation credits (Missouri Works and Missouri Quality Jobs). An increased portion of redemptions has also been made against the financial institutions tax due to banks utilizing an increased amount of New Markets Tax Credits. Fiscal year 2016 also saw a reduced amount of insurance premium tax redemptions as compared to previous periods.

For the 4 fiscal years 2013 through 2016, tax credit redemptions as a percentage of the related tax revenues ranged from about 5 percent for individual income tax to about 40 percent for financial institutions taxes. Table 1 shows cumulative redemptions against the 4 primary tax types, total collections for those tax types, and the redemptions as a percentage of collections for the 4 fiscal years ended June 30, 2016.

Table 1: Redemptions as a Percentage of Collections, 4 fiscal years ended June 30, 2016

Tax type	Redemptions	Collections	Redemptions as a % of collections
Individual income[1]	$1,460,707,323	26,882,317,558	5.4%
Insurance company premium tax	339,987,598	1,097,773,607	31.0%
Corporate income and franchise	311,545,333	2,111,042,727	14.8%
Financial institutions	42,193,054	106,401,681	39.7%

[1] Includes amounts from withholdings for redemptions and collections totaling $212,572,343 and $19,823,460,397, respectively.

Source: DOR redemption data

Banks pay the financial institutions tax at a rate of 7 percent of net income, and insurance companies pay the domestic premium tax at a rate of 2 percent of new premiums collected. Based on Table 1, banks and insurance companies regularly use state tax credits to reduce their tax liabilities. Corporations utilized state tax credits in a similar fashion, but to a lesser extent.

Redemptions primarily reduce revenues of state General Revenue Fund

For fiscal year 2016, about 96 percent of tax credit redemptions applied to the state's General Revenue Fund (GRF). Financial institutions taxes and related credits are applied 2 percent to the GRF and 98 percent to distributions to local political subdivisions, while all other credits are applied fully to the GRF. Additionally, annual tax credit redemptions as a percentage of total annual GRF tax revenues averaged 6.4 percent from fiscal year 2013 to 2016, with a low of 5.9 percent in fiscal year 2015, to a high of 6.9 percent in fiscal year 2014. State general revenue funds are available for general state purposes and are primarily appropriated for education, human services, public safety, and state prisons operations. By reducing state general revenues, tax credits reduce the amounts available for appropriations for general state purposes.

Redemptions concentrated to a small number of programs

Over the past 4 fiscal years, redemptions for the 7 high-cost tax credit programs reviewed comprise approximately 76 percent of total redemptions. These programs are the Low Income Housing Tax Credit (LIHTC), Historic Preservation Tax Credit (HPTC), Senior Citizen Property Tax Credit (SCPTC), Missouri Quality Jobs (MQJ) (and its replacement Missouri Works (MW)), New Markets Tax Credit (NMTC), and Infrastructure Development Tax Credit (IDTC). Figure 1.3 details redemptions for these programs, as a percentage of total redemptions, by program and by year, for fiscal years 2013 to 2016.

Figure 1.3: Redemptions as a percentage of total redemptions, by program, fiscal years 2013 to 2016

Source: DOR redemption data

Conclusion

Tax credit redemptions have grown over the past decade, and are projected to continue to do so. However, redemptions as a percentage of General Revenue Fund revenues have remained relatively consistent. Increases in tax credit redemptions are driven primarily by a small number of credits; with 7 programs being responsible for approximately 76 percent of total redemptions in recent years. As a result, any future policy decisions related to the financial impact of tax credits must begin with those 7 programs. MAR findings numbers 2 to 4 contain additional concerns and considerations related to the state's tax credit programs.

2. Significant Tax Credit Liabilities Exist

Unredeemed tax credits authorized or issued in prior years have resulted in significant tax credit liabilities to the state. This condition has occurred, in part, due to tax credit programs having extended carry forward provisions, which allow tax credits issued to be redeemed over a long period of time. Additionally, the amounts obligated have not always been accurately reported on the tax credit analysis forms.

2.1 Large amounts unredeemed

As of June 30, 2016, the amount of tax credits authorized but unredeemed was approximately $3 billion according to data from the DED. This amount is made up of outstanding tax credits[2] of approximately $1.15 billion, and approximately $1.84 billion of obligated tax credits.[3] The time period for redemption of outstanding and obligated credits varies by type, but based on the provisions of the various programs, credits outstanding on June 30, 2016 could possibly be redeemed in fiscal year 2032.

[2] Outstanding tax credits are credits issued by the administrating agency but not redeemed or expired.
[3] Obligated tax credits are credits that have been authorized to a particular project or company by the administrating agency, but have not been issued, and therefore have not been redeemed.

Outstanding tax credits

The statutory provisions of the various tax credit programs cause credits to be redeemed years after authorization and/or issuance and have resulted in a $1.15 billion outstanding credit balance. Thirty-nine credits have carry forward provisions ranging from 1 year to 20 years and 2 credits have unlimited carry forward provisions. See Appendix K for a listing of tax credit programs and their carry forward provisions.

Our analysis of outstanding credit data determined the 7 high-cost programs were responsible for approximately 85 percent of outstanding credits, with the LIHTC program comprising approximately 72 percent of the outstanding total. Table 2 shows tax credits outstanding, by program, for the 7 high-cost programs, as well as credits outstanding for the other tax credit programs as of June 30, 2016.

The LIHTC has a significant impact on overall credits outstanding due to the magnitude of the program and the issuance and carry forward provisions of the credit. Each year the LIHTC issues 10-year streams of credits that can then be carried forward another 5 years. Thus, one-tenth of total LIHTC credits issued in fiscal year 2017 would be allocated each year until fiscal year 2027, and the recipients have an additional 5 years to redeem the credits. Consequently, LIHTC credits authorized in fiscal year 2017 could impact the state budget until 2032.

Obligated tax credits

There are approximately $1.84 billion in obligated tax credits as of June 30, 2016. See Table 2 for detail of the balances by tax credit. Based on historical trends, approximately 81 percent, or $1.5 billion, of obligated tax credits will be issued in subsequent years and available for redemption in future periods. Credits are often issued in years subsequent to authorization as recipients complete actions required under a program for credit issuance. For example, LIHTC credits are authorized based on project applications but the credits are issued after completion of construction. Using data on authorized and issued tax credits from DED, we determined the historical trends of authorized credits that were issued (and assuming all credits issued are subsequently redeemed) for those 5 high-cost programs with obligated credits. For those programs, historical trends suggest over $1.1 billion is likely to be redeemed in subsequent years and combines with the outstanding credit balances, noted above, to create a significant future impact on future state revenues.

DED data of obligated tax credits shows the 7 high-cost programs are responsible for approximately 78 percent of the obligated credit balance. As shown in Table 2, the job creation credits make up a significant portion of obligated credits. This occurs due to the nature of these credits because they are redeemed against withholding taxes by the companies receiving them as they are earned. As a result, these credits are never technically issued and are not considered outstanding. See Appendix K for obligated tax credit balances for all programs.

Table 2: Outstanding Tax Credits, by Program, at June 30, 2016

Program	Amount Outstanding	Percentage of the Total Outstanding	Amount Obligated	Percentage of the Total Obligated
Low Income Housing	$ 827,860,826	71.7%	476,266,990	25.9%
Historic Preservation	71,222,712	6.2%	273,776,274	14.9%
New Market	30,059,967	2.6%	0	0.0%
Infrastructure Development	22,177,669	1.9%	23,607,402	1.2%
Missouri Quality Jobs	13,276,105	1.1%	193,771,886	10.5%
Missouri Works	11,665,888	1.0%	464,103,631	25.2%
Property Tax	0	0.0%	0	0.0%
Other	178,296,982	15.5%	410,082,180	22.3%
Total	$ 1,154,560,149	100.0%	1,841,608,363	100.0%

Source: DED data

Budget implications

Due to significant outstanding and obligated tax credit balances that exist, attempts to reduce the impact of tax credits on the budget will not result in an immediate impact. The vast majority of tax credit redemptions expected in the short term are for credits already issued or obligated in prior periods, and cannot be avoided. The NMTC and MQJ programs exemplify this situation. Both programs were legislatively closed to new projects starting in August of 2013, one through sunset and the other was replaced with an alternative program. Both credits continue to result in significant redemptions:

- NMTC redemptions averaged $20.5 million per year for fiscal years 2014 through 2016, and redemptions are projected to be almost $19 million and $15 million in fiscal years 2017 and 2018, respectively.

