Claire McCaskill
Missouri State Auditor

August 2005

TAX CREDIT

Small Business Investment Tax Credit Program

Report no. 2005-54

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YELLOW SHEET

State estimated to lose $12 million on Small Business Investment tax credit program; auditors recommend state let credit expire with no new credits issued

This audit reviewed the cost-benefit to the state of the Small Business Investment (SBI) tax credit program and found the credit would not create enough economic activity to offset the tax credits used. The program, started in 1993, can issue up to $13 million in tax credits to entities investing in Missouri small businesses. Legislators meant for the credit to create jobs by inducing private investments into new or growing small businesses. As of December 2004, state officials had issued $12.9 million in tax credits for this program, and $11.5 million had been redeemed, with about 76 companies receiving about $28.8 million in investments through 1999. State law requires state auditors to perform a cost-benefit analysis of all state tax credit programs, and this report is a part of such ongoing work.

SBI will not increase jobs or state revenue to offset credits	Auditors found the state will lose an estimated $11.8 million on this tax credit, with positive economic effect in only 3 of the 17 years of the program. (See page 10)
Tax credit will create an average of 52 jobs over 17 years	Auditors used economic software to analyze the total economic impact of this tax credit program. The software found the program created a projected total average of 52 jobs for the 17-year program. (See page 10)
Audit recommends no new funds for the tax credit program	Auditors recommended the General Assembly allow the tax credit program to expire without authorizing additional tax credits, due to the projected state revenue loss. (See page 12)
Application data for businesses not verified	State officials had no procedures to verify the accuracy of application data for businesses seeking to participate in the program. State officials relied on information supplied by applying business owners and did not verify it. This situation could allow unqualified businesses to misreport information and be approved. (See page 13)
State cannot ensure investments remained in businesses for 5 years	State officials had not monitored investments received by participating businesses to ensure they remained in the business for 5 years, as is required by the state law creating the tax credit. (See page 13)

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Missouri State Auditor

Honorable Matt Blunt, Governor
and
Joint Committee on Tax Policy
and
Gregory A. Steinhoff, Director
Department of Economic Development
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State law mandates the State Auditor's Office perform cost-benefit analyses on the tax credit programs administered by the Department of Economic Development (DED). This report includes a detailed study estimating the economic impact of the Small Business Investment (SBI) tax credit program on state revenue. We also reviewed the adequacy of management controls in place to ensure compliance with statutory requirements for the SBI tax credit program.

We concluded the SBI tax credit program had not generated sufficient economic activity to offset the state tax credits used because the program is estimated to result in a net loss of approximately $12 million in state revenues. We also found DED's lack of adequate procedures had not ensured the SBI tax credit program met statutory requirements.

We generally conducted our work in accordance with Government Auditing Standards issued by the Comptroller General of the United States with the exception for the external impairment of access to redemption data from income tax returns which limited our ability to conduct our work. This report was prepared under the direction of Kirk Boyer. Key contributors included John Blattel and Tara Shah.

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State Auditor

Contents

Abbreviations

DED	Department of Economic Development
MDFB	Missouri Development Finance Board
REMI	Regional Economic Models, Inc.
RSMo	Missouri Revised Statutes
SBI	Small Business Investment

Introduction

The Small Business Investment (SBI) tax credit program started in 1993[1] and is authorized to issue up to $13 million in tax credits to individuals, partnerships, financial institutions, trusts or corporations making qualified investments in Missouri small businesses. Tax credits on the program have been issued at 40 percent of the investment amount for investments in Missouri small businesses and 60 percent for qualified small businesses in a distressed community.[2] The legislation established the SBI program to induce private investment into new or growing Missouri small businesses, which will create jobs and investment.

Businesses had to meet the following statutory requirements in order to be approved by the Department of Economic Development (DED) to participate in the program:

- Be headquartered in Missouri.
- Have annual revenues of $2 million or less.
- 80 percent of employees must have been in Missouri.
- Have had no more than 100 employees.
- The business must have been involved in interstate or intrastate commerce for the purpose of manufacturing, processing or assembling products, conducting research and development, or providing services in interstate commerce but excluding retail, real estate, insurance or professional services.

Investment limitations had been imposed on investors and businesses. A taxpayer's investments in any one business could not be less than $5,000 or more than $250,000. A business could not receive more than $1 million in investments. For investments to small businesses in a distressed community, the $250,000 single investor maximum limit did not apply. Instead the $1 million business limit applied.

[1] Sections 135.400-430, RSMo 2000 or Cumulative Supp. 2004.

[2] Per section 135.530, RSMo 2000, a distressed community is defined as "a Missouri municipality within a metropolitan statistical area which has a median household income of under 70 percent of the median household income for the metropolitan statistical area, according to the last decennial census, or a United States census block group or contiguous group of block groups within a metropolitan statistical area which has a population of at least 2,500, and each block group having a median household income of under 70 percent of the median household income for the metropolitan area in Missouri, according to the last decennial census."

Per state law,[3] investments had to remain in the business for a minimum of five years. Withdrawal prior to the 5-year period should result in revocation of the tax credit.

State law[4] dictates investments in a small business through the program must be expended for capital improvements, plant, equipment, research and development, or working capital for the business or such business activity as may have been approved by DED.

