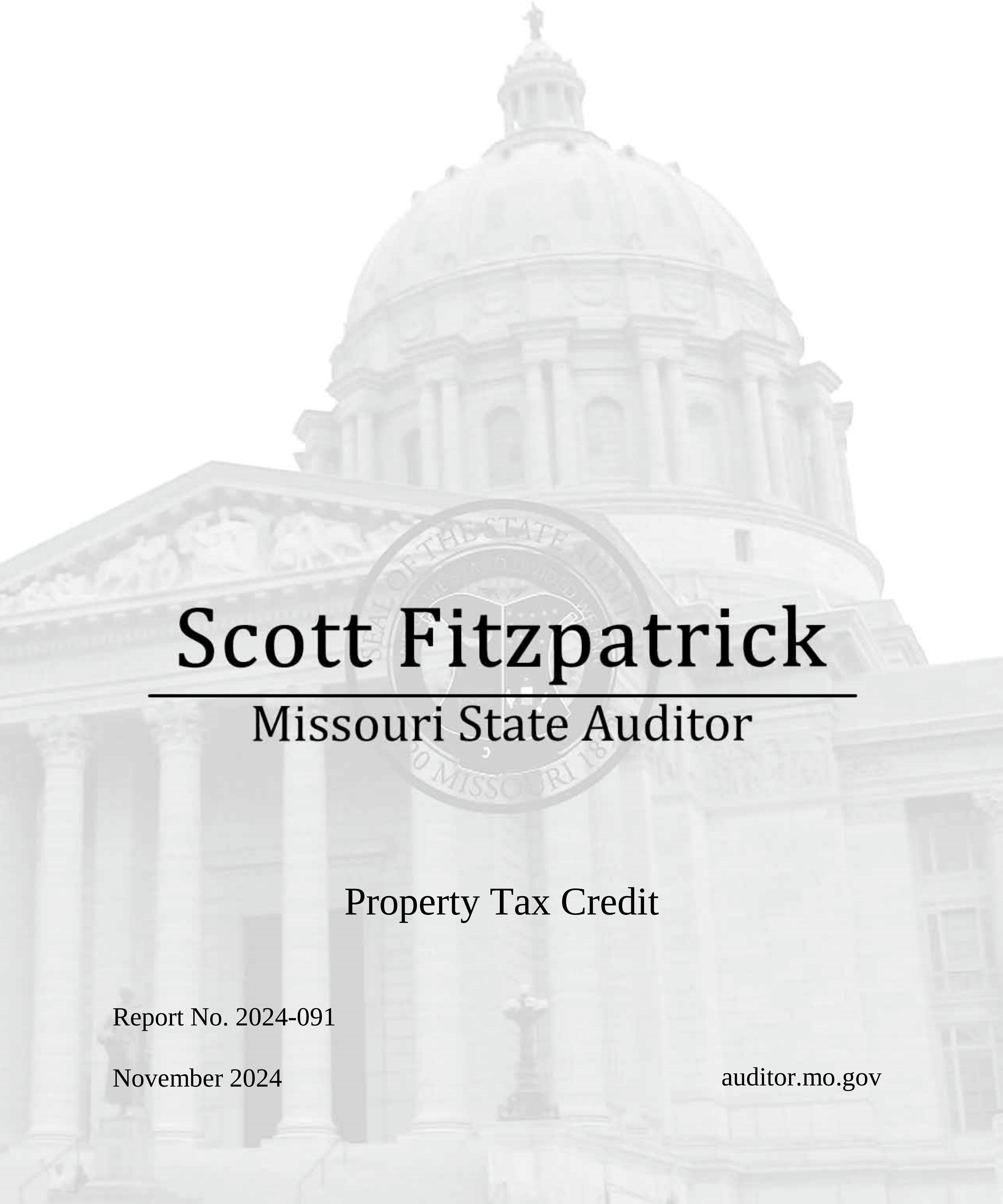

Scott Fitzpatrick

Missouri State Auditor

Property Tax Credit

Report No. 2024-091

November 2024

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Scott Fitzpatrick
Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of the Property Tax Credit