- MQJ redemptions averaged $54.7 million per year for fiscal years 2014 through 2016, and redemptions are projected to be approximately $46 million and $27 million in fiscal years 2017 and 2018, respectively.

In addition to spreading redemptions over an extended timeframe and creating significant future liabilities, long carry forward provisions cause uncertainty over when credits will be redeemed. This uncertainty results in tax credit redemption volatility as depicted in Figure 1.1. Such volatility results in uncertainty in the budget process. According to discussions with Office of Administration (OA), Budget and Planning officials, a detailed analysis of tax credit redemptions is not conducted as part of the revenue estimation process. Rather, total tax credit redemptions are estimated for the coming fiscal year based on previous redemption levels, and are adjusted up or down to account for any known factors that may cause the amount to fluctuate. Data regarding the estimated amount of tax credit redemptions included in prior year revenue estimates was requested from the Office of Administration, Budget and Planning, but were not provided. Requiring tax credits to be redeemed over shorter carry forward windows, would result in reduced long-term liabilities, improved predictability, and reduced volatility of redemptions.

2.2 Misstated obligation amounts

The totals reported as outstanding and obligated (authorized-but-unissued) for the HPTC were understated on the tax credit analysis form prepared by the DED and presented to the General Assembly for fiscal year 2016. The computer program developed by the OA Information Technology Services Division (ITSD) for the HPTC and used by the DED to calculate those amounts did not consider adjustments made by the DOR to tax credit redemption amounts resulting from amended tax returns, tax penalties, or correction of data entry errors. After we brought this issue to the attention of DED, DED and OA ITSD personnel revised the program and corrected the reported amounts, as noted in Table 3.

Table 3: Adjustments to Originally Reported Amounts, Historic Preservation Tax Credit, Fiscal Year 2016

	Originally Reported	Net Adjustments	After Adjustments
Total Outstanding	$ 38,152,823	33,069,889	71,222,712
Total Obligated	255,781,118	17,995,156	273,776,274

Source: DED data

Accurate and complete amounts outstanding and obligated are a critical part of the information needed by the General Assembly to make budgeting decisions.

Recommendations

The General Assembly:

2.1 Consider changes to tax credit programs to reduce carry forward provision timeframes to reduce outstanding and obligated tax credit balances.

The DED:

2.2 Ensure amounts reported to the General Assembly are accurate and include all necessary adjustments.

Auditee's Response

DED officials provided the following response:

2.2 The DED relied on the report generated through the Customer Management System. DED inquired of ITSD, why or how redemptions could be higher than issued amounts. As a closed *record, redemptions and redemption data are the responsibility of the DOR.*

ITSD investigated the report functions and discovered that DOR adjustments were not included in the report. The function was corrected. A new report was generated.

3. Previous Audits Have Noted Concerns

Problems noted in previous audits continue to persist regarding the design of several high-cost tax credit programs that create concerns about the cost effectiveness and efficiency of the credits. Prior concerns also continue to exist regarding entitlement programs that award credits non-competitively, programs that have no funding limits or unclear funding limits, and programs that do not have sunset provisions.

3.1 Program inefficiencies

As noted in previous reports for the LIHTC[4] and HPTC,[5] inefficiencies result in a lower return on the state's investment. For both of these credits, a small portion of each dollar of tax credit goes toward low income housing or historic preservation development. For fiscal year 2016, the state authorized $167 million in state LIHTCs, however since the minimum price per credit dollar is $.50, developers will only receive approximately $83.5 million in equity to go towards housing projects. This significant inefficiency occurs generally because the credits are sold on secondary markets at deep discounts reflecting the federal tax liability related to the credits (both LIHTC and HPTC), and the time value of money as a result of the 10 year issuance period (LIHTC) .

We noted several options in those reports to improve the efficiency of the LIHTC and HPTC such as using certificated credits (LIHTC); making the credits refundable (LIHTC and HPTC); using direct state appropriations to fund projects (LIHTC and HPTC); reducing the timeframes credits are issued over (LIHTC); and using other agencies, political subdivisions, or other not-for-profit organizations to sell the credits and grant proceeds to projects (HPTC and LIHTC). No legislative changes have been made to the programs to incorporate any of those options. Improving efficiency of the tax credit programs would increase the proportions of the tax credits actually applied to the purpose of the credits, thereby providing a higher return on the state's investment.

3.2 Entitlement programs

The majority of the state's tax credit programs have been established as entitlement programs, which reduces the ability of the administering agencies to authorize credits for the best projects. This condition was previously reported in our audit of the HPTC. The General Assembly

[4] Report No. 2014-014, Low Income Housing Tax Credit Program, issued in March 2014
[5] Report No. 2014-018, Historic Preservation Tax Credit Program, issued in March 2014

established the HPTC program as an entitlement up to the current authorization limit; therefore, the DED is not allowed to limit tax credits to projects that represent a good investment for taxpayers, or to only projects that need tax credits to be financially feasible. Unlike discretionary programs in which the administering agency authorizes tax credits for projects based on a competitive project selection process, administering agencies must grant credits to recipients meeting eligibility criteria for entitlement programs if any limits have not been reached.

The state currently has 42 entitlement tax credit programs, including the HPTC. These programs had approximately $343 million in redemptions for fiscal year 2016. For entitlement programs with annual or cumulative limits, generally the credits are authorized on a first come basis. Discretionary and entitlement tax credits and any funding limits are identified on Appendix J. Of the 8 new tax credit programs established from 2013 to 2016, 4 are entitlement, 1 is a mixture of entitlement and discretionary, and 3 are discretionary. Establishing tax credits as discretionary programs with competitive award processes would help ensure only projects that represent a good investment for taxpayer resources receive funding.

3.3 Funding limits

The General Assembly has not placed annual and/or cumulative limits on the amount of tax credits that may be authorized for some tax credit programs. Twenty tax credit programs currently have no limits or individual limits. These 20 credits had approximately $165 million in redemptions in fiscal year 2016. Appendix J lists the tax credit programs and any annual or cumulative limits for each program. In our audit of tax credit cost controls,[6] we recommended the General Assembly establish limits on all existing and future programs. Of the 8 new credits created since 2013, 3 credits have no funding limit.

Three of the seven high-cost credits (LIHTC, HPTC, and MW) have soft limits, or limits that apply to only some of the credits or other benefits given under that program. Also, 2 of the programs (LIHTC and HPTC) have relatively high limits. We noted concerns about the limits in previous reports.

- The LIHTC is limited only for the 4 percent state credits authorized ($6 million annually). The other LIHTC credits, 9 percent credits, are tied to the federal LIHTC allocation and issued at up to 100 percent of the federal allocation. By setting the credit limit as a percentage of the federal program, the legislature established an unclear limit, and removed any specific control over the size of the state program. This

[6] Report No. 2010-47, General Assembly and Supporting Functions Tax Credit Cost Controls, issued in March 2010

condition was noted in a prior report of the LIHTC.[7] Additionally, that report noted Missouri's 9 percent tax credit limit is higher than all other states with state LIHTC programs, and Missouri's per capita funding of its LIHTC program significantly exceeded all other state LIHTC programs for 2012. The limits have not changed and through 2014 Missouri continued to exceed all other states in per capita LIHTC funding.

- For the MW program, although state law limits the tax credit portion of the program to $116 million annually, there is no limit on the amount of retained withholding taxes, which is the largest portion of the program. A prior audit of the MQJ program[8] noted a similar concern. For the MQJ program, which was phased out in 2013 and replaced with MW, no limit was placed on withholdings retained through the MQJ program. For the MQJ program, our prior audit showed that although there was an $80 million cap on the tax credit portion of the program, since the program did not have a limit on the primary source of the program's cost (withholding taxes) the legislature did not adequately control the cost of the program.

- Our prior audit report on the HPTC program noted Missouri's program was the largest program of its kind in the nation, with over $1 billion in redemptions over the past decade. In 2009, the legislature implemented an annual credit limit of $140 million, which was by far the highest among the 18 states with established limits, and the owner-occupied historic preservation projects and projects below $275,000 are not subject to the program cap. In addition, the state has authorized an average of 76.5 percent of the program cap for the 4 years ended June 30, 2016.

