



September 27, 2010

Tax Credit Reform

Subject to Appropriations

Missouri's families and businesses alike are having to change in today's economy to live within their means and so too should government. Missouri's past two state fiscal years have been met with major revenue declines of -6.9% (\$585 million) in 2009 and -9.1% (\$676 million) in 2010 and next year our state faces a projected budget hole of at least \$900 million. But in spite of these tough economic times, we have the opportunity to reshape state government and ensure that your tax dollars are used effectively and efficiently. One such area in need of reform is the state's use of tax credits.

Recently, Gov. Jay Nixon created a Tax Credit Review Commission to look at the state's 61 tax credit programs and make recommendations for greater efficacy and enhanced return on investment. On Monday, the commission met in Cape Girardeau.

Tax credits are one of Missouri's economic development and social engineering tools. The state offers many tax credits for a diverse list of causes, including historic preservation, low-income housing, livestock breeding, job development, and on and on. If you can name it, there is probably a tax credit for it. Tax credits are an indirect appropriation of tax payer dollars

Fiscal Year	Redeemed
1999	142,953,469
2000	261,922,226
2001	297,750,752
2002	287,503,418
2003	308,720,438
2004	370,071,336
2005	426,797,418
2006	430,526,401
2007	499,543,365
2008	532,760,796
2009	584,526,191
2010	521,458,688

*Total dollar amounts of state tax credits redeemed over the past 11 years.
 Provided by the Joint Committee on Tax Policy*

to another and have grown by 266 percent in the last eleven years.

Last year alone, \$521.5 million in tax credits were redeemed and budget experts predict that number to increase to \$698.4 million this year. This explosion in tax credits has created an unfunded (issued but yet redeemed) tax credit liability to you of \$2.4 billion. To put it in perspective, in SFY 2009, Missouri was first in the nation for historic preservation tax credits (\$186 million) and second for low-income housing tax credits (\$106 million). Yet, Missouri was 45th in per capita funding of higher education and 32nd in per capita funding for K-12.

In my opinion, we must change our use of tax credits and I am calling for fundamental reform. All tax credits should be required to be approved like every other state expenditure of your tax dollars; through the appropriations process. The appropriations process is where

Missourians, through their elected representatives, have the ability to decide their priorities. By treating tax credits just like every other state expenditure, the General Assembly could weigh the benefit of a tax dollar spent on a credit against other state services. In this process, advocates of their tax credits will have to present their case why your tax dollars should fund tax credits over say education or access to healthcare; now they don't because tax credits come off the top as entitlements.



I am not advocating the elimination of tax credits. Tax credits can be a valuable tool. But these expenditures need to be weighed against other priorities like education, shelter workshops, access to healthcare, domestic violence shelters, prisons, roads, bridges, and other state services. For example, a popular local project in Cape Girardeau that was a discussion point of Monday's Commission meeting was the Schultz School Senior Housing project. For your information, what follows is what you paid for that project:

Number of Units	45
Residential Square Feet (1 BR 589-866 sq. ft., 2 BR 768-1104 sq. ft.)	37,446
Total Building Square Feet	68,853
Federal Low Income Housing Tax Credit (10 year)	\$6,600,000
Missouri Low Income Housing Tax Credit (10 year)	\$6,620,000
Federal Historic Preservation Tax Credit	\$1,682,710
Missouri Historic Preservation Tax Credit	\$2,103,387
Affordable Housing Assistance Program	\$198,767
Total Tax Credits (over 10 years)	<u>\$16,784,864</u>
Total Tax Credits per Apartment	\$372,996.98
Total Tax Credits per Residential Square Feet	\$448.70
Total Tax Credits per Total Square Feet	\$244.03

Source: Missouri Housing Development Commission and MO Dept. of Economic Development

Is \$372,996.98 per apartment the most efficient and effective use of your tax dollars? Let me

know what you think?

Contact Me

As always, I appreciate hearing your comments, opinions, and concerns. Please feel free to contact me in Jefferson City at (573) 751-2459. You may write to me at Jason Crowell; Missouri Senate; State Capitol; Jefferson City, MO 65101, or email me at: jcrowell@senate.mo.gov or visit me on the web at <http://www.senate.mo.gov/crowell>.

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