



Senator Matt Bartle – Serving Jackson County

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Tax Credit Reform: An Idea Whose Time Has Come

A debate on how state government goes about doling out tax credits began in earnest this year in the Legislature after a group of senators, myself included, pushed for meaningful reforms to curb a system often dictated by political influence and special interests. By way of recap, a tax credit is an outright tax break that the state gives to a particular business or group—it is not a refund or a deduction. While this system works well for those fortunate enough to receive tax credits, it does little to help the vast majority of businesses and taxpayers.

Some think that offering tax credits to special interests will turn the economy around, but as I have been saying for awhile now, government works best when it steps out of the way and lets the free market do its job—not when it picks winners and losers in the marketplace. Bear in mind that every time the government chooses some lucky corporation or person for a tax credit, the remaining tax burden must be shouldered by those who do not enjoy such favorable treatment. Incrementally, this puts added pressure on individual taxpayers and takes away significant amounts of tax revenue that could go to local schools, highways or stepped up law enforcement.

Missouri is currently facing severe budget shortfalls, and dollars lost to tax credits are very difficult to recover. The assumption that each dollar given out in tax credits will be recouped by the relocation of a business to Missouri is flawed. According to the Show-Me Institute, for every dollar of tax credit granted, Missouri's economy must produce between \$25 and \$33 worth of final goods and services in order to break even. In essence, this

would require a return of about \$30 on each \$1 invested—a hopelessly optimistic amount.

So if tax credits are not the answer to improving economic development, what other tools do we have at our disposal to create jobs and foster a favorable economic climate in which businesses can thrive? One solution, which I favor, is lowering tax rates across the board. This approach is far more efficient and equitable than simply passing out highly targeted tax credits to a select few. Lowering tax rates creates a positive business climate and gives businesses of all types and sizes the opportunity to thrive.

Missouri's current economic development policy is seriously flawed and tremendously beholden to those with political influence. Perhaps this time of economic belt-tightening is just the opportunity we need to reform our state's approach to economic development and to help bring free market principles back to the Show-Me State.

If you have any 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.mo.gov or by phone at (888) 711-9278. You can also visit my Senate website at www.senate.mo.gov/bartle.

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