Tax credits with no limits or with only soft limits create uncertainty in the amount of credits being authorized, and restrict the ability of the General Assembly to control the costs of these programs. Establishing clear fixed dollar limits would provide additional transparency in program costs, provide additional control of program costs, and would also provide more consistent redemption levels. Also, credits with statutory limits so high that they effectively have no limit also create uncertainty in annual redemption amounts, but also provide a false sense of cost containment.

3.4 Sunset provisions

State law does not include a sunset provision for 27 tax credits, including 4 of the 7 high-cost tax credits (HPTC, LIHTC, SCPTC, IDTC). Appendix J notes the sunset date, if any, for active programs. The 27 programs with no sunset provisions had approximately $435 million in redemptions during

[7] Report No. 2014-014, Low Income Housing Tax Credit Program, issued in March 2014
[8] Report No. 2012-065, Missouri Quality Jobs Tax Incentive Program, issued in July, 2012

fiscal year 2016. The Sunset Act, passed in 2003, provides for new programs to end after a period of not more than 6 years unless reauthorized by the General Assembly or the program is exempted from the Sunset Act. One of the 8 new credits created during fiscal years 2013 through 2016 does not contain a sunset provision. The Development Disability Care Provider tax credit included a sunset provision when created in 2013, but statutory changes in 2015 removed that provision. The Sunset Act requires the Committee on Legislative Research to review applicable programs before the sunset dates and present a report to the General Assembly regarding the sunset, continuation, or reorganization of each affected program. However, several tax credit programs were created prior to the Sunset Act and are exempted.

By adopting a sunset provision for all tax credit programs, the General Assembly can better determine whether the program is achieving its intended purpose and whether program funding should be increased, decreased, or eliminated.

This condition has been previously noted in various previous audit reports including our audit of tax credit cost containment, MQJ, LIHTC and HPTC.

Recommendations

The General Assembly:

3.1 Evaluate the Low Income Housing Tax Credit and Historic Preservation Tax Credit and consider making changes to improve the efficiency of the programs.

3.2 Consider changes to current entitlement programs to make the authorizations more competitive.

3.3 Establish clearly defined annual or cumulative funding limits for all tax credit programs, and ensure limits are set at appropriate levels.

3.4 Establish sunset provisions or expiration dates for all tax credits.

4. Economic Benefit Projections

Economic benefit projections reported to the General Assembly annually on the tax credit analysis reports are overstated for several tax credit programs. In addition, a significant number of the state's tax credit programs produce a benefit/cost ratio less than 1, meaning the program costs the state more than it returns.

4.1 Overstated benefit projections

Economic benefit projections appear to overstate the economic impact of several tax credits. This issue has been noted in prior audits of the HPTC, the IDTC,[9] MQJ, the Neighborhood Assistance Program (NAP),[10] and LIHTC. Our previous audits concluded the projections were overstated due to the administering agencies making overly optimistic assumptions.

- For the IDTC, HPTC, and LIHTC, the administering agency assumed the projects partially funded by the credit would not occur without the credit, however, this assumption was not reasonable since the HPTC and LIHTC have related federal programs, and the IDTC is typically only a small part of the project costs.
- For the HPTC, NAP, and IDTC programs, the administering agency assumed 100 percent of the activity proposed in tax credit applications would occur, and 100 percent of credits authorized would be utilized, but audits determined a portion of proposed activity never occurred, and therefore not all credits authorized were issued.
- For MQJ and HPTC, the administering agency based economic benefit projections on initial estimates of jobs to be created and projected investment amounts from project applications while actual jobs created and actual investments were often significantly lower.

Beginning with the 2015 tax credit analysis form, the DED derived an economic benefit/cost ratio for the LIHTC assuming 40 percent of the LIHTC activity would occur without the state LIHTC program. The assumption was based on an average of funding data reported by LIHTC applicants. The reduced benefit/cost ratio was presented as a side note and the other measures of economic impact were not discounted. DED officials indicated data was not available from applicants for the IDTC and HPTC to develop similar assumptions for those programs. Additionally, according to DED officials, the department staff continue to assume 100 percent of credits authorized will be issued for the HPTC and IDTC, and they use estimated jobs and investments for the HPTC, MW (which replaced the MQJ), and the NMTC.

Providing unrealistic estimated economic benefits of the tax credits on the tax credit analysis forms provided to the General Assembly is not helpful in informing legislators and policymakers. For the majority of tax credit programs, the tax credit analysis form is the only information available on

[9] Report No. 2014-142, Missouri Development Finance Board Infrastructure Development Tax Credit Program, issued in December 2014
[10] Report No. 2015-092, Neighborhood Assistance Program Tax Credit, issued in October 2015

the economic impacts of the program. In previous audit reports, DED management has responded the economic benefits of tax credit programs is reported in accordance with state law. However, based on our review of state law it is not clear what prevents the DED from adjusting economic benefit projections to reflect actual or historical results. Such adjustments would provide legislators and policymakers with more realistic estimates of actual program results.

4.2 Minimal economic impact

The benefit/cost ratios reported by the administering agencies to the legislature shows minimal economic return for many programs. For the 63 active tax credit programs, tax credit analysis forms for 22 programs indicate a benefit/cost ratio projection of less than 1.00; meaning the program returns less to the state than it costs. Redemptions for these 22 programs totaled $418 million (73 percent of total redemptions) for fiscal year 2016.

The benefit/cost ratio projections for the 7 high-cost programs ranged from .01 (Senior Citizen Property Tax Credit) to 3.77 (Missouri Works - Business Incentives) as listed in Table 4.

Table 4: Benefit/cost ratio projections for the 7 high-cost programs

Tax Credit Program	2016 Benefit/Cost Projection	Time Frame for Analysis
Missouri Works	3.77	10 years
Infrastructure Development	3.26	15 years
Missouri Quality Jobs	1.56	10 years
New Markets	.69	10 years
Historic Preservation	.26	10 years
Low Income Housing	.12	15 years
Senior Citizen Property Tax	.01	1 year

Source: Tax credit analysis forms

The MQJ, IDTC, and MW programs provide an economic return exceeding the program's cost, while the costs of the NMTC, HPTC, LIHTC, and SCPTC exceed the projected economic returns. The three largest tax credit programs in the state all have benefit/cost ratio estimates of .26 or less.

While some tax credits, such as the SCPTC, are intended at least partially as a social benefit and not primarily to be cost-beneficial, the benefit/cost analysis should be prepared and closely considered when evaluating all tax credit programs to understand the true costs of the program. Where possible, efforts should be made to fully determine the benefit/cost of tax credit programs and increase the return to taxpayers, particularly for programs where the state is making a significant investment.

Recommendations

The General Assembly:

4.1 Require administrative agencies establish procedures to ensure the economic benefit projections provide a realistic assessment of program performance.

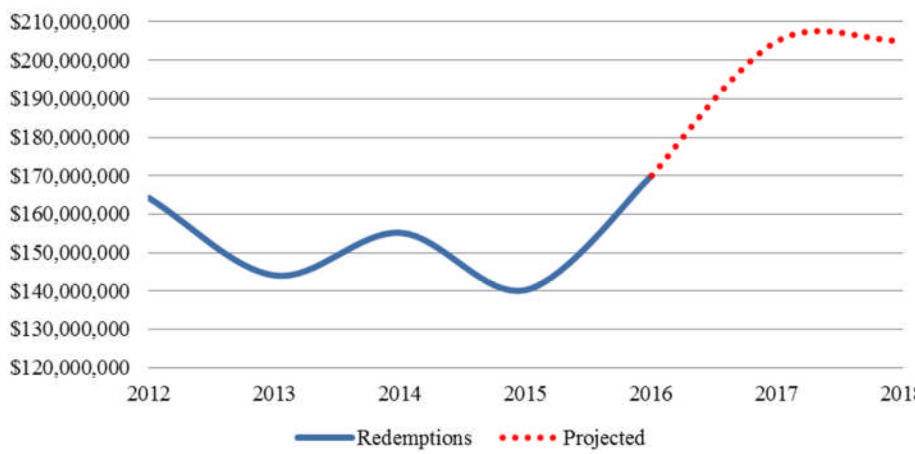
4.2 Evaluate the benefit/cost ratio of all tax credits to determine each program's budget impact and whether each program's non-financial benefits justify future financial costs.