Background	The Property Tax Credit (PTC) is authorized by Sections 135.010 through 135.035, RSMo, and has been in existence since 1973. While the purpose of the program is not specifically established in statute, the program allows certain citizens living in Missouri to receive a tax credit for a portion of the amount of property taxes paid or rent paid, as long as the rental facility paid property taxes. Taxpayers or spouses eligible for the credit must be either (1) 65 years of age or older, (2) 100 percent disabled veterans as a result of military service, (3) 100 percent disabled, or (4) 60 years of age or older and receiving surviving spouse Social Security benefits. The credit is also subject to income limitations based on the filing status of the taxpayer (single or married filing combined) and the taxpayer's living situation (renter or homeowner). The PTC is the state's 4th largest tax credit program with approximately $81 million in redemptions in fiscal year 2022. Redemptions for fiscal year 2023 and 2024 decreased to approximately $76 million and $65 million, respectively. Property Tax Credit redemptions, for the 10 years ending June 30, 2022, totaled $976.4 million according to DOR data.
Claimant Determination Controls Are Not Adequate	The Department of Revenue (DOR) does not have adequate internal controls or processes over PTC eligibility determinations. A review of claims noted the DOR system approves PTC claims that are incomplete, including claims with critical eligibility information missing; approves ineligible claimants for the PTC; denies eligible claimants for the PTC; calculates the incorrect amount of the PTC based on the information provided by the claimant; and does not always identify claimant calculation errors. In addition, DOR personnel approved and awarded ineligible and incomplete claims, and denied eligible claims after DOR personnel performed manual reviews of the claims.
Credit Has Become Less Effective in Fulfilling its Assumed Statutory Purpose	Over time, the number of taxpayers eligible for the program have decreased due to static financial eligibility thresholds, and the value of the benefit provided to eligible taxpayers has been reduced over time due to inflationary factors. In addition, the DOR has not adequately notified potentially eligible taxpayers that have not filed a claim as required by state law.
Documents Not Retained In Accordance with State Law	There is a significant limitation with the DOR's document retrieval system, which does not allow the DOR to retain all documentation required by state law. In 4 of 100 claims (4 percent) reviewed, the DOR could not provide any supporting documentation other than the DOR forms, despite additional documents being submitted with the original return. According to Section 32.090, RSMo, "The department of revenue shall keep a record of each application or other document filed with it and each certificate or other official document issued by it."

Significant Control Risk Identified	A total of 460 DOR employees have the authority to update or otherwise change the payee address within the Revenue Premier software (RPS) after a refund has been approved, but before the refund is disbursed. According to DOR personnel, no supervisory approval is necessary for such changes. During the year ended June 30, 2022, a total of 12,854 addresses were changed for PTC claims by a total of 147 DOR users. No instances of inappropriate address changes were noted by auditors.
Reported Redemption Amounts Understated	PTC program redemption amounts reported to the General Assembly for the year ended June 30, 2022, via the tax credit analysis form were understated by approximately $1.3 million. Based on discussions with DOR personnel, the DOR has reported inaccurate PTC program redemptions to the General Assembly for multiple years, but personnel do not know exactly how long this has been happening or how inaccurate the data is. As a result, the General Assembly does not have complete and accurate information for use in budget decisions.

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

*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.

Property Tax Credit
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SCOTT FITZPATRICK
MISSOURI STATE AUDITOR

Honorable Michael L. Parson, Governor
and
Members of the General Assembly
and
Wayne Wallingford, Director
Department of Revenue
Jefferson City, Missouri

We have audited certain operations of the Property Tax Credit in fulfillment of our duties under Chapter 29, RSMo. The scope of our audit included but was not necessarily limited to the tax credit activity occurring during the fiscal year ended June 30, 2022. The objectives of our audit were to:

1. Evaluate the Department of Revenue's (DOR) process for making the property tax credit eligibility determinations and tax credit refunds.