The credits are transferable or may be sold under the provisions of the statute and the credits can be carried forward for 10 years to offset future tax liability. For investment in a distressed community, there is also a 3-year carry back[5] provision allowed to offset prior taxes paid. The tax credits may be redeemed against state income tax, corporate franchise tax, financial institution tax, or express company tax.

According to state law,[6] the State Auditor's Office is required to analyze the cost benefit and evaluate the effectiveness of all tax credit programs administered by the DED. Effective August 28, 2004, the legislature amended this law to expand the State Auditor's Office's responsibility to include a review of all state tax credit programs. This change requires the State Auditor's Office to also review those programs not administered by DED.

DED is currently utilizing an internal system, known as the Customer Management System, to track the issuance and redemption of tax credits. DED put this system in place in July 2001; therefore, much of the tax credit activity for this program has been maintained in prior management systems, including a Department of Revenue tracking system. Tax credit activity in prior management systems has been converted to the Customer Management System.

Tax Credits Used

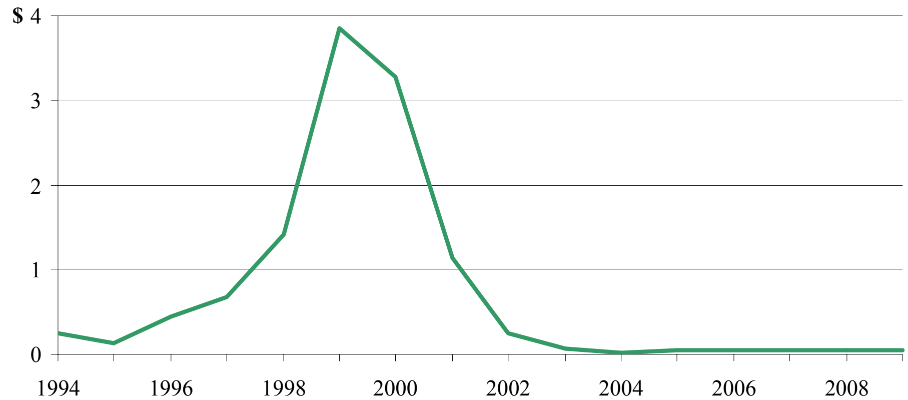
Tax credits totaling $11.5 million have been redeemed through calendar year 2004 on the SBI program, reducing state tax revenues. DED projects an additional $255,156 will be redeemed from 2005 through 2009, with a balance of $1.2 million unredeemed. Figure 1.1 shows redeemed tax credits

[3] Section 135.411, RSMo 2000.
[4] Section 135.408, RSMo 2000.
[5] The carry back provision allows an individual or business to amend a prior year's state tax return and apply the credit to help offset that year's tax liability.
[6] Section 620.1300, RSMo, Cumulative Supp. 2004.

by year since the inception of the program, with estimated redemptions through fiscal year 2009.

DED is not issuing any new credits, the only activity which is continuing to occur is redemptions and transfers of credits. As of December 2004, records showed $12,924,407 in tax credits had been issued and $11,511,762 had been redeemed (89 percent).

Figure 1.1: Program Redemptions by Calendar Year (Dollars in Millions)

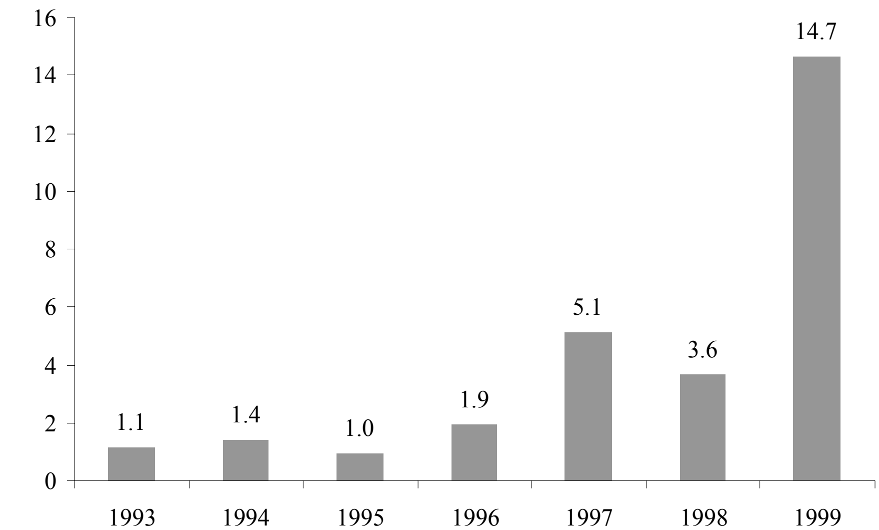


Source: Department of Revenue's tax credit system (1995-2002), Department of Economic Development's Customer Management System (2002-2004), DED estimates (2005-2009).

