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Summary of the Missouri Tax Credit Reform Proposals

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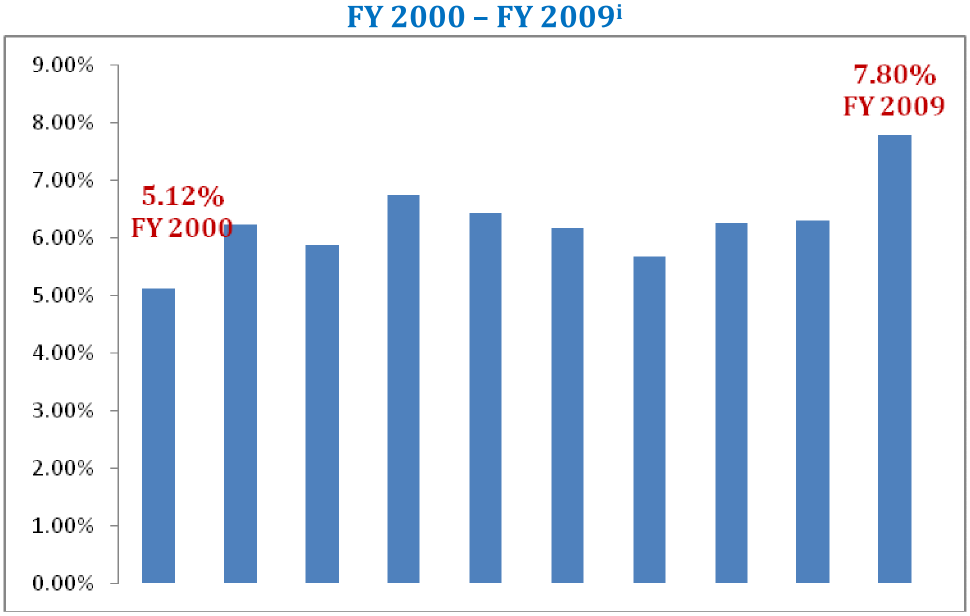
Governor Nixon's tax credit reform proposal was introduced last week on the Missouri Senate floor in the form of an amendment to Senator Dempsey's economic development bill, Senate Bill 895. The House version of this proposal, House Bill 2399, will be heard in the House Jobs and Economic Development Committee on April 6th. The following summarizes the proposal and provides background data that indicate that the reform initiative could be one responsible solution to the budget crisis facing Missouri.

Background

Overall, spending on Missouri tax credit programs has increased by approximately 85 percent over the last decade (state fiscal years 2000 – 2009), from a $314 million annual expenditure to $584 million annual expenditure in FY 2009. In fact, as indicated in Table 1, below, tax credits as a percent of the state general revenue fund grew from 5.12 percent to 7.8 percent over this period. This increase occurred at the same time that nearly all other state services, including education, health care, child protection and infrastructure, faced significant reductions due to fiscal constraints.

Table 1: Tax Credits as a Percent of Missouri General Revenue FY 2000 – FY 2009[i]



During the current year, the FY 2010 general revenue budget has been reduced by more than $800 million in mid-year reductions. The revenue estimates for the year are being revised, but economic data indicate that

Missouri may only net $6.7 billion in general revenue funds for FY 2010. At their current rate, tax credits would rise to 8.7 percent of the total general fund budget.

The FY 2011 and FY 2012 budgets are expected to be even more dire for Missouri. The legislature is currently debating an array of proposed cuts to core services within the FY 2011 budget, including potentially not meeting the K-12 school funding formula and serious reductions in childcare assistance. By comparison, estimates indicate that Missouri currently has more than $2.4 billion in outstanding tax credit obligations that will be potentially redeemed over the next five years.[ii]

Summary of the Tax Credit Reform Proposal

House Bill 2399 and the original amendment[iii] proposed for Senate Bill 895 make significant changes to Missouri tax credits, summarized below. The changes apply to all tax credits except the Senior Citizen Circuit Breaker and Homestead Preservation credits, which are intended to help offset the costs of local property tax for seniors and people living with a disability. The "base" amount of tax credit expenditures in FY 2009 was $466.7 million; excluding spending on those two exempted credits.

