

MEDC

February 4<sup>th</sup> at 3:00

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Missouri Department of Economic Development

# Tax Credit Review Commission

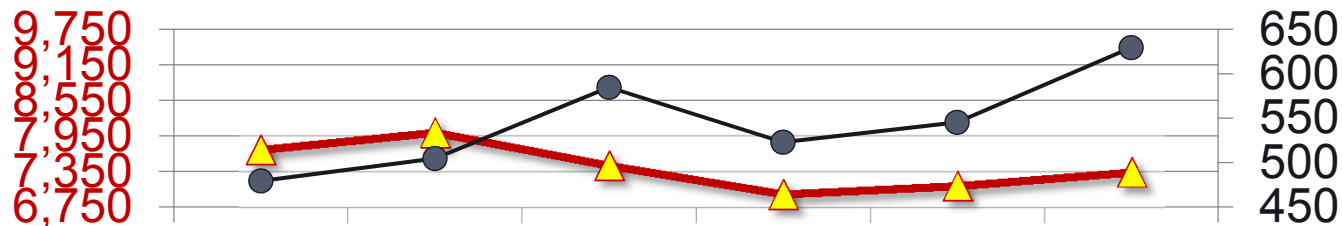
# The Commission

- Bi-Partisan Missouri Tax Credit Review Commission created by Governor Nixon July 21, 2010.
- 27 business, community and legislative leaders
- Co-Chairs – Senator Chuck Gross, (ret.) and Steven Stogel, DFC Group, StL
- Original report provided to Governor on November 30, 2010
- Reconvened Commission September 12, 2012 to update report
- Detail found on <http://tcrc.mo.gov>

# The credits

- 61 Missouri tax credit programs
- Significant growth in redemptions from 2010-2012 – 15.4 percent increase

