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Missouri Tax Credits

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Introduction

Missouri's first tax credit was authorized in 1973 and many more have been adopted in the following years. Some of these programs have expired or have been eliminated from the statutes; however, the majority of the programs are still active today (Joint Committee on Tax Policy 2009, "Tax Credits in Missouri").

A tax credit is a dollar-for-dollar reduction, satisfaction, or payment of tax liability. Recently, the amount of tax credits that have been authorized, issued, and redeemed has grown and has had a significant impact on the state's general revenue collections, the state's fund which pays for most of Missouri's expenditures. Some policy-makers have concerns that this unchecked growth could lead to a state fiscal crisis in the future. This policy brief will explore the history of tax credits, many of the features that tax credits have, and the impact that the tax credits have had on the state's budget in the past and may have on the fiscal situation of the state in the future.

History

Because the Missouri legislature is prohibited from appropriating money to private individuals or businesses, it instead grants taxpayers the ability to subtract or "pay" the amount of taxes that they owe to the state through a credit against their taxes (Missouri Constitution, 2008). Recipients of tax credits may be authorized to receive tax credits

each year the program is active; tax credits that are redeemed are subtracted from what the state would otherwise collect in revenue. Tax credits can have a variety of features that affect their value and use.

The purpose of tax credits is to achieve a policy goal or a public benefit. For instance, Missouri's first tax credit, the Senior Citizen Property Tax Credit, was established in 1973; its aim is to provide low-income seniors and the disabled with property tax relief.

Over the past 36 years, the General Assembly authorized a total of 64 tax credit programs, which have goals that include: supporting low-income housing, rehabilitating old buildings, encouraging private donations for social causes, and enticing companies to create jobs (Joint Committee on Tax Policy 2009, "Tax Credit Creation Timeline") The credits have different features, resulting in 36 unique tax credit programs.

Representative Features of Missouri Tax Credits

The Missouri Low Income Housing Tax Credit, in combination with a similar federal tax credit, incents the development of housing for low income individuals and families. The Quality Jobs Program supports job creation by allowing companies to retain the state withholding (income) taxes of newly created jobs and, for some types of projects, provides a refundable tax credit to the companies if the withholding taxes are insufficient to meet the predetermined

program awards. The Pregnancy Resource Center Tax Credit encourages private contributions to pregnancy resource centers in the state. The Distressed Area Land Assemblage Tax Credit provides an incentive to developers to acquire property within a designated area for the purposes of redevelopment. These tax credit examples provide a broad range of the purposes, sizes, and designs that tax credits can have. See table 1, page 3 for the typical variations in the features of the tax credit programs.

Tax Credit Features

A 2005 study by the Department of Economic Development divided the tax credits it administers into three categories:

1. Economic Benefit Programs
2. Quality of Life Programs
3. Hybrid Programs focused on the Economy and Quality of Life (Incentives Review Committee 2005, 11-15).

The categories show the purpose of the program which helps the department in evaluating the effectiveness of the credit. Tax credits have different features depending on the goal or purpose of the program. Tax credits may have some of the following features (Joint Committee on Tax Policy 2009, "Tax Credits in Missouri"):

Carry-back

A carry-back provision allows the user to apply the credit to taxes that have already been paid in prior years. This feature allows the credit to act as a reimbursement of taxes already paid to Missouri to the extent of the taxpayer's past years' tax liabilities. It also increases the value of the credit because equity (equal to the amount of taxes paid in the past) is provided to taxpayers upon the filing of their state taxes.

Carry-forward

A carry-forward provision allows the user to apply the tax credit to their tax liability in future tax years, should the taxpayer have a tax liability insufficient to fully use the value of the credit. This feature provides flexibility to the taxpayer because it extends the time when a tax credit can be used against state taxes; however, if taxpayers wait to redeem the credit, the value of the credit diminishes because of the time value of money.

Refundable

A refundable tax credit allows the user to receive a refund for the difference between a taxpayer's tax liability and the value of the credit. This feature is optimal for taxpayers because it allows them to receive the full value of the tax credit upon filing their taxes.

Transferable

A tax credit that is transferable may be assigned, sold, or trans-

ferred to another taxpayer. This allows the owner of a tax credit to trade the tax credit for immediate equity

Annual Cap

Many tax credits have an annual cap that limits the amount of credits that may be authorized or issued in any year.

Program Cap

Some tax credit programs have an aggregate cap and may issue credits until that maximum cap is exhausted.