Investments Received by Businesses

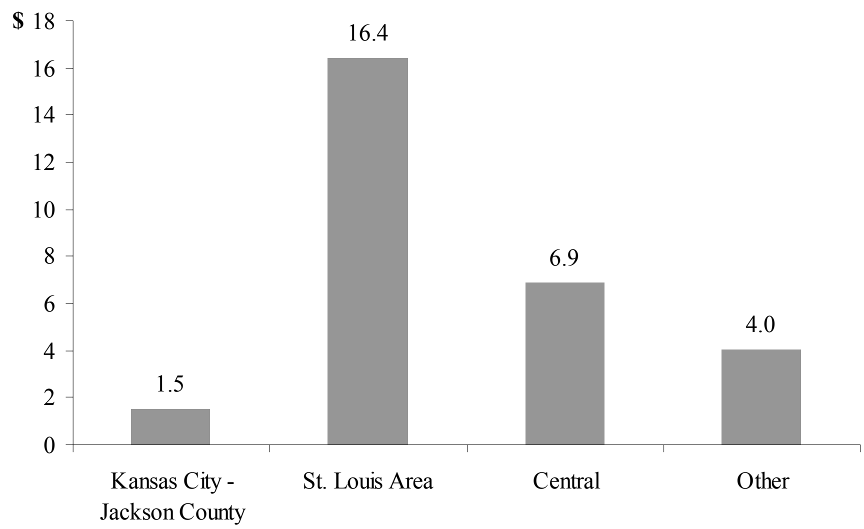
Seventy-six companies participated in the SBI program and received $28.8 million in investments through 1999. (See Appendix I and II for county locations of participating businesses.) The companies operated in various industries, including agriculture, chemicals, communications, construction, credit and finance, production of educational material, food production, machinery and computers, manufacturing, medical, and printing. Figure 1.2 indicates the total investments by calendar year and Figure 1.3 indicates the investments by location in Missouri.

Figure 1.2: Qualified Investments by Calendar Year (Dollars in Millions)



Source: DED data.

Figure 1.3: Qualified Investments by Location (Dollars in Millions)



Source: DED data.

Scope and Methodology

To evaluate the impact of the SBI tax credit program on the state, we reviewed state statutes and the DED's guidelines and procedures. We discussed the operations of the program and management controls with the program managers to determine if proper controls were in place to ensure compliance with statutory requirements.

We obtained data files from the DED's computerized Customer Management System which reports on the investment and tax credit activity. We compared computerized data against DED manual reports and noted discrepancies in the businesses' investment and credit totals. We then reviewed files of the businesses participating in the program and tax credit certificate files and found several entries missing in the computerized data. We concluded the system data was incomplete and could not be relied upon. Therefore, we used the manual documents listing the activity and conducted a thorough review to obtain financial activity that was materially accurate.

We obtained aggregate totals of annual redemptions by calendar year from the Department of Revenue and DED. We were not provided detailed redemption information. The Director of Revenue denied us access due to her interpretation of the Missouri Supreme Court decision in the case of Director of Revenue v. State Auditor 511 S.W.2d 779 (Mo. 1974). This external impairment limited our ability to conduct work and therefore, we could not verify the completeness and accuracy of annual redemption totals.

We used economic software produced by Regional Economic Models, Inc. (REMI)[7] to analyze the total economic impact of the tax credit programs on the state's economy. This version includes 53 industry sectors and divides the state into 15 regions. The model compares the baseline forecast of the state economy with an alternative forecast that takes into account the effect of the tax credit program. The key outputs from the model are (1) growth in total employment, (2) growth in gross state product, and (3) fiscal impact on state revenues. REMI is used by DED to analyze its tax credit programs.

Modeling assumptions

We changed three variables in the model to create the alternative forecast (1) capital costs of the industries receiving increased revenues or new investments as a result of the SBI program, (2) personal income tax, and (3) government spending.

First, we reduced the capital costs of industries connected to the companies receiving the investments. This reduction reflected lower capital costs associated with the SBI investments as compared to the higher capital costs that would normally be demanded had the businesses not received the investments. We made the reduction for the actual investments by year, in the region within the state and industry of the actual investments made through 1999. We included a total of $28.8 million of investments made.

[7] REMI was founded in 1980 and constructs economic software that forecasts how isolated changes in the state's economy will effect the state's overall economy on a year-by-year basis.

Next, we decreased personal income tax for years 1994 to 2009 to reflect tax credit redemptions. The adjustment for 1994 through 2004 was based on actual tax credits redeemed and the adjustment for 2005 through 2009 was based on estimated redemptions projected by DED. We allocated the personal income tax adjustment to all regions.

Then, we reduced total state government spending by the amount of tax credits redeemed each year from 1994 to 2004, then by DED estimated redemption totals for years 2005 to 2009. This adjustment resulted in a $11.8 million reduction in state spending which we allocated to all regions.

Investments may be withdrawn by the investor after the 5-year investment period has been fulfilled. It would be proper to reflect repayment of the investment in our simulation; however, we did not have enough information to develop a well-supported assumption on the amount of repayments to allocate to the various industries and regions. Without this information, we did not model repayment of investments in our economic analysis.

We submitted our modeling assumptions and the REMI model results to an economist at REMI. He stated he found no problems with the assumptions and results.

We requested comments on a draft of our report from the Director of DED and those comments are reprinted in Appendix VI. We performed our work between November 2004 and March 2005.

