



Gibbons Capitol Report  
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### **Protecting Taxpayers with Tax Credit Accountability**

Last month there was a small blurb in the St. Louis Post-Dispatch that read “Head of tax-credit scheme gets five-year sentence.” This scheme took place in 2003 and thanks to the research of a veteran capitol correspondent, came to public light. Now, three years later as those guilty of stealing taxpayer money go to prison, a system that was vulnerable to fraud is accountable to taxpayers.

#### **\$2 Million Rip Off**

In 2003, Virginia Young of the Post-Dispatch helped to uncover a scheme where several St. Louis area men were applying for tax credits through the state’s Rebuilding Communities Tax Credit program. The credit was designed to stimulate business in distressed communities. In the case of the Rebuilding Communities Tax Credit, taxpayers footed 40 percent of the cost of specialized equipment to companies that move into poor areas. Tax credits are just as good as currency. James Jones knew that and he and his colleagues sold the tax credits they fraudulently obtained to companies or people who would use them to reduce their taxes.

#### **Getting Answers**

But how did this fraud happen? We asked tough questions to get to the answer. I chaired the Joint Committee on Tax Policy\* and we asked state officials to explain why at least \$2 million in tax credits went to phantom companies. It turned out that James Jones, president of Electronics and More, supplied fake invoices that made it look like other conspirators bought equipment that qualified for the tax credits. Our next move was to make changes to protect taxpayers.

#### **Protecting Taxpayers**

When we next convened in 2004, we unanimously passed the Tax Credit Accountability Act to make sure that tax credits were being used the way they were intended. The law set a standard method for organizing tax credits and requires reporting on whether each tax credit is useful and free from abuse. The system was broken, but now we have the tools in place to allow the public to hold the state and those who use tax credits accountable.

The law now requires the state auditor to evaluate every tax credit program. As each audit is performed, it is then used by the Joint Committee on Tax Policy to determine the

benefit of each tax credit. To date, the auditor has only examined a handful of the state's more than 50 tax credit programs. The Joint Committee on Tax Policy has fully reviewed three tax credits following audits, as well as reviewed tax credit programs housed in most of the state's departments such as Economic Development. This continued review of tax credits protects taxpayers by preserving tax credits that help Missourians help themselves, while eliminating tax credits that waste taxpayers' money. At this point we have a number of state auditor candidates, I hope each of them note the important role this state office plays in holding tax credits accountable in order to better protect taxpayers.

*\*For more information on the Joint Committee on Tax Policy visit [www.senate.mo.gov/taxpolicy/](http://www.senate.mo.gov/taxpolicy/)*