Low Income Housing Tax Credit

The Low Income Housing Tax Credit (LIHTC) program is authorized by Section 135.350 to 135.363, RSMo, and has been in existence since 1990. The program provides tax credit certificates to developers to offset development costs of housing for low income families. Individuals or families who fall below certain income requirements are then allowed to rent low-income housing units at a below-market rate. The credits may be used to offset tax liabilities for individual income, insurance company premiums, and financial institutions. The program is a discretionary credit, administered by the Missouri Housing Development Commission (organizationally placed within the DED) and supplements the federal program.

With an average of approximately $152 million per year in redemptions over the past 4 fiscal years, this program is the state's largest tax credit program. The program also represents a significant liability to the state with approximately $1.3 billion in credits outstanding and obligated as of June 30, 2016. For fiscal years 2013 through 2016, the largest tax credit applied to an individual income tax was approximately $917,400. For this period, the average redemption was approximately $20,600 for all types of tax.

Figure A: LIHTC redemptions, fiscal year 2012 to 2018



Source: DED data

Program limits and special provisions

Credits are limited to up to 100 percent of the federal LIHTC allocation for 9 percent credits, and $6 million annually on 4 percent credits. The percentage of credits authorized is at the discretion of the Missouri Development Housing Commission. The Commission has historically chosen to authorize up to the 100 percent limit each year since a law change in 1997 increased the limit from 20 percent of the federal allocation. LIHTCs are issued to projects annually and are non-refundable and non-transferable. Each year, a 10 year stream of credits is issued. Section 135.352.4, RSMo, allows the credits to be carried back 3 years to offset prior tax liability or carried forward for 5 years to offset future tax liability.

Low Income Housing Tax Credit

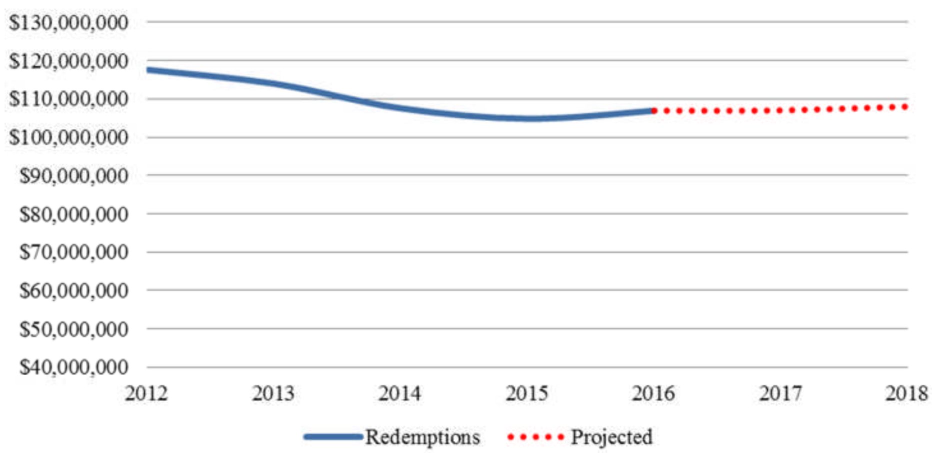
Outstanding credits	At June 30, 2016, tax credits outstanding totaled $827,860,826 and tax credits obligated totaled $476,266,990, according to DED data. Based on historical issuance trends, approximately 100 percent of obligated credits will eventually be issued and available for redemption.
Economic impact	According to tax credit analysis forms prepared by the DED, the program returns an estimated $0.12 for every $1 invested.
Prior audit findings	The findings in our 2008 and 2014 audits focused on the significant cost of the program as compared to what other states spend on such programs, as well as the significant inherent inefficiency of the tax credit model in place, resulting in approximately $.42 of every credit dollar actually going toward low income housing projects. The remainder goes to the federal government, investors, and tax credit syndicators.

Senior Citizen Property Tax Credit

The Senior Citizen Property Tax Credit program is authorized by Sections 135.010 through 135.035, RSMo, and has been in existence since 1973. The program allows certain citizens living in Missouri the entire year who are 65 years of age or older, to receive a tax credit for a portion of the amount of property taxes paid. Also eligible for this credit are veterans of any branch of the Armed Forces who became 100 percent disabled as a result of such service or are 100 percent disabled or have reached the age of 60 and are receiving surviving spouse Social Security benefits. The average redemption per taxpayer was approximately $450 from fiscal year 2013 to 2016 applied to individual income tax returns. The DOR administers the program.

With an average of approximately $109 million per year in redemptions over the past 4 fiscal years, this program is the state's second largest tax credit program. These credits have to be redeemed in the current year with no carry forward provision.

Figure B: Senior Citizen Property Tax Credit redemptions, fiscal year 2012 to 2018



Source: DED data

Program limits and special provisions

There is no limit for the program as a whole; however, the program is limited through caps on individual taxpayer income limits. The maximum income for renters, or whose home is not owned the entire year, is $27,500 for single individuals, and $29,500 for married couples filing a combined return. If a taxpayer owns a home the entire year, the maximum income limit is $30,000 for single individuals and $34,000 for married couples filing a combined return. The credit limits are $750 for rent paid, and $1,100 for property tax paid, per taxpayer. The program has no carry forward or carry back provisions.

Outstanding credits

All credits are claimed annually so there are no outstanding or obligated credits according to DOR data.

Economic impact

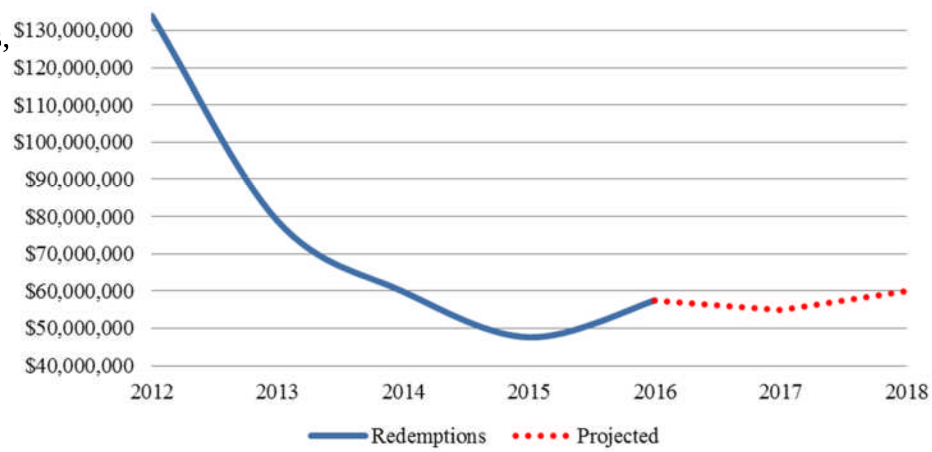
According to tax credit analysis forms prepared by the DED, the program returns an estimated $0.01 for every $1 invested.

Historic Preservation Tax Credit

The Historic Preservation Tax Credit (HPTC) program is authorized by Sections 253.545 to 253.559, RSMo, and has been in existence since 1998. The purpose of the program is to provide an incentive for the redevelopment of commercial and residential historic structures statewide. The program is an entitlement credit, and has a corresponding federal HPTC program. The DED administers the program and is responsible for the issuance of all tax credits based upon a final certification of the rehabilitation project costs, and final certifications of the work performed by the Missouri Department of Natural Resources, State Historic Preservation Office. The credit may be used to offset tax liabilities for individual income (except withholdings), corporate income, insurance company premiums, and financial institutions.

With an average of approximately $60 million per year in redemptions over the past 4 fiscal years, this program is the state's third largest tax credit program. The program also represents a significant liability to the state with approximately $345 million in credits outstanding or obligated as of June 30, 2016. The largest redemption was $4.9 million applied to a corporation's income taxes in fiscal year 2015. The average redemption was approximately $56,000 from fiscal year 2013 to 2016.

