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# CITIZENS SUMMARY

## Findings in the audit of Tax Credit Programs

### Background

Tax credits are created by the General Assembly, codified in state statutes and generally are a dollar-for-dollar reduction in the amount of taxes otherwise due from taxpayers. Most tax credits are used as an incentive to help induce businesses or individuals into specified activities, while some others provide social benefits. The state currently has 63 active tax credit programs.

Administering agencies are generally responsible for the authorization and issuance of the credits. Administering agencies are also required to submit annual estimates of tax expenditures and benefit/cost analyses to the state budget director for submission to the chairman of the Senate Appropriations Committee and the chairman of the House Budget Committee.

### Tax Credit Redemption Trends

Total redemptions of tax credits have increased an average of 2.8 percent per year over the past decade, and have exceeded $500 million every year since 2009. Tax credit redemptions offset revenues of the General Revenue Fund, thereby reducing amounts available for appropriation for general government purposes. Over the past 4 fiscal years, 7 tax credit programs accounted for 76 percent of redemptions.

### Significant Tax Credit Liabilities Exist

Unredeemed tax credits authorized or issued in prior years have resulted in significant tax credit liabilities to the state. As of June 30, 2016, the amount of tax credits authorized but unredeemed was approximately $3 billion according to data from the Department of Economic Development (DED). In addition, the totals reported as outstanding and obligated (authorized but unissued) for the Historic Preservation program were understated on the tax credit analysis form prepared by DED and presented to the General Assembly for fiscal year 2016.

### Previous Audits Have Noted Concerns

Problems noted in previous audits continue to persist regarding the design of several high cost tax credit programs that create concerns about the cost effectiveness and efficiency of the credits. As noted in previous reports for the Low Income Housing Tax Credit and Historic Preservation Tax Credit, inefficiencies result in a low return on the state's investment. Prior concerns also continue to exist regarding tax credits that are awarded non-competitively, programs that have no funding limits or unclear funding limits, and programs that do not have sunset provisions. State law does not include a sunset provision for 27 tax credits, including 4 of the 7 high-cost tax credits (Historic Preservation Tax Credit, Low Income Housing Tax Credit, Senior Citizen Property Tax Credit, Infrastructure Development Tax Credit).

### Economic Benefit Projections

Economic benefit projections reported to the General Assembly annually on the tax credit analysis reports overstate the economic impact of several tax credits. In addition, $418 million in fiscal year 2016 redemptions (73 percent of total redemptions) were for programs with benefit/cost ratios of less than 1.00, meaning the program returns less to the state than it costs.

Because of the nature of this review, no overall rating is provided.