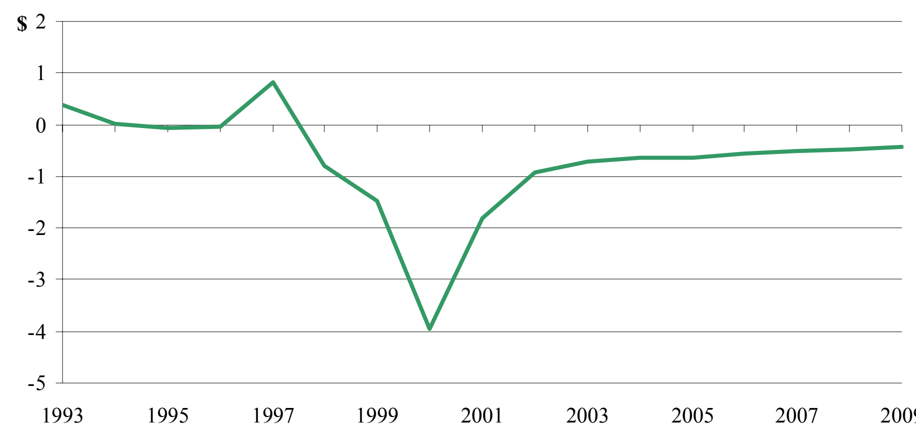
The SBI Program Has Not Created Sufficient Economic Activity

The SBI tax credit program will not generate sufficient economic activity to offset the state tax credits used. This situation has occurred because the program is not estimated to create the number of jobs and increase gross state product enough to offset the tax credits provided. As a result, the state is estimated to lose revenue of $11.8 million.

Loss of $11.8 Million From the SBI Program

The REMI model predicts the SBI tax credit program will generate a $11.8 million loss. The model estimates the investment of $28 million provided to small businesses will result in a $47,128[8] net revenue loss. Then, when the total projected tax credits of $11,766,700 are considered, the total loss to the state is projected to be $11.8 million. The SBI program is projected to have a positive effect on state revenues in only 3 of 17 years. Figure 2.1 shows the impact upon state revenues factoring in the investments and tax credit redemptions.

Figure 2.1: Predicted Change in State Revenue (Dollars in Millions)



Source: REMI economic model.

Impact on jobs and gross state product not enough to offset tax credits

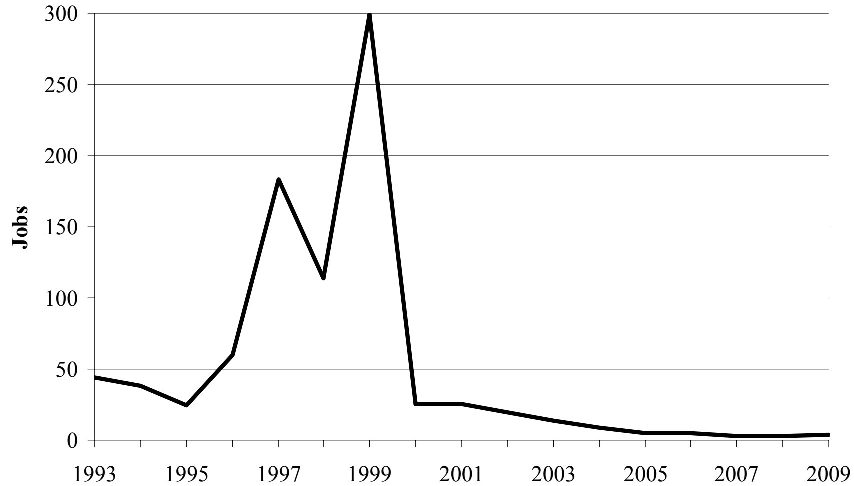
The SBI tax credit program's predicted impact on jobs and the gross state product has not been enough to offset the $11.8 million in lost revenue. For example, the program created a projected total average of 52 jobs for the 17-year program period. However, each job is projected to cost the state $13,473 per year.[9] Job growth was projected to have peaked in 1999 at 299 jobs. By 2009, jobs resulting from the program are projected to decline to almost zero as the effects of the program dissipate. The model predicted $31,308 as the average annual salary of created jobs. Most of the predicted new jobs were located in the areas of St. Louis, Kansas City-Jackson

[8] This net loss is calculated by taking the projected $6,464,631 revenues generated from the program less the projected $6,511,759 in state expenditures.

[9] Job cost per year calculated by dividing REMI's total projected loss to the state of $11,813,828 by 52 jobs, and then by 17 years.

County, and Central Missouri. Some regions were predicted to lose jobs due to economic migration. Figure 2.2 shows the predicted change in employment.

