

Legislature Brings Needed Oversight to Missouri's Tax Credit Program

At last count the State of Missouri had a yearly budget of around 19 billion dollars. In spite of tight budgets during the last few years, the overall trend has been for this sum to grow ever larger. Most of this money goes for projects that have widespread support by the people of this State such as education, transportation and law enforcement to name a few but there are other programs that are more controversial.

A report on Missouri's financial situation by a respected former State budget director identified four areas where spending must be brought under control if the State was to get back on the right economic path. Surprisingly one of these big four was Missouri's tax credits program. Most people don't consider tax credits as a major expense but projections are that Missouri's various tax credit programs will cost around 230 million dollars this year alone.

Basically tax credits work by rewarding people for certain types of behavior or economic activity in the State. For example, under the "Rebuilding Communities Tax Credit" a business that meets the eligibility requirements can receive a 40% break on the state income taxes it would otherwise have to pay if it invests in a "distressed community."

Adding to the allure of many tax credits is the fact that they can be sold or cashed in down the road in a future tax year. For example, suppose a small company is eligible for a tax credit but doesn't have enough tax liability to fully utilize the credit. This company can sell the credit to another company who can take maximum benefit of it or simply hold onto the credit for a few years until its tax liability has grown to the point that the credit can be fully used.

Tax credits themselves run the gambit from those that attempt to spur large companies into building or expanding business operations and hiring hundreds of workers to those that seek to encourage movie makers to film in the Show Me State. One of the most costly programs is the Historic Tax Credit that promotes the remodeling of historic buildings. This program alone will cost Missouri 66 million dollars this year.

Missouri's tax credit program has come under closer scrutiny in recent months with the discovery that some credits were being given to con artists who managed to scam the State out of thousands of dollars. Last year the legislature acted to bring about needed oversight with the formation of a special committee to look into the tax credit program. After this committee's work the legislature moved to pass the Tax Credit Accountability Act that took important steps towards reigning in this costly program. This law calls for periodic audits of tax credit programs with the reports to be shared with the governor, the legislature and the Joint Committee on Tax Policy.

The debate over which tax credits are a worthwhile investment of Missouri's tax dollars will no doubt continue. Yet one thing that all sides can agree on is that a program that costs \$230 million dollars per year should be subjected to close scrutiny. That was the focus behind the Tax Credit Accountability Act that the legislature passed this year. This new law will help give legislators a method for determining which credits are contributing to the State's growth and which need to be cut. As Missouri emerges from a

time of severe financial belt tightening into a brighter economic period it is important that fiscal discipline and cutting waste be a top priority in the tax credit system and in all state programs.

If you have comments or questions about this week's column or any other matter involving state government, please do not hesitate to contact me. You can reach my office by e-mail at matt_bartle@senate.state.mo.us.