Figure C: HPTC redemptions, fiscal years 2012 to 2018



Source: DED data

Program limits and special provisions

The program provides state tax credits equal to 25 percent of eligible costs and expenses of the rehabilitation of approved historic structures. Qualified rehabilitation expenses (QRE) are limited to rehabilitation expenses of the original historic structure, while expenses for additions to the property, acquisition costs, and personal property are generally unqualified. To qualify for credits, QRE associated with the rehabilitation must exceed 50 percent of the acquisition costs. This tax credit can be freely transferred, sold, or assigned. Section 253.557.1, RSMo, allows the credits to be carried back 3 years to offset a taxpayer's prior tax liability or carried forward for 10 years to offset future tax liability.

Historic Preservation Tax Credit

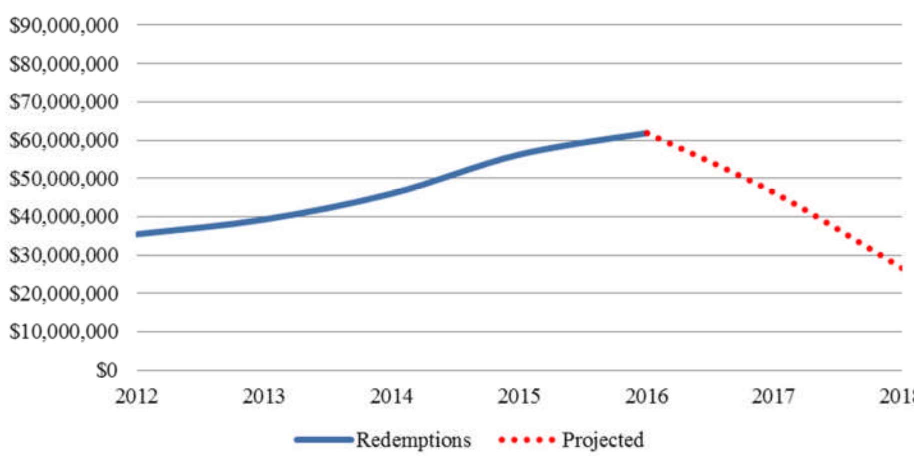
Outstanding credits	At June 30, 2016, tax credits outstanding totaled $71,222,712 and tax credits obligated totaled $273,776,274, according to DED data. Based on historical issuance trends approximately 95 percent, or $259 million, of obligated credits will eventually be issued and available for redemption.
Economic impact	According to tax credit analysis forms prepared by the DED, the program returns an estimated $0.26 for every $1 invested.
Prior audit findings	Findings in our 2014 audit focused on the significant cost of the program as compared to what other states spend on similar programs, as well as the significant inherent inefficiency of the tax credit model in place, resulting in approximately $.49 to $.85 of every credit dollar actually going toward historic preservation projects. The remainder goes to investors, tax credit brokers or syndicators, and the federal and state government in the form of income taxes.

Missouri Quality Jobs Act

The Missouri Quality Jobs Act was authorized by Section 620.1875 to 620.1890, RSMo, and was in existence from 2005 to 2013. The authorizing statutes do not explicitly state the purpose of the Missouri Quality Jobs (MQJ) Tax Incentive Program; however, the program provides tax incentives to qualified companies for facilitating the creation of new jobs or the retention of existing jobs in Missouri. The program includes certificated credits as well as an authorization to allow companies to keep the withholding taxes of qualified new jobs. The credits may be used to offset tax liabilities for individual income, corporate income, insurance company premiums, and financial institutions. The DED administers this entitlement program. Missouri Works replaced this program in 2013. Since 2013, this program can only issue credits to existing projects.

With an average of approximately $50 million per year in redemptions over the past 4 fiscal years, this program is the state's fourth largest tax credit program. The program also represents a significant liability to the state with approximately $13 million in credits outstanding and $193 million obligated, as of June 30, 2016. The obligated amount is the amount that could be issued if the companies create or retain the promised jobs. The largest one-year redemption to a recipient was $7 million in 2015 offset against corporate income tax liability. The average redemption was approximately $227,000 from fiscal year 2013 to 2016.

Figure D: MQJ redemptions, fiscal years 2012 to 2018



Source: DED data

Program limits and special provisions

The program includes provisions for five project types, with each project having its own minimum requirements and tax incentive award criteria. In general, companies are authorized to keep the withholding taxes of employees in "new" jobs.

Outstanding credits

As of June 30, 2016, tax credits outstanding totaled $13,276,105 and tax credits obligated totaled $193,771,886, according to DED data. Based on historical issuance trends, approximately 64 percent, or $122 million, of obligated credits will eventually be issued and available for redemption.

Economic impact

According to tax credit analysis forms prepared by the DED, the program returns an estimated $1.56 for every $1 invested.

Prior audit findings

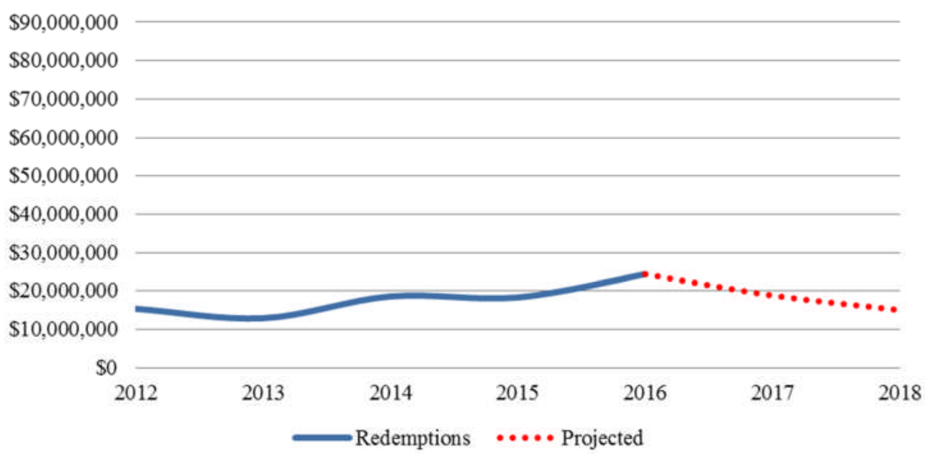
The findings in our 2012 audit focused on the overstatement of economic benefits, insufficient verification of data reported by recipients, and program design issues related to withholding limits and sunset provisions.

New Markets Tax Credit

The New Markets Tax Credit (NMTC) program is authorized by Section 135.680, RSMo, and has been in existence since 2007. The program is an entitlement program that allows taxpayers making a qualified equity investments into a qualified community development entity (CDE) to earn a vested right to tax credits. The tax credit amount is equal to the applicable percentage of adjusted purchase price paid to the CDE. The credit percentages are zero percent for the first 2 years, 7 percent for the third year and 8 percent for the next 4 years. The CDE will invest contributions into a qualified active low-income community business. The DED administers the program. The credits may be used to offset tax liabilities for individual income (excluding withholding), corporate income, insurance company premiums, and financial institutions. The program sunset in 2013.

With an average of approximately $18 million per year in redemptions over the past 4 fiscal years, this program is the state's fifth largest tax credit program The largest individual redemption was an offset to a corporate income tax return totaling about $3.4 million in fiscal year 2014. Also, the individual redemptions for corporate and financial taxes averaged approximately $681,000 during fiscal years 2014 and 2016.[11]

Figure E: NMTC redemptions, fiscal years 2012 to 2018



Source: DED data

Program limits and special provisions

Annual authorizations are limited to $25 million. Credits are non-refundable and non-transferable. Credits may be carried forward for 5 years to offset future tax liability.

[11] We were unable to review individual redemption amounts for fiscal years 2013 and 2015 because the number of redemptions were few and DOR policy prohibits disclosure of individual redemptions when redemptions number 7 or fewer. However, assuming 7 recipients in both years for only corporate and financial taxes, individual redemptions averaged $750,000 and $1.4 million for fiscal year 2013 and 2015, respectfully.