Figure 2.2: Predicted Change in Employment

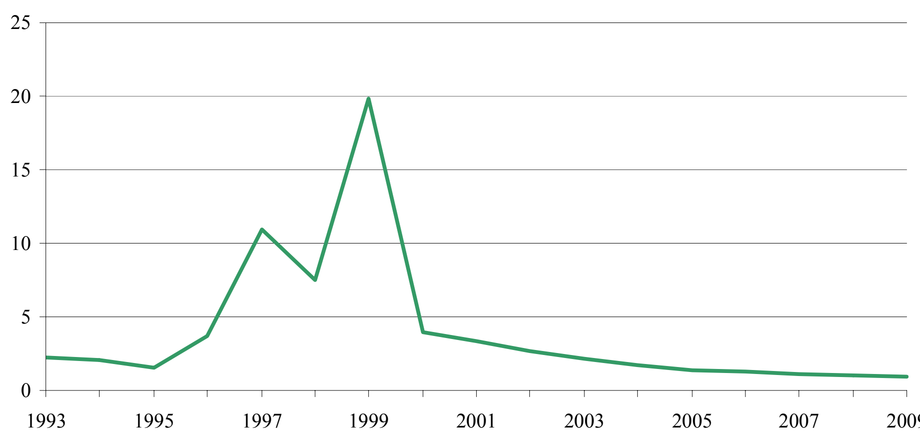


Source: REMI economic model.

Gross state product not enough

The REMI model predicted gross state product increased and peaked at an increase of $19.8 million in 1999 and the increase is projected to decline steadily to $915,500 in 2009 as effects of the program dissipate. The projected increase in gross state product totals $67.4 million through 2009. Figure 2.3 shows the predicted change in gross state product.

Figure 2.3: Predicted Change in Gross State Product (Dollars in Millions)



Source: REMI economic model.

Although the tax credit program is predicted to create jobs and increase the state's gross product, the REMI model predicts the changes will not produce enough economic activity in affected regions and industries to offset estimated increases in state expenditures associated with the investments, according to an economist at REMI.

Conclusions

Although the SBI tax credit program is estimated to create jobs and increase gross state product, the REMI model estimates it will not generate sufficient economic activity to offset tax credits redeemed. Based on the assumptions used when entering the SBI program data into the model, the results show the SBI program will cost the state $11.8 million in lost revenue and create an average of 52 jobs over the 17-year life of the program. The investment activity and job creation through 2004 occurred mostly in the areas of St. Louis, Kansas City-Jackson County, and Central Missouri.

The SBI program is almost complete with only transfer and redemption activity remaining. Because of the projected state revenue loss associated with this program, we believe the General Assembly should not provide additional funding for the program.

Recommendation

We recommend the General Assembly allow the SBI tax credit program to expire without authorizing additional tax credits.

Agency Comments

See Appendix VI for agency comments.

Adequate Procedures Needed to Ensure Tax Credit Programs Meet Statutory Requirements

DED lacked adequate procedures to ensure the SBI tax credit program has met state requirements. This situation has occurred because DED procedures did not verify application information, review investment expenditures, and ensure investments remained in the business as required. In addition, DED did not obtain adequate supporting documentation to prove investments. Adequate procedures are needed to ensure program objectives are met and reduce the risk of fraud in tax credit programs.

DED Lacked Adequate Procedures to Ensure Statutory Requirements Met

DED had not developed adequate procedures to ensure compliance with SBI program statutory requirements. Procedures did not address (1) verifying the accuracy of information submitted by companies in program applications, or (2) ensuring investments remained in the business for 5 years. Also documentation supporting proof of investments obtained by DED did not ensure investments actually happened.

State law dictates the qualifications a business must meet in order to participate in the SBI program. In addition, the statute requires the investments to remain in the business for 5 years for investors to receive the tax credit.

No assurance information provided accurate

DED had no procedures to verify the accuracy of the information submitted by the companies on applications to participate in the program. For example, for a business to participate in the SBI program, state law established revenue limits, maximum employee restrictions, and percentage requirements for the amount of operations conducted in the state. However, a program manager stated DED relied on information the business owners submitted on applications, and the company's tax return or audited income statement as verification of revenues. The program manager stated owners sign a notarized application attesting to the accuracy of information submitted.

No assurance investments remained in the business for 5 years

DED had not monitored investments received by participating businesses to ensure they remained in the businesses for 5 years, as statutorily required. This situation has occurred because DED relied on businesses to voluntarily report whether investments had been withdrawn from the business, according to a program manager. However, SBI guidelines have not required businesses to report on investments.

State law states withdrawal of an investment prior to 5 years requires the tax credit be revoked and repayment by the taxpayer of any tax credit already redeemed.

Proof of investment inadequate

DED had not required adequate supporting documentation for proof of the investment. For example, DED required a copy of the investor's check and a copy of the deposit slip on the SBI program. The program manager agreed this documentation had not provided proof checks cleared banks and had been deposited in the SBI business account. In the first quarter of 2004, DED changed procedures to require cancelled checks as proof, according to the program manager.

Conclusions

DED had not implemented adequate internal controls to ensure valid tax credits were issued and monitored. DED did not verify the accuracy of application information submitted by companies wishing to participate in the SBI program. By not verifying application data, opportunities existed for unqualified businesses to misreport information and be approved. DED also had not ensured investments have remained invested for the required 5-year period. Instead, DED relied on businesses to report investments which had been withdrawn prior to the 5-year period. In addition, supporting documentation DED required for proof of investment has been inadequate. Absence adequate internal controls and monitoring, DED cannot ensure valid tax credits are issued, program goals are achieved, or that fraud will not occur in tax credit programs.