1. The proposal limits or "caps" all other tax credits at $314 million annually (about 67 percent of the FY 2009 base year);
2. Missouri currently has more than 50 tax credit programs that would be "pooled" into six categories. The new pooling categories and the amount of the total cap that would be required to be allocated to each "pool" are:
    a. New Business Development – 30 percent of total ($94.2 million)
    b. Community Assistance - 5 percent ($15.7 million)
    c. Public Infrastructure - 6 percent ($18.84 million)
    d. Redevelopment – 25 percent ($78.5 million)
    e. Affordable Housing – 10 percent ($31.4 million)
    f. "At Large"/Flexible Pool – 20 percent ($62.8 million)
3. The proposal gives the Department of Economic Development authority over tax credits;
4. Tax Credit recipients would be barred from applying approved tax credits to previous tax years and the amount of years that tax credits could be carried forward is limited to 5 years;
5. The proposal allows the tax credits to be refundable: beginning with allowing 10 percent of all tax credits to be refundable in the first year, increasing to 50 percent of all tax credits by fiscal year 2017
6. Allows tax credits to remain sellable.

The proposal contains an emergency clause, making it active upon passage.

Two significant amendments to the initiative have been proposed in the Missouri Senate. The first amendment, proposed by Senator Shields, contains the following distinctions from the original proposal:

1. Would increase the overall cap from the $314 million to "5 percent of the FY 2009 general revenue budget", or approximately $372 million (effectively 79.7 percent of tax credit expenditures in FY 2009); and
2. Requires that $100 million, or 30 percent of the increased overall cap, be expended within the "New Business Development" category of tax credits, whichever is higher.

The second amendment, proposed by Senator Crowell, would require:

1. The general assembly to appropriate the amount for tax credit spending each year; and
2. Would create new "fund pools" for tax credits. This component of the amendment would require that upon authorization of tax credits, the amount approved would be placed in a fund until redemption. Every two years the unspent amounts remaining in the funds would revert to general revenue. Currently, Missouri does not have separate fund pools for tax credit expenditures. Missouri also does not currently account for the amount redeemed versus the outstanding credits annually.

Community Assistance Tax Credits Should Be Exempted

A shortcoming of the proposal is that it places nonprofit services tax credits under the same limitations and pooling as economic development tax credits. A strong case can be made that the nonprofit services tax credits (grouped within the category of "Community Assistance") should be exempted from the bill just as the homestead preservation and circuit breaker credits were.

Currently, Missouri has several nonprofit related tax credits including:

- The youth opportunity tax credit;
- The neighborhood assistance program;
- Tax credits for food pantry donations;
- Credits for donations to maternity homes;
- Adoption tax credits; and
- Tax credits for donations to domestic violence shelters.

These nonprofit related tax credits provide an incentive to enhance donations for critical charitable services that benefit the most vulnerable Missourians. The total authorized on these tax credits was approximately $30 million in FY 2009, or less than 7 percent of the total tax credit expenditures that year.[iv] Under the reform proposal, the total expenditure for nonprofit related tax credits would be reduced by 50 percent, a larger percentage reduction than the total reduction for all tax credits.

These "community assistance" tax credits do not fall within the same parameters of the economic development related tax credits because they were created for a unique purpose. While evidence exists that many of these services do in fact have a strong economic benefit, their impact cannot be measured in the same way that economic development tax credits could be assessed. Additionally, the community assistance tax credits are already currently capped and have very specific guidelines. It would be prudent for these credits to be exempted from the bills, just as the circuit breaker and homestead preservation credits were.

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[i] Missouri Budget Project staff comparison of Tax Credit Redemption with Missouri General Revenue FY 2000 - 2010. Data on Tax Credit Expenditures is from the Missouri Senate Appropriations Committee Annual Fiscal Reports for 2006, 2007 and 2009. Data on Missouri general revenue is from the Office of Administration.

[ii] Missouri General Assembly Joint Tax Policy Committee Staff Estimate.

[iii] The reform proposal was not within the original text of the Senate bill, but is currently being debated as a potential floor amendment to the Senate Bill.

[iv]Missouri General Assembly Joint Tax Policy Committee.