Entitlement

Some tax credits are entitlement programs, which means the taxpayer will receive the credit if they meet the criteria of the program. This feature provides certainty to the taxpayer such that if they meet the requirements of the program, they will receive the credit.

Discretionary

Some tax credit programs give discretion to the agency administering the program to determine who is eligible to receive the program.

Streaming

Some tax credits are given out over several successive years; these tax credits are issued in a "stream" to the recipient if the recipient completes the targeted activity over the designated time period. Often, tax credits with this feature have annual benchmarks that must be met or the taxpayer will stop receiving the credit.

Sunset

Some tax credit programs are scheduled to become inactive at a certain date in the future; this date is commonly referred to as a sunset date.

Impact of Tax Credits on State Budget

Generally, tax credits have three stages: authorization, issuance, and redemption.

- Authorization is when the administering agency of a tax credit either approves that a credit will be issued upon a targeted activity taking place or the activity has already taken place and the agency is authorized to issue the credit.
- Issuance is when the targeted activity has taken or is taking place and a credit is provided to a taxpayer, either in the form of a certificate or through tracking of the taxpayer's state taxes.
- Redemption is when the taxpayer redeems the credit against their state taxes.

Figure 1 shows the dollar amounts of tax credits authorized, issued, and redeemed over the past 10 years for all of Missouri's tax credit programs. The dramatic growth in credits authorized, issued and redeemed is apparent.

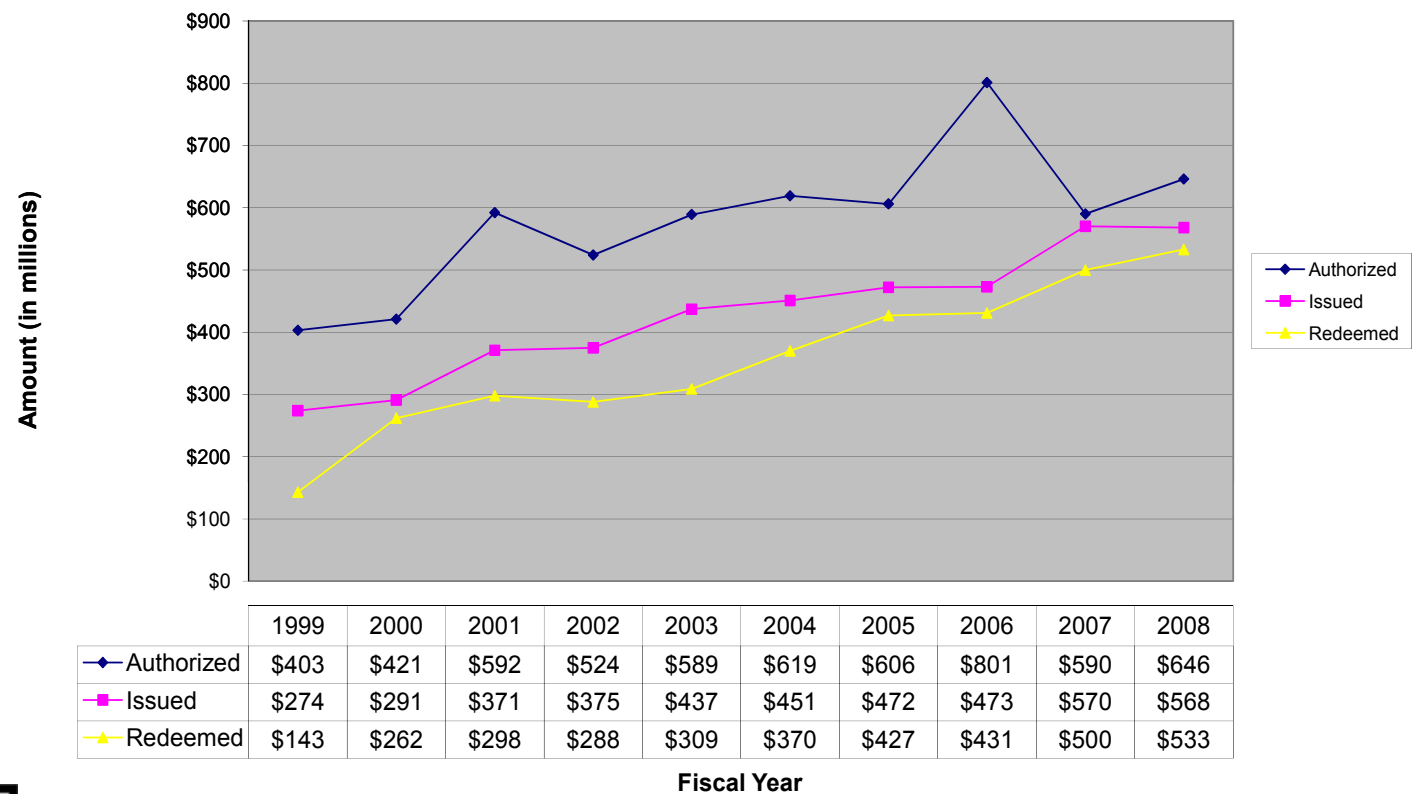
Table 1. Features of Typical Tax Credit Programs