New Markets Tax Credit

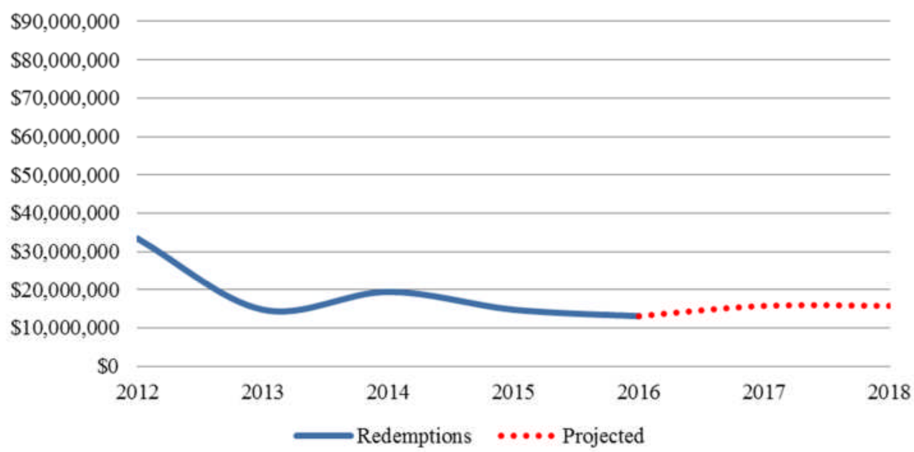
Outstanding credits	As of June 30, 2016, credits outstanding total $30,059,967, with no additional credits obligated, according to DED data.
Economic impact	According to tax credit analysis forms prepared by the DED, the program returns an estimated $0.69 for every $1 invested over the 10 year period.

Infrastructure Development Tax Credit

The Infrastructure Development Tax Credit (IDTC) program was established under section 100.286, RSMo, and has been in existence since 1985. The program was designed to assist in the funding of capital improvement costs for qualified public infrastructure and public facilities projects within the state, and is administered by the Missouri Development Finance Board (MDFB), which is organizationally placed within the DED. With an average of $15.5 million per year in redemptions over the past 4 fiscal years, this program is the state's sixth largest tax credit program. The tax credit is discretionary allowing the MDFB to grant tax credits in the amount of 50 percent of the value of any eligible taxpayer contribution for infrastructure development. The credits may be used to offset tax liabilities for individual income (excluding withholding), corporate income, insurance company premiums, and financial institutions.

The largest redemption was $3.4 million applied to an individual income tax return in fiscal year 2016. The average redemption was approximately $56,000 from fiscal year 2013 to 2016.

Figure F: IDTC redemptions, fiscal years 2012 to 2018



Source: DED data

Program limits and special provisions

Credits are limited to a maximum authorization of $10 million during any calendar year. The statutory limit can be increased by an additional $15 million with the consent of the Directors of the Department of Economic Development, Department of Revenue, and the Commissioner of Administration. Maximum authorizations in one calendar year cannot exceed $25 million. The credits have a 5 year carry forward. This credit can be sold or transferred.

Outstanding credits

As of June 30, 2016, tax credits outstanding totaled $22,177,669 and tax credits obligated totaled $23,607,402, according to DED data. Based on historical issuance trends, approximately 86 percent, or $20.3 million, of obligated credits will eventually be issued and available for redemption.

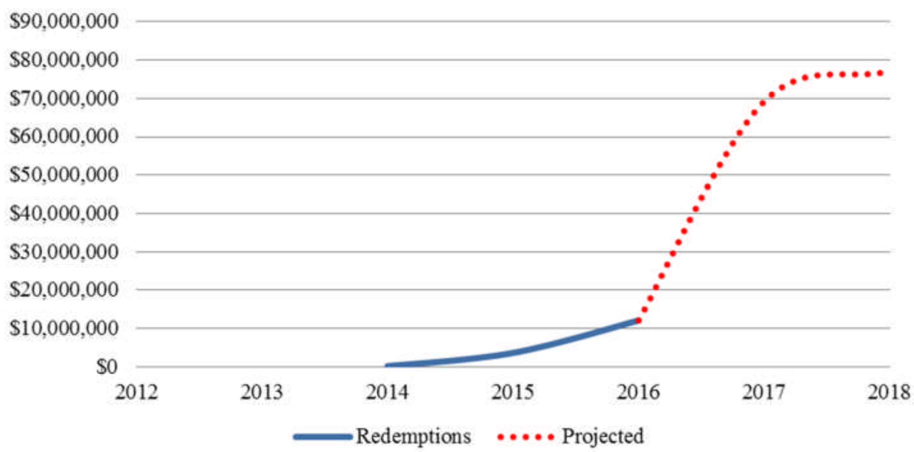
Infrastructure Development Tax Credit

Economic impact	According to tax credit analysis forms prepared by the DED, the program returns an estimated $3.26 for every $1 over 15 year period. We questioned the validity of this figure in our 2014 audit.
Prior audit findings	Findings in our 2014 audit focused on the inefficiency of the credit, significantly overstated economic benefits, and lack of a sunset provision.

Missouri Works

The Missouri Works (MW) program is authorized by Sections 620.2000 to 620.2020, RSMo, and has been in existence since 2013. The program replaced the MQJ program and three smaller tax credits. The program provides tax credits or allows business to keep the employee withholdings to facilitate the creation of jobs. The program has both entitlement and discretionary criteria for credit authorization. The program is administered by the DED. With an average of $5.2 million per year in redemptions over the past 4 fiscal years, this program is the state's twenty-first largest tax credit program, but redemptions are projected to increase significantly in coming years. Due to the MW program replacing MQJ and due to high redemption projections in the short-term, we included this program as one of the high-cost programs.

Figure G: MW redemptions, fiscal years 2012 to 2018



Source: DED data

Program limits and special provisions

Credits were limited to $106 million in FY 2014, $111 million in fiscal year 2015, and $116 million beginning in fiscal year 2016. These caps only apply to the tax credits issued under this program, but there is no limit on the amount of employee withholdings. MW credits are transferable and refundable. The program sunsets in 2019.

Outstanding credits

As of June 30, 2016, tax credits outstanding totaled $11,665,888 and tax credits obligated totaled $464,103,631. Based on historical issuance trends from MQJ (now in the MW program), approximately 64 percent, or $294 million, of obligated credits will eventually be issued and available for redemption.

Economic impact

According to tax credit analysis forms prepared by the DED, the MW program returns an estimated $3.77 for every $1 invested over 10 years.

Redeemed Tax Credits by Tax Type

The following table lists the tax credit redemptions by the seven types of tax for fiscal years 2013 through 2016.

Year	Individual Income	Insurance Premium	Corporate Income	Withholding	Financial Institutions	Corporate Franchise	Fiduciary Income
2013	$ 291,049,187	104,299,129	66,774,247	32,493,830	7,135,171	7,462,412	3,689,440
2014	326,483,551	88,946,872	76,536,060	47,226,232	5,072,700	6,150,105	2,431,158
2015	281,870,986	74,436,120	76,387,749	63,013,235	8,925,315	3,765,310	4,913,139
2016	335,397,328	72,305,477	73,179,563	69,839,046	21,059,868	1,289,887	2,300,191
Total	$ 1,234,801,052	339,987,598	292,877,619	212,572,343	42,193,054	18,667,714	13,333,928

Source: DOR annual reports

Tax Credits Redemptions

The following table lists total annual tax credit redemptions for each tax credit program for state fiscal years 2013 through 2016. Tax credits are redeemed when used by taxpayers to offset annual tax liabilities or receive monies back if the credit is refundable. We listed the seven programs reviewed first in the chart, then all other programs in alphabetical order.