2. Assess whether the property tax credit program fulfilled its intended purpose.

3. Evaluate the DOR's compliance with applicable record retention schedules.

4. Review the tax credit analysis form required by Section 33.282, RSMo, and evaluate the data used for accuracy.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Government Auditing Standards require us to obtain and report the view of responsible officials of the audited entity concerning the findings, conclusions, and recommendations included in the audit report. Due to the nature of Management Advisory Report finding 2.1 being legislative in nature, we were unable to obtain views of responsible officials for that finding, conclusion, and recommendation.

For the areas audited, we identified (1) deficiencies with the DOR's process for determining eligibility and tax credit refunds, (2) deficiencies with the program fulfilling its intended purpose, (3) noncompliance with applicable record retention schedules, and (4) deficiencies in the preparation of the tax credit analysis form and noncompliance with Section 33.282, RSMo.

The accompanying Management Advisory Report presents our findings arising from our audit of the Property Tax Credit.

Scott Fitzpatrick
State Auditor

Property Tax Credit Introduction

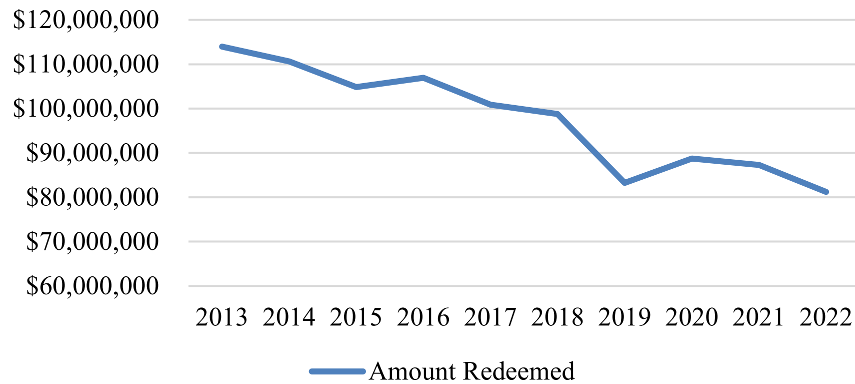
Background

Tax credits are created by the General Assembly, codified in state statutes, and generally are a dollar-for-dollar reduction in the amount of state taxes otherwise due from taxpayers. Since tax credits reduce tax revenues and are not considered state expenditures, they are not subject to the annual appropriation process. However, tax credits are similar to state expenditures in that the credits reduce funds available for current and future spending, or provide other forms of tax relief for citizens. Depending on the authorizing statutes, tax credits may offset taxes on individual income, corporate income, corporate franchise fees, financial institutions income, and/or insurance company premium fees.

The Property Tax Credit (PTC) is authorized by Sections 135.010 through 135.035, RSMo, and has been in existence since 1973. While the purpose of the program is not specifically established in statute, the program allows certain citizens living in Missouri to receive a tax credit for a portion of the amount of property taxes paid or rent paid, as long as the rental facility paid property taxes. Taxpayers or spouses eligible for the credit must be either (1) 65 years of age or older, (2) 100 percent disabled veterans as a result of military service, (3) 100 percent disabled, or (4) 60 years of age or older and receiving surviving spouse Social Security benefits. The credit is also subject to income limitations based on the filing status of the taxpayer (single or married filing combined) and the taxpayer's living situation (renter or homeowner). For renters who are filing single, total household income must be $27,200 or less to be eligible for the credit. Renters who are married filing combined must have total household income of $29,200 or less. For homeowners who are filing single, total household income must be $30,000 or less. Homeowners who are married filing combined must have total household income of $34,000 or less.

The credit may only be applied to income taxes due under Chapter 143, RSMo. Per Section 135.020, RSMo, if the amount allowable as a credit exceeds total income tax due, then the excess amount shall be considered an overpayment of the individual income tax