Although the SBI program is almost complete, we believe it is important to take corrective action, where possible, to ensure weaknesses in the oversight of this program, as well as other tax credit programs, are corrected.

Recommendation

We recommend the Director of the Department of Economic Development implement adequate internal controls to ensure only valid tax credits are issued and monitored.

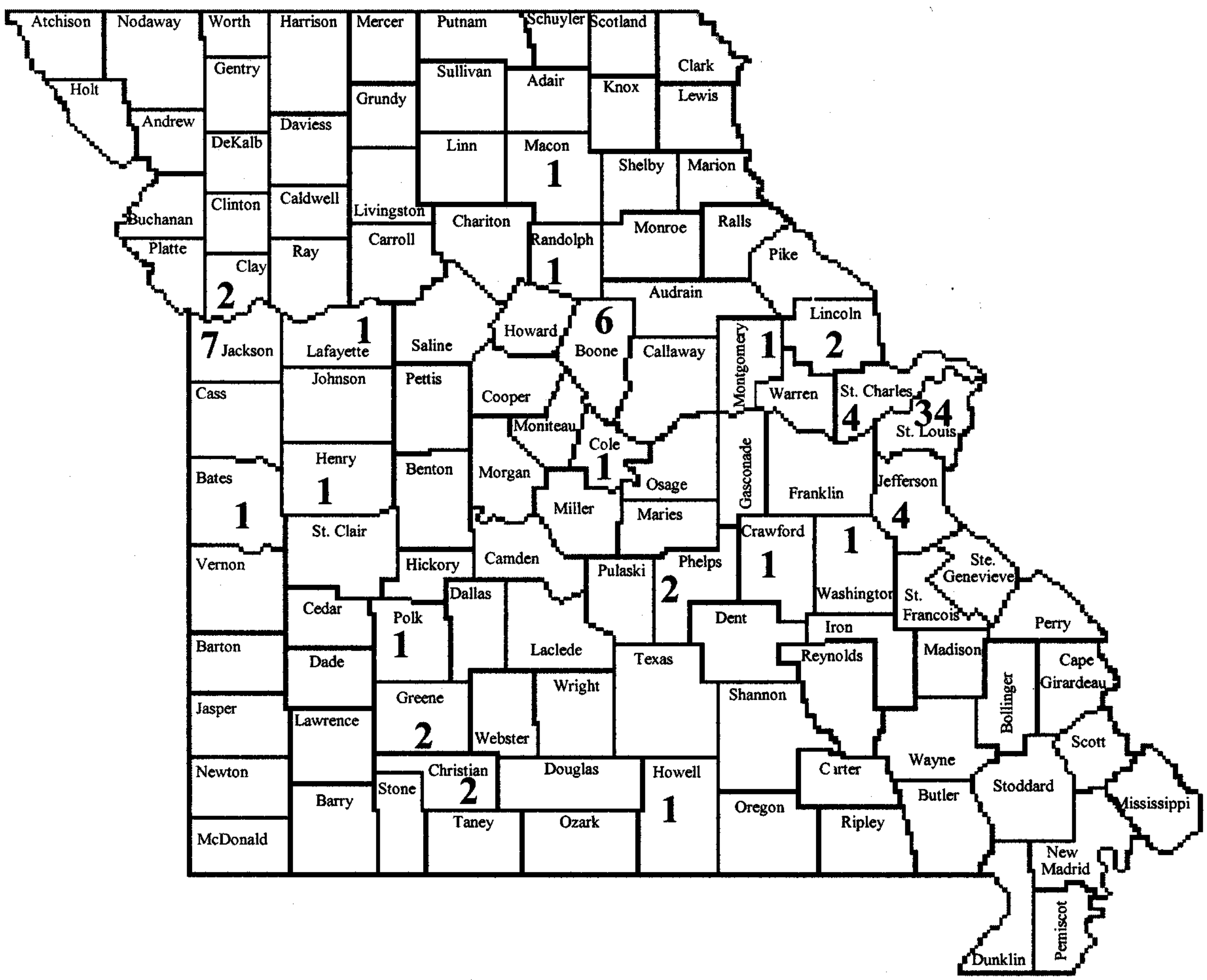
Agency Comments

See Appendix VI for agency comments.

Geographic Distribution of Businesses

This map shows the geographic location and number of businesses which received investments as of December 2004 under the SBI program.

Figure I.1: Location of Participating Businesses



Source: State Auditor's Office.

Business Investments by County

Table II.1 shows the counties in which the 76 companies participating in the SBI program are located and the total investments those companies received.

Table II.1: Investments by County

County	Investments	Number of Businesses
Bates	$25,000	1
Boone	3,079,756	6
Christian	502,373	2
Clay	196,900	2
Cole	1,000,000	1
Crawford	500,000	1
Greene	367,907	2
Henry	250,000	1
Howell	550,000	1
Jackson	1,467,586	7
Jefferson	1,358,293	4
Lafayette	166,666	1
Lincoln	1,488,457	2
Macon	850,000	1
Montgomery	747,750	1
Phelps	1,228,015	2
Polk	1,000,000	1
Randolph	350,000	1
St. Charles	434,074	4
St. Louis	13,277,783	34
Washington	8,000	1
Total	$28,848,560	76

Source: DED.