## General Revenue Collections & Tax Credit Redemptions

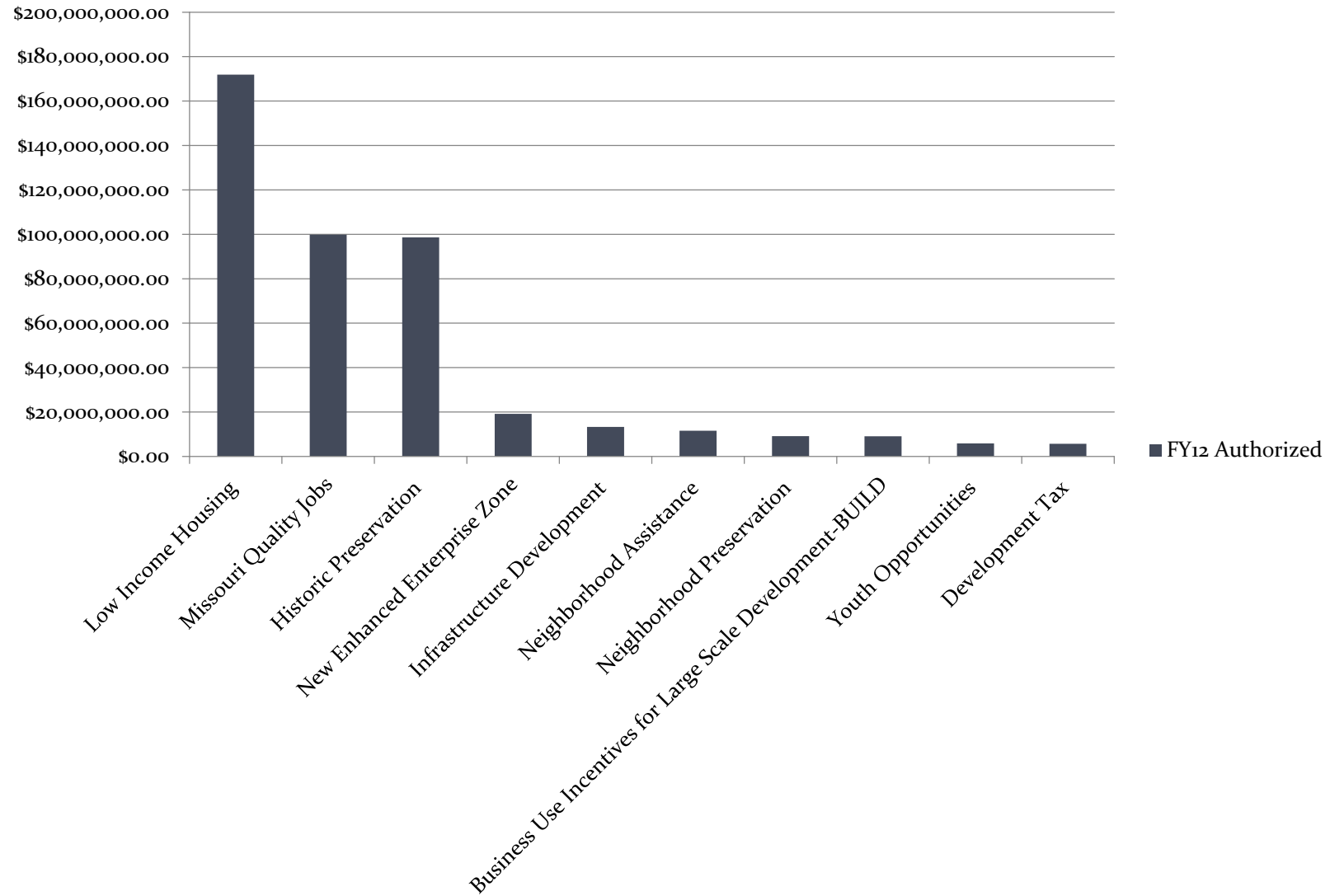


▲ Actual Revenues      ● Tax Credit Redemptions

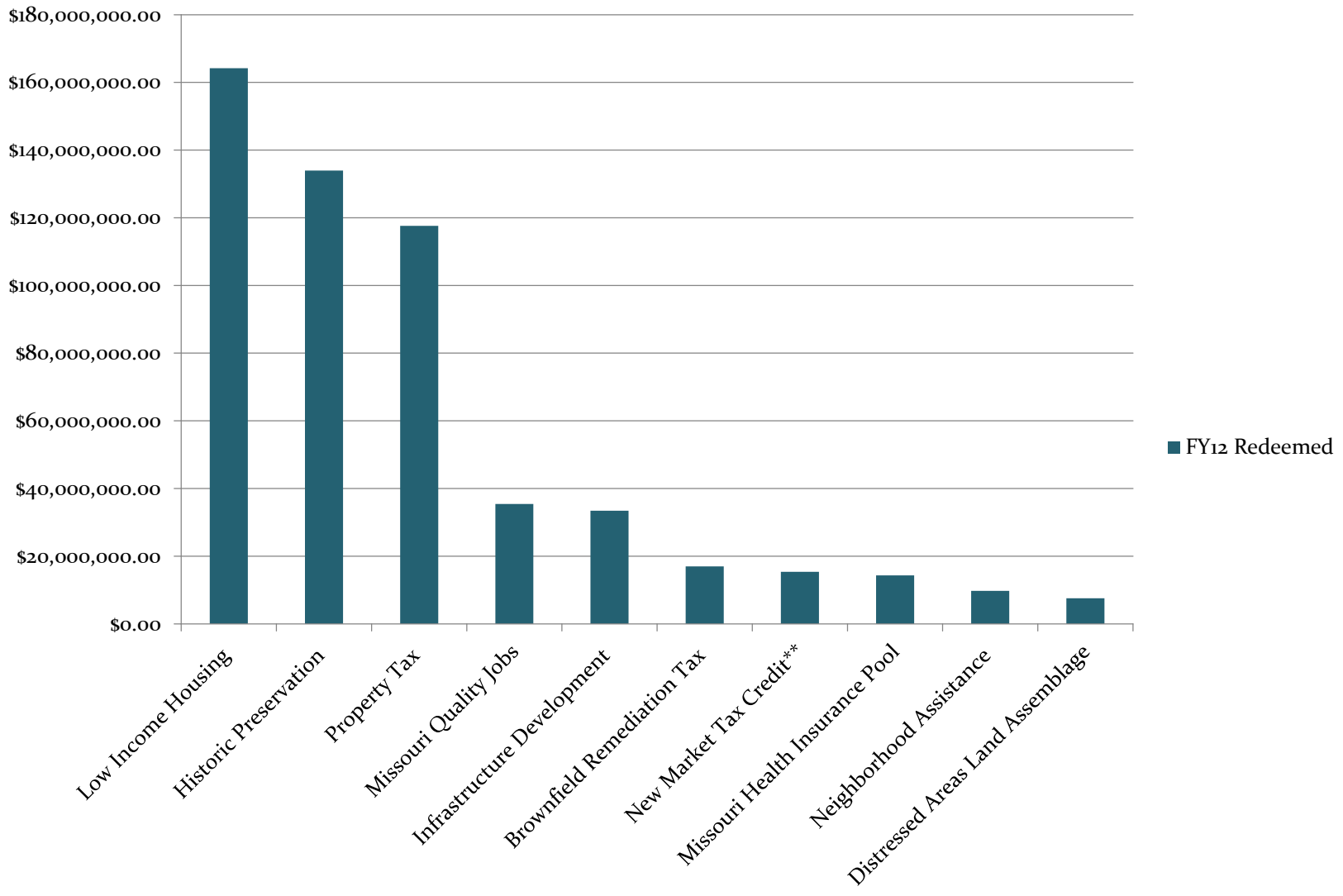
# Tax Credit Redemptions Compared to GR Approps (millions of \$s)

Agency	FY 13 Approp	FY 12 Redm.
Elementary and Secondary Education	2,917.5	
Social Services	1,499.4	
Higher Education	850.4	
<b>Total Tax Credits</b>		<b>629.5</b>
Corrections	602.5	
Mental Health	602.0	
<b>Non-Senior Tax Credits</b>		<b>511.9</b>
Employee Benefits	492.1	
Health	270.8	
Judiciary	170.8	
<b>LIHTC Redemptions</b>		<b>164.2</b>
<b>Historic Redemptions</b>		<b>133.9</b>
<b>Senior Property</b>		<b>117.6</b>
Office of Administration	112.5	
Statewide Leasing & Property Mgmt	112.4	
Revenue	84.9	
Public Safety	62.9	
Elected Officials	49.6	
Public Debt	45.2	
Economic Development	36.6	
Public Defender	36.3	
All Other (Agric, Nat Res, etc)	67.9	