Feature	Low Income Housing	Quality Jobs	Pregnancy Resource Center	Distressed Area Land Assemblage *
Carry-back	3 years	No	No	No
Carry-forward	5 years	No	4 years	6 years
Refundable	No	Yes	No	No
Transferable	Yes - within ownership structure	Yes	Yes	Yes
Annual Cap	100% of federal credit	\$80,000,000	\$2,000,000	\$20,000,000
Program Cap	No	No	No	\$95,000,000
Entitlement	No	Yes	Yes	Yes
Discretionary	Yes	No	No	No
Streaming	Yes - 10 years	Yes -3-5 years	No	No
Sunset	No	No	8/28/2012	8/28/2013

Sources: (Form 14s for Low Income Housing Tax Credit, Quality Jobs Tax Credit, Pregnancy Resource Center Tax Credit, and Distressed Area Land Assemblage Tax Credit obtained from the Missouri Department of Economic Development and the Missouri Department of Social Services, 2008) (Sections 135.350-135.363, RSMo, 620.1875-620.1900, RSMo, 135.630, RSMo, and 99.1205, RSMo)

*House Bill 191 of the 2009 legislative session increased the annual cap of the program from \$10,000,000 to \$20,000,000. This change will take effect on August 28, 2009 (HB 191).

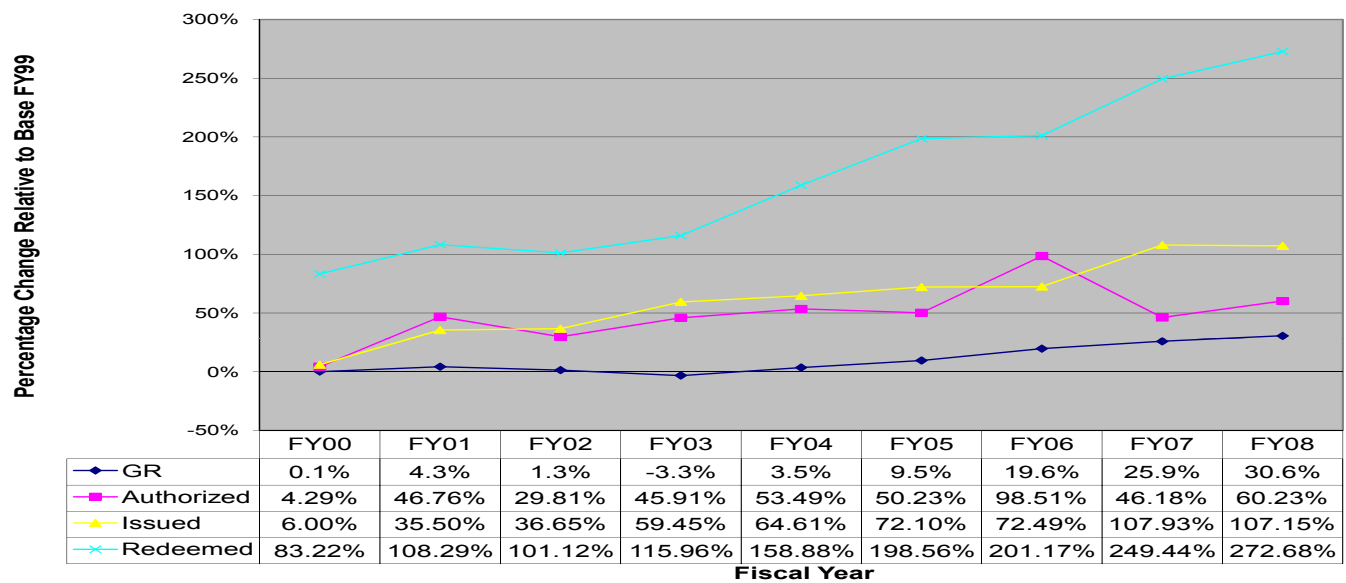
Figure 1. Total Amounts of Missouri State Tax Credits, FY 1999-2008.