Tax Credit Review Status

Table III.1 shows the tax credit programs administered by DED and the status of their review by the State Auditor's Office.

Table III.1: DED Tax Credit Programs and Review Status

Program	Review Status
(Capital) Small Business Investment (cap expired) § 135.400	Reviewed in 2005
Community Development Corporation/Bank § 135.400	Reviewed in 2005
Certified Capital Companies (CapCo) (cap. expired) § 135.500	Reviewed in 2004
New Enterprise Creation § 620.635	Reviewed in 2004
Community College New Jobs Training Bonds § 178.894	Reviewed in 2003
Brownfield Jobs/Investment § 447.700	Reviewed in 2002
Brownfield Remediation § 447.700	Reviewed in 2002
Historic Preservation § 253.545	Reviewed in 2002
Qualified Research Expense § 620.1039	Reviewed in 2002
Seed Capital (cap expired) § 348.300	Reviewed in 2002
Youth Opportunities and Violence Prevention § 620.1100	Reviewed in 2002
Film Production § 135.750	Reviewed in 2001
Rebuilding Communities § 135.535	Reviewed in 2001
Small Business Incubator § 620.495	Reviewed in 2001
Winery and Grape Growers § 135.700	Reviewed in 2001
Affordable Housing Assistance § 32.111	To be reviewed
Brownfield Demolition § 447.700[1]	To be reviewed
BUILD Missouri Bonds § 100.700	To be reviewed
Business Facility § 135.100	To be reviewed
Development § 32.105	To be reviewed
Enhanced Enterprise Zone § 135.950[2]	To be reviewed
Enterprise Zone § 135.200	To be reviewed
Family Development Account § 208.755	To be reviewed
Guarantee Fee § 135.766	To be reviewed
MDFB Development and Reserve § 100.250	To be reviewed
MDFB Export Finance § 100.250	To be reviewed
MDFB Bond Guarantee Credit § 100.286	To be reviewed
MDFB Infrastructure § 100.250	To be reviewed
Missouri Low Income Housing § 135.350	To be reviewed
Neighborhood Assistance § 32.100	To be reviewed
Neighborhood Preservation § 135.475	To be reviewed
Transportation Development § 135.545	To be reviewed

[1] There was no tax credit activity for this program in fiscal years 2001 through 2004; therefore, this program is not included in Appendix V, Table V.1.

[2] This tax credit program became effective with 2004 legislation and is therefore a new tax credit and is not included in Appendix V, Table V.1.

Source: State Auditor's Office.

Tax Credit Programs Administered by Other Departments

Table IV.1 lists the tax credit programs for tax year 2004 administered by departments other than DED.

Table IV.1: Non-DED Administered Tax Credit Programs

Program	Administering Department
Adoption (Special Needs)	Revenue
Agricultural Product Utilization Contributor	Agriculture
Bank Franchise	Revenue
Bank Tax Credit for S Corporation Shareholders	Revenue
Cellulose Casings	Revenue
Charcoal Producers	Natural Resources
Disabled Access	Revenue
Domestic Violence	Public Safety
Examination Fees	Insurance
Life and Health Guarantee Association	Insurance
Maternity Home	Social Services
Missouri Health Insurance Pool	Insurance
Missouri Property and Casualty Guarantee Association	Insurance
New Generation Cooperative Incentive	Agriculture
Pharmaceutical	Revenue
Processed Wood Energy	Natural Resources
Property Tax	Revenue
Retain Jobs[1]	Revenue
Shared Care	Health
Sponsorship and Mentoring Program	Elementary and Secondary Education

[1] This tax credit program became effective with 2004 legislation and is therefore a new tax credit and is not included in Appendix V, Table V.1.

Source: State Auditor's Office.

Tax Credit Redemptions by Program

Table V.1 indicates the redeemed tax credits for fiscal years 2001 through 2004 for current tax credit programs in the state. The information was received from the agencies responsible for administrating the programs and was not audited.

Table V.1: Tax Credit Redemptions by Program

	Fiscal Year			
Program	**2001**	**2002**	**2003**	**2004**
Adoption (Special Needs)	$1,994,763	$1,995,471	$1,993,883	$1,995,882
Affordable Housing Assistance	11,080,040	8,912,821	7,601,144	7,554,503
Agricultural Product Utilization Contributor	524,829	379,740	957,074	1,964,872
Bank Franchise Tax	122,803	1,383,763	873,461	1,596,458
Bank Tax Credit for S Corporation Shareholders	585,372	898,921	1,060,111	1,233,830
Brownfield Jobs/Investment	4,567	149,072	90,893	2,134,891
Brownfield Remediation	4,517,217	9,720,088	5,669,489	16,101,975
BUILD Missouri Bonds	664,257	2,907,348	4,261,882	9,667,000
Business Facility	6,721,162	5,088,781	7,244,747	7,826,417
(Capital) Small Business Investment	3,399,257	370,719	149,068	49,478
Cellulose Casings	257,595	294,348	225,319	429,480
Certified Capital Companies (CapCo)	12,569,861	13,567,768	13,111,196	13,564,932
Charcoal Producers	0	0	120,837	0
Community Development Corporation/Bank	43,089	100,087	484,723	1,632,669
Community College New Jobs Training Bonds	11,542,521	10,708,511	8,650,799	8,061,584
Development	[2]	185,920	430,097	562,622
Disabled Access	31,293	49,184	47,506	87,401
Domestic Violence	500,018	528,196	513,532	475,283
Enterprise Zone	21,724,904	14,461,571	13,767,273	19,766,366
Examination Fees[1]	2,403,492	3,286,876	2,781,111	2,370,251
Family Development Account	0	25,713	8,760	27,488
Film Production	882,305	51,749	122,810	423,857
Guarantee Fee	107,080	23,418	0	0
Historic Preservation	33,971,984	41,401,415	43,153,986	66,089,980
Life and Health Guarantee Association[1]	7,490,665	4,149,702	2,440,427	177,712
Maternity Home	1,147,185	995,937	976,379	982,747
MDFB Bond Guarantee Credit	0	0	316,855	0