## Top 10 Tax Credit Programs Measured by FY12 Authorizations



## Top 10 Tax Credit Programs Measured by FY12 Redemptions



# The Commission's Committees

- **Global Issues (Chair, Senator Gross)**
- Agriculture and Environment
- Distressed Communities
- **Economic Development (Co-Chairs Jim Anderson and Pete Levi)**
- Historic Preservation
- Low Income Housing
- Property Tax Credit
- Social Contribution Programs
- Tax Law

# Global Issues Committee Topics

- Tax credits and the annual appropriations process
- Sunsets
- Caps
- Carry forward and carry back features
- Measuring ROI
- Limits (cost per beneficiary)
- Clawbacks



# Economic Development Committee Topics

- BUILD
- Business Facility (Headquarters)
- Development Tax Credit
- Enhanced Enterprise Zone
- Film Tax Credit
- MDFB Bond Guarantee
- MDFB Infrastructure
- Missouri Quality Jobs
- Incubator Tax Credit
- Rolling Stock Tax Credit

# Economic Development Committee Topics

- The role of incentives in Business Development
- But/for
- Priority of measurable job growth and capital investment
- A proportional relationship to the industry sectors
- Seamless response in real business time
- “Guiding principals” for use in the development of any incentive tool

# 2010 Commission

## Key Recommendations

- Eliminate or do not reauthorize 28 tax credits
- Improve the efficiency of 30 tax credit
- Do not subject tax credits to appropriations
- Impose an annual cap on all tax credit programs
- Recommend changes to federal and state tax law that impact the efficiency of tax credit programs
- Develop a voluntary buyback or exchange of tax credits to reduce state liability

# Economic Development Recommendations

- Independent program recommendations
  - Lower minimum thresholds for BUILD
  - Add a discretionary component to Quality Jobs to allow for up-front financing
  - Lower the job threshold for Quality Jobs
  - Add a capital investment credit to Quality Jobs
  - Add a discretionary component to EEZ to allow for up front financing
  - Amend the definition of distressed communities to allow more EE Zones

# Economic Development Recommendations

- Reduce the value of the MDFB contribution credit from 50% to 35%
- Convert the Incubator Tax Credit to a grant program
- Create a more efficient Development Tax Credit
- Expand the eligibility of the Business Facility Tax Credit
- Eliminate the Film Tax Credit program
- Eliminate the Rolling Stock Program
- Create a new Angel Tax Credit Program

# Economic Development Recommendations

- Create a unified tax credit program from existing economic development tax credit programs that:
  - Requires a positive ROI within a defined time period
  - Uses both withholdings and a refundable tax credit
  - Uses both entitlement and discretionary features
  - Creates an up-front funding mechanism
  - Is capped

# Economic Development Recommendations

- Allows additional benefits for targeted industries
- Extends benefits to jobs and capital investment
- Creates benchmarks for eligibility
- Creates a but/for financial test
- Allows retention

# 2010-2012 Legislative Action

- Several bills introduced from TCRC recommendations
- No significant legislation passed
- House and Senate differences centered around sunsets and caps on Historic and Low Income Housing
- Several bills introduced the “unified tax credit program” – Compete Missouri, Missouri Works



# Key 2012 Recommendations

- Both a Majority and Minority Report (8 members) filed December 15, 2012
- Majority report recommendations:
  - Reaffirms findings in 2010 report except:
    - Changes sunsets to periodic reviews
    - Creates transition rules prior to credit elimination
    - Recommends statutory language to deal with related party transactions
    - Recommends statutory language to require bidding and procurement

# Key 2012 Recommendations

- Addresses stacking of credits as they relate to Historic, Low Income and Brownfield
- Historic cap at \$90M instead of the \$75M recommended in 2010
- Recommends Low Income at \$115M over 10 years
- Changes Film Tax credit elimination recommendation to a recommendation to allow it to expire in 2013.
- Minority Report takes issue with:
  - New Historic cap
  - Low Income expressed over 10 years not 5
  - Removal of the sunset recommendation

# Estimated Savings

<b>Estimated Savings Based on Average Authorizations (Actual Usage)</b>	<b>Avg. Authorizations '07/'08/'09 With 5 year LIHTC –\$80M cap</b>	<b>Avg. Authorizations '10/'11/'12 With 5 year LIHTC –\$80M cap</b>	<b>Avg. Authorizations '10/'11/'12 With 10 year LIHTC, at \$115M</b>
<b>Applying 2010 Recommendations</b>	\$266,597,705	\$130,170,990	No 10 year credit was recommended in 2010.
<b>Applying 2012 Recommendations</b>	\$231,594,705	\$95,170,990	\$70,404,457

# Questions?

## Thank you!

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