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CITIZENS SUMMARY

Findings in the audit of the Missouri Quality Jobs Tax Incentive Program

Background

The Missouri Quality Jobs Act of 2005 authorized the creation of the Missouri Quality Jobs (MQJ) Tax Incentive Program, which provides tax incentives to qualified companies for facilitating the creation of new, or retention of existing, jobs in Missouri. The Department of Economic Development (DED) manages the MQJ Tax Incentive Program.

The tax incentives authorize qualified companies to retain state income taxes withheld from employees in created or retained jobs and/or receive tax credits. Tax incentives are not awarded until jobs are created or retained. To be eligible for incentives: (1) the jobs must be for full-time positions, (2) the employer must pay at least 50 percent of the health insurance premiums for each employee, and (3) the average wage for the jobs must be at least the average wage for the county (or for the state if county average is higher). The benefit period lasts up to 5 years, and the tax credits are refundable, transferable and sellable.

Program Data

Data used to measure the economic impact of the MQJ program are based on projections which are significantly overstated. Since the inception of the program in 2005, the DED has approved projects anticipated to create a total of 45,646 jobs, however, according to the 2012 MQJ annual report, the DED had reduced the estimated jobs by 18,960 (41 percent). In addition, the projected level of business investment, and tax incentives to be retained have also been overstated.

Significant weaknesses also exist in the manner in which actual program data is obtained, maintained, verified, and reported to the legislature. Actual program data is not timely and is not verified to ensure accuracy and compliance with program requirements, and therefore, the data presented to the public and the legislature is outdated and not reliable. The DED has not established a timely deadline for businesses to submit the MQJ annual report required by state law. The amount of tax incentives reported to the legislature on the tax credit activity report are understated, and the DED does not ensure key project data entered in the tax credit system is accurate, reliable, and complete.

As a result of these deficiencies, the overall economic impact of the MQJ program cannot be accurately assessed.

Oversight and Verification of Business Data

DED oversight of companies receiving MQJ incentives is not adequate. Procedures to verify project eligibility are not adequate and have resulted in noncompliant projects receiving tax incentives. We identified one project where the "new" jobs consisted of jobs which were spin-off jobs from an existing company. The DED did not perform adequate verification of the parent company's employment levels to determine if the project was eligible for benefits prior to the company receiving benefits.

We also identified 12 projects which were not in compliance with program reporting requirements. In addition, the DED did not ensure base employment was consistently calculated or properly documented in project files, which makes it difficult to determine how many jobs were created or maintained. For nine of the ten project files reviewed, the DED had limited or no documentation to support details of site visits, and the DED had not established procedures to ensure companies comply with the statutory requirement to pay at least 50 percent of health insurance premiums.

Program Design

The current law dictating how program benefits are calculated and awarded is difficult to administer and monitor. In addition, although state law limits total MQJ tax credits to $80 million annually, there is no limit on the amount of tax withholdings allowed to be retained on an annual or cumulative basis, and the MQJ program contains no sunset provision.

In the areas audited, the overall performance of this entity was **Poor**.*

American Recovery and Reinvestment Act (Federal Stimulus)

Not applicable.

***The rating(s) cover only audited areas and do not reflect an opinion on the overall operation of the entity. Within that context, the rating scale indicates the following:

Excellent: The audit results indicate this entity is very well managed. The report contains no findings. In addition, if applicable, prior recommendations have been implemented.

Good: The audit results indicate this entity is well managed. The report contains few findings, and the entity has indicated most or all recommendations have already been, or will be, implemented. In addition, if applicable, many of the prior recommendations have been implemented.

Fair: The audit results indicate this entity needs to improve operations in several areas. The report contains several findings, or one or more findings that require management's immediate attention, and/or the entity has indicated several recommendations will not be implemented. In addition, if applicable, several prior recommendations have not been implemented.

Poor: The audit results indicate this entity needs to significantly improve operations. The report contains numerous findings that require management's immediate attention, and/or the entity has indicated most recommendations will not be implemented. In addition, if applicable, most prior recommendations have not been implemented.