Appendix V
Tax Credit Redemptions by Program

Program	Fiscal Year 2001	2002	2003	2004
MDFB Infrastructure[3]	8,798,670	8,714,272	6,310,541	10,020,578
Missouri Health Insurance Pool[1]	1,417,694	2,454,317	1,581,522	3,687,665
Missouri Low Income Housing	11,747,808	19,474,343	29,978,473	36,916,831
Missouri Property and Casualty Guarantee Association[1]	13,612,065	20,135,749	18,362,815	16,823,462
Neighborhood Assistance	13,217,496	11,075,600	8,641,533	10,217,628
Neighborhood Preservation	465,024	1,947,073	3,879,134	4,001,293
New Enterprise Creation	0	1,940,260	4,331,972	3,259,307
New Generation Cooperative Incentive	1,570,531	533,203	1,510,305	3,466,068
Pharmaceutical	75,816,984	63,686,262	3,737,102	524,527
Processed Wood Energy	4,154,777	2,673,412	3,642,570	1,205,443
Property Tax	101,616,246	85,901,461	97,180,378	95,237,314
Qualified Research Expense[4]	8,476,856	6,185,521	1,642,524	2,038,230
Rebuilding Communities	1,053,401	3,438,354	2,289,501	1,415,889
Seed Capital	1,235,887	1,068,033	508,182	288,174
Shared Care	15,309	19,271	24,355	39,109
Small Business Incubator	172,912	107,793	81,716	167,360
Sponsorship and Mentoring Program	0	0	0	0
Transportation Development	[5]	1,235,603	1,249,848	3,678,532
Winery and Grape Growers	629,145	239,098	275,366	260,397
Youth Opportunities and Violence Prevention	2,752,320	3,000,974	2,898,572	3,272,225
Total	$369,039,391	$355,467,719	$305,179,772	$361,297,710

[1] Redemptions are on a calendar year rather than fiscal year and based on tax year credit was applied against.
[2] Redemptions for this year are included under the neighborhood assistance program.
[3] This program's redemption totals includes MDFB Development and Reserve and MDFB Export Finance.
[4] Under Section 620.1039(7), RSMo Cumulative Supp. 2004, no tax credits shall be approved or issued as of January 1, 2005 for this program.
[5] Redemptions for this year are included under the rebuilding communities program.

Source: DED's budget documents and administrating agencies.

Agency Comments

MISSOURI
DEPARTMENT OF ECONOMIC DEVELOPMENT

Matt Blunt
Governor

Gregory A. Steinhoff
Director

July 13, 2005

The Honorable Claire McCaskill
Auditor of the State of Missouri
Harry S Truman State Office Building
Room 880
Jefferson City, MO 65101

Dear Ms. McCaskill:

This letter is in response to your review of state tax credits administered by the Department of Economic Development. Below you will find our responses to the two recommendations contained in the draft report titled *Economic Analysis of the Small Business Investment Tax Credit Program.*

State Auditor Recommendation
We recommend the General Assembly allow the SBI tax credit program to expire without authorizing additional tax credits.

Department of Economic Development's Response

The SBI tax credit program has exhausted its cumulative cap. No additional tax credits can be issued under this program without statutory authority.

State Auditor Recommendation
We recommend the Director of the Department of Economic Development implement adequate internal controls to ensure only valid tax credits are issued and monitored.

P.O. Box 1157 • 301 W. High, RM. 680 • Jefferson City, MO 65102-1157 • PH (573)751-4962 • FAX (573)526-7700
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Department of Economic Development's Response

The Division of Business Development and Trade has implemented controls in active tax credit programs to ensure that issuances are proper and adequate monitoring is performed. Application information varies by program and is verified to the extent possible. Monitoring requirements also vary by program (with the exception of SB 1099 requirements which apply to all tax credit programs). Guidelines and applications for all tax credit programs were revised in 2004 to include SB 1099 application and reporting requirements as well as documentation requirements and can be found on our website.

If you have any questions concerning this information, please feel free to contact me at 751-4770 or Arlan Holmes at 526-7863.

Sincerely,

Gregory A. Steinhoff
Director

c: Mike Mills
Donna Prenger
Sallie Hemenway
Arlan Holmes