	Year Ended June 30,			
Program	2013	2014	2015	2016
Low Income Housing	$144,082,976	155,168,646	140,292,352	170,028,538
Senior Citizen Property Tax	113,962,551	110,642,611	104,810,266	106,926,350
Historic Preservation	78,814,711	59,829,671	47,638,886	57,496,338
Missouri Quality Jobs[4]	39,278,156	46,021,490	56,246,334	61,842,118
New Markets	12,934,464	18,620,744	18,353,742	24,379,243
Infrastructure Development	14,804,416	19,474,868	14,792,341	13,094,319
Missouri Works Program[1]	N/A	146,923	3,588,784	12,075,789
Advanced Industrial Manufacturing Zones Act[1]	N/A	N/A	N/A	N/A
Affordable Housing Assistance	7,406,988	5,620,750	3,358,808	8,484,673
Agricultural Product Utilization Contributor	1,267,239	2,022,953	1,051,662	1,553,333
Alternative Fuel Infrastructure	69,454	784	7,785	0
Amateur Sporting Ticket Sales[1]	N/A	0	38,610	564,723
Amateur Sporting Contribution[1]	N/A	0	0	0
Bank Franchise Tax	2,559,444	3,224,212	2,245,779	3,227,364
Bank Credit for S Corporation Shareholders	4,533,837	2,607,870	6,298,017	9,449,559
Bond Guarantee[2]	0	0	0	0
Brownfield Jobs/Investment (Refundable)[3]	0	2,012	0	0
Brownfield Jobs/Investment[3]	68,693	103,830	89,422	0
Brownfield Remediation	6,378,613	5,354,819	7,492,114	11,205,914
BUILD	8,212,533	8,533,926	7,990,466	8,389,892
Business Facility Headquarters	4,431,018	6,618,443	4,493,611	4,593,362
Business Facility Headquarters (Refundable)	141,693	4,024	0	19,799
Certified Capital Companies (CAPCO)	590,235	345,678	147,614	115,390
Champion for Children (aka Children in Crisis)	792,368	930,769	999,990	999,987
Charcoal Producers[3]	0	0	0	0
Community Development Bank	231	261	0	48
Development[4]	3,863,814	3,301,504	3,087,640	893,519
Developmental Disability Care Provider[1]	N/A	92,993	16,794	18,618
Disabled Access Tax Credit for Small Business	14,603	13,340	16,525	7,288
Disabled Access for Homeowners	10,258	6,759	18,190	10,233
Distressed Areas Land Assemblage	1,651,415	9,491,328	4,018,256	1,015,637
Dry Fire Hydrant	0	264	34	4,592
Enterprise Zone Tax Benefit	557,312	504,129	147,773	0
Enhanced Enterprise Zone[4]	6,451,698	7,423,842	5,400,268	6,565,995
Family Development Account	95	0	0	0
Family Farm Breeding Livestock Loan	32,033	22,770	24,982	35,496
Film Production	56,665	119,800	389,942	6,832

Appendix I

Tax Credits Redemptions

Program	Year Ended June 30, 2013	2014	2015	2016
Food Pantry	72,822	840,234	1,118,866	1,155,480
Innovation Campus[1]	N/A	N/A	N/A	0
Maternity Home	1,138,969	2,051,028	1,511,157	1,657,333
Missouri Examination Fee and Other Credit	5,886,105	5,042,337	5,511,518	5,053,134
Missouri Health Insurance Pool Assessment	16,874,865	17,830,771	5,581,543	287,451
Missouri Life & Health Insurance Guaranty	5,664,124	6,520,591	7,208,654	6,316,444
Missouri Manufacturing Jobs	0	5,419,607	16,460,214	16,369,065
Missouri Wood Energy	3,563,209	2,853,117	2,220,340	644,279
Missouri Works Job Retention Training	N/A	7,494,768	8,570,164	6,452,185
Missouri Works New Jobs Training	N/A	6,236,452	6,319,681	2,816,374
Neighborhood Assistance	7,392,113	10,848,983	8,230,286	10,318,971
Neighborhood Preservation Act	1,232,214	1,789,898	1,766,762	2,963,957
New Enterprise Creation Act[3]	0	0	0	0
New Generation Cooperative Incentive	2,100,091	4,747,230	2,842,870	1,730,342
New Jobs Training[4]	3,081,261	N/A	N/A	N/A
Peace Officer Surviving Spouse	78,249	76,533	70,941	117,554
Pregnancy Resource Center	1,194,477	1,715,600	1,581,045	1,845,875
Qualified Beef Tax Credit	522,858	305,552	165,376	278,918
Rebuilding Communities[4]	1,430,329	2,095,225	1,693,099	1,127,699
Research Expense	0	0	(44,114)	19,417
Residential Treatment Agency	292,396	490,033	303,112	275,140
Retain Jobs	1,960,931	N/A	N/A	N/A
Self Employed Health Insurance	1,811,060	2,959,063	3,418,312	6,594,509
Shared Care	41,645	64,991	37,056	39,846
Shelter for Victims of Domestic Violence	851,517	1,079,795	901,392	1,244,890
Small Business Incubator	68,441	142,685	141,068	109,515
Special Needs Adoption	744,155	718,495	380,715	231,367
Transportation Development	12,510	5,415	1,458	1,207
Wine and Grape Production	15,301	26,597	15,527	8,823
Youth Opportunities	3,906,262	5,239,666	4,247,825	4,706,636
Total	$512,903,417	552,846,679	513,311,854	575,371,360

Source: DOR quarterly tax redemption reports

[1] Newly established tax credit between 2013 and 2016.

[2] The Bond Guarantee credit is a current program used as collateral on bonds and the credits are only redeemed in the event of a default of a bond.

[3] The tax credit has expired or its cumulative cap exhausted, but credits may still be claimed under carry forward provisions.

[4] Replaced by the Missouri Works program except current projects.

Tax Credit Funding Limits and Sunsets Provisions

This table lists any annual or cumulative funding limits applicable to each tax credit program as of June 30, 2016. In addition any future or past term limitation provisions applicable to each program is listed. Previously closed programs may still have redemptions under the carry forward provisions of the programs. The programs are grouped by discretionary and entitlement programs.

Program/Funding by Discretion	Funding Limit	Annual(A) Cumulative(C) Individual (I) Limit	Term Limitations[1]
Discretionary			
Affordable Housing Assistance	$ 11,000,000	A	
Alternative Fuel Infrastructure[2]	50,000	A	Expires 2017
Amateur Sporting - Ticket Sales	3,000,000	A	Sunsets 2019
Bond Guarantee	50,000,000	C	
Brownfield Jobs/Investment		None	
Brownfield Remediation		None	
Business Use Incentives for Large-scale Development	25,000,000	A	
Community Development Bank	6,000,000	C	Exhausted
Development	6,000,000	A	Phasing Out 2013
Enhanced Enterprise Zone Tax Benefit	24,000,000	A	Expired 2013
Family Development Account	300,000	A	
Film Production Tax Credit	4,500,000	A	Sunset 2013
Infrastructure Development[3]	10,000,000	A	
Low Income Housing[4]		Soft	
Missouri Wood Energy[5]	2,500,000	A	Expires 2020
Missouri Works Job Retention	45,000,000	C	Sunsets 2019
Missouri Works New Jobs Training	55,000,000	C	Sunsets 2019
Missouri Works[6]	116,000,000	Soft	Sunsets 2019
Neighborhood Assistance	16,000,000	A	
New Enterprise Creation Act	20,000,000	C	Exhausted
Small Business Incubator	500,000	A	
Youth Opportunities	6,000,000	A	
Entitlement			
Advanced Industrial Manufacturing Zones Act		None	Expires 2023
Agricultural Product Utilization Contributor	6,000,000	A	Expires 2021
Amateur Sporting Contribution	10,000,000	A	Sunsets 2019

Tax Credit Funding Limits and Sunsets Provisions

Program/Funding by Discretion	Funding Limit	Annual(A) Cumulative(C) Individual (I) Limit	Term Limitations[1]
Bank Franchise Tax		None	
Bank Credit for S Corporation Shareholders		None	
Business Facility - Headquarters		None	Expires 2020
Certified Capital Companies (CAPCO)	140,000,000	C	Exhausted
Champion for Children (aka Children in Crisis)	1,000,000	A	Expires 2019
Charcoal Producers		None	Expired 2005
Developmental Disability Care Provider		None	
Disabled Access for Homeowners	100,000	A	Expires 2019
Disabled Access Tax Credit for Small Business[7]		I	
Distressed Areas Land Assemblage[8]		A & C	Expired 2013
Dry Fire Hydrant	500,000	A	Sunset 2010
Enterprise Zone		None	Expired 2005
Family Farm Breeding Livestock Loan[9]	300,000	A	
Food Pantry Tax Credit	1,250,000	A	Sunsets 2019
Historic Preservation[10]	140,000,000	Soft	
Innovation Campus		None	Sunsets 2020
Maternity Home	2,500,000	A	Expires 2020
Missouri Examination Fee and Other Credit		None	
Missouri Health Insurance Pool Assessment		None	Expired 2013
Missouri Life & Health Insurance Guaranty		None	
Missouri Manufacturing Jobs	15,000,000	A	Sunset 2016
Missouri Works[6]	116,000,000	Soft	Sunsets 2019
Missouri Quality Jobs[11]	80,000,000	A	Phased Out 2013
Neighborhood Preservation Act[12]	16,000,000	A	
New Generation Cooperative Incentive	6,000,000	A	Expires 2021
New Markets	25,000,000	A	Sunset 2013
Peace Officer Surviving Spouse			Expires 2019
Pregnancy Resource Center	2,500,000	A	Expires 2019
Qualified Beef Tax Credit	2,000,000	A	Expires 2021
Rebuilding Communities	8,000,000	A	Phased Out 2013
Residential Treatment Agency		None	
Rolling Stock		None	Expires 2020
Self Employed Health Insurance		None	