In some cases, a tax credit is authorized, issued, and redeemed concurrently such as in the cases of the Senior Citizen Property Tax Credit or the Self-Employed Health Insurance Tax Credit, which are directly tied to the state's income tax forms. Other tax credits, such as the Historic Preservation Tax Credit or the Low Income Housing Tax Credit, could have years between each stage depending on the particular projects that use the credit.

Tax credits directly impact the General Revenue Fund. The General Revenue Fund is a fund that Missouri uses to collect its major taxes such as state sales tax, personal income tax, corporate income tax, and the corporate franchise tax collections. Most of the budget items for which Missouri appropriates money are paid for through the General Revenue Fund. The following chart shows the growth of tax credits relative to fiscal year 1999; it includes the percentage increase of authorized, issued, and redeemed amounts for all state tax credit programs as well as the percentage increase in the state's general revenue collections.

Figure 2. Tax Credit Growth Relative to General Revenue, FY 2000-2008.



Tax credit redemptions have increased significantly over the past ten years from \$142 million to \$532 million. Not only are the tax credits increasing, they are increasing far more rapidly than is the revenue in the state's general revenue fund. While general revenue has increased 30.4% since FY 00, the tax credits have increased by 273%. The effect of these increasing redemptions is that Missouri collects less in its General Revenue fund.

General Revenue Collections Compared to Tax Credit Redemptions (Fiscal Years 1999-2008)

	GR Collections	Tax Credit Redemptions	Tax Credit Redemptions as % of Collections
FY99	\$6,128,300,000	\$142,953,469	2.33%
FY00	\$6,133,600,000	\$261,922,226	4.27%
FY01	\$6,388,900,000	\$297,750,752	4.66%
FY02	\$6,210,900,000	\$287,503,418	4.63%
FY03	\$5,926,307,000	\$308,720,438	5.21%
FY04	\$6,345,800,000	\$370,071,336	5.83%
FY05	\$6,711,400,000	\$426,797,418	6.36%
FY06	\$7,332,200,000	\$430,526,401	5.87%
FY07	\$7,716,400,000	\$499,543,365	6.47%
FY08	\$8,003,875,000	\$532,760,796	6.66%

Source: (Missouri Senate Appropriations, 2009) (Joint Committee on Tax Policy, "Tax Credit Trend Analysis," 2009).

In fact, the amount of tax credits redeemed in FY 08 is larger than the annual growth in general revenue in all but one of the last nine years (since FY 00) and substantially larger than the average annual growth over those years (\$187M). An analysis of the future impact that tax credits may have on Missouri's budget could be helpful for policy-makers in making future decisions in regards to tax credits.

Future Impact of Tax Credits on State Budget

Each year, the administering agencies of each of the tax credits estimate how many tax credits are outstanding, meaning how many tax credits could be redeemed at any time. Each administering agency completes a Form 14, a form created by the Office of Administration which provides a broad range of information on each tax credit. The form is a snapshot of each tax credit's pertinent information compiled after the end of each fiscal year. After tallying Missouri tax credits' data from the Form 14s, the estimated amount of outstanding tax credits after fiscal year 2008 is \$492,105,892 (Joint Committee on Tax Policy 2009, "Tax Credits in Missouri"). This figure represents the amount of tax credits that could be immediately redeemed against Missouri's tax collections; it is the best estimate of the state's total tax credit liability.

However, not all of the agencies have tracked the tax credits that they administer in the same manner. Prior to February of 2008, each department used its own methods of tracking the tax credits it administers. Since then, a system was developed so that each agency is required to track tax credits in a uniform manner (Ross 2008). Every tax credit is scheduled to be on the system by July 1, 2009 (Ross and Bott 2008). Much of the tax credits' aggregate information will be only forward looking, meaning that for some programs, only tax credits authorized after July 1, 2009 will be tracked according to the parameters of the new system.

Conclusion

Tax credit programs have been authorized for a variety of purposes, largely but not exclusively to enhance state or regional economic development.

The impact of tax credits on the state's budget has increased significantly over the past ten years increasing from 2.33% of the state's GR collections in 1999 to 6.66% of GR collections in 2008. Understanding what type of impact that tax credits have had on the state's budget in the past and an analysis of the impact of tax credits on future budgets could provide policy-makers with helpful information when making future decisions regarding tax credits.

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