Appendix J

Tax Credit Funding Limits and Sunsets Provisions

Program/Funding by Discretion	Funding Limit	Annual(A) Cumulative(C) Individual (I) Limit	Term Limitations[1]
Senior Citizen Property Tax Relief [13]		I	
Shared Care [14]		I	
Shelter for Victims of Domestic Violence	2,000,000	A	
Special Needs Adoption	2,000,000	C	
Transportation Development	10,000,000	A	Expired 2006
Wine and Grape Production		None	

Source: tax credit analysis forms prepared by the various administering agencies

[1] Exhausted means the cumulative limit has been reached. Expired or expires means no new credits could or can be authorized. Sunsets means the program is subject to the Sunset Act. Repealed indicates the authorizing statute was repealed. Phased out means no new companies or projects qualify; however, those already approved will continue to earn credits through the remaining project life.
[2] The annual cap is $1 million subject to appropriation. Appropriation was $50,000 for fiscal year 2016.
[3] $10 million is the maximum that can be authorized in any calendar year, however, the statutory limit can be increased up to $25 million with the consent of the directors of DED and DOR, and the commissioner of administration.
[4] The state low income housing 9 percent credit may be allocated to a qualified development in the amount up to 100 percent of the federal tax credit allocated to development. The total amount of the federal 9 percent credit is capped annually at an amount set by the Internal Revenue Service, based on the population of the state. Developments financed with tax-exempt bonds are eligible to apply for state credits equal to approximately 4 percent of the eligible development and a $6 million annual limit applies to the 4 percent credits.
[5] Annual cap of $6 million, subject to appropriation with $2,500,000 available for tax credit for fiscal year 2016.
[6] This tax credit is listed as both discretionary and entitlement because applicants may receive withholdings or credits under different provisions of each type. The cap does not apply to the withholdings.
[7] There is a limit of $5,000 per taxpayer.
[8] This tax credit has both an annual and a cumulative cap. The maximum aggregate amount for all projects is $95 million. The annual amount is capped at $20 million.
[9] Fiscal year limits are capped by individual loan limits. Beef and dairy is $75,000, swine is $35,000, and sheep and goats is $30,000.
[10] Projects not under a cap: Owner-occupied residences (capped at $250,000 in credits) and projects to receive $275,000 in credits.
[11] Replaced by Missouri Works except current projects.
[12] The $16 million cap is split with $8 million for eligible areas and $8 million for qualifying areas.
[13] The senior citizen property tax relief is capped at $750 per claim for rent paid and $1,100 for property tax paid.
[14] Limited to $500 per tax credit per qualified caregiver.

Appendix K

Tax Credit Amounts Outstanding, Obligated, and Carry Forward Provisions

The following table lists the total amount of credits outstanding and obligated as of June 30, 2016, by program. Also, the number of years the credits may be carried forward and applied to subsequent years' taxes is noted.

Program	Amount Outstanding	Amounts Obligated	Carry Forward (years)
Advanced Industrial Manufacturing Zones Act[1]	$ N/A	N/A	0
Affordable Housing Assistance	16,625,396	1,145,830	10
Agricultural Product Utilization Contributor	5,611,153	0	4
Alternative Fuel Infrastructure[2]	75,645	N/A	2
Amateur Sporting - Ticket Sales	705,750	219,250	1
Amateur Sporting Contribution	9,800,000	0	2
Bank Franchise Tax[3]	N/A	N/A	0
Bank Credit for S Corporation Shareholders	5,334,764	0	5
Bond Guarantee	0	22,762,400	10
Brownfield Jobs/Investment	0	0	0
Brownfield Remediation	11,192,276	23,415,141	20
Business Use Incentives for Large-scale Development	15,324,187	145,745,740	0
Business Facility-Headquarters	2,861,770	0	0
Certified Capital Companies (CAPCO)	961,880	0	Unlimited
Champion for Children (aka Children in Crisis)	1,193,303	0	5
Charcoal Producers	498,472	0	7
Community Development Bank[4]	0	0	10
Development	5,960,371	0	5
Developmental Disability Care Provider[2]	18,487	N/A	4
Disabled Access for Homeowners[3]	N/A	N/A	0
Disabled Access Tax Credit for Small Business	67,260	0	0
Distressed Areas Land Assemblage	1,682,066	3,110,296	6
Dry Fire Hydrant	4,567	0	7
Enhanced Enterprise Zone	5,291,106	40,682,614	0
Enterprise Zone Tax Benefit	1,062,772	0	0
Family Development Account	0	0	0
Family Farm Breeding Livestock Loan	83,665	48,073	3
Film Production	2,376,323	0	5
Food Pantry	795,151	0	3
Historic Preservation	71,222,712	273,776,274	10
Infrastructure Development	22,177,669	23,607,402	5

Tax Credit Amounts Outstanding, Obligated, and Carry Forward Provisions

Program	Amount Outstanding	Amounts Obligated	Carry Forward (years)
Innovation Campus Tax Credit	0	0	4
Low Income Housing	827,860,826	476,266,990	5
Maternity Home[2]	2,172,597	N/A	4
Missouri Examination Fee and Other Credit[2]	5,891,700	N/A	5
Missouri Health Insurance Pool Assessment[2]	13,889,267	N/A	Unlimited
Missouri Life & Health Insurance Guaranty[2]	16,701,887	N/A	0
Missouri Manufacturing Jobs	0	91,558,142	0
Missouri Quality Jobs	13,276,105	193,771,886	0
Missouri Wood Energy[2]	2,047,908	N/A	4
Missouri Works Job Retention Training[5]	N/A	N/A	0
Missouri Works New Jobs Training[5]	N/A	N/A	0
Missouri Works	11,665,888	464,103,631	0
Neighborhood Assistance	15,471,322	16,713,730	5
Neighborhood Preservation Act	9,896,251	44,151,736	5
New Enterprise Creation Act[4]	0	0	10
New Generation Cooperative Incentive	9,871,577	9,566,604	4
New Markets	30,059,967	0	5
Peace Officer Surviving Spouse[3]	N/A	N/A	0
Pregnancy Resource Center[2]	2,062,032	N/A	4
Qualified Beef	503,744	0	4
Rebuilding Communities	960,820	150,000	5
Residential Treatment Agency[2]	381,072	N/A	4
Rolling Stock Tax Credit[3]	N/A	N/A	0
Self Employed Health Insurance[3]	N/A	N/A	0
Senior Citizen Property Tax Relief [3]	N/A	N/A	0
Shared Care	33,626	0	0
Shelter for Victims of Domestic Violence[2]	1,673,627	N/A	4
Small Business Incubator	319,172	879,099	5
Special Needs Adoption	106,654	0	5
Transportation Development	1,435,852	0	10
Wine and Grape Production	14,708	0	0
Youth Opportunities	7,336,802	9,933,525	5
Total	$ 1,154,560,149	1,841,608,363	

Source: tax credit analysis forms prepared by the various administering agencies

[1] The credit was established by Section 68.075, RSMo and became effective August 28, 2016.
[2] Credits are issued when authorized, so there are no obligated credits.
[3] Tax credits are not authorized or issued but redeemed directly on tax returns, consequently there are no outstanding or obligated credits.
[4] The cumulative cap has been exhausted for this program.
[5] Employers receive training benefits funded from a portion of the employee' withholdings for income taxes for new or retained jobs, consequently there are no outstanding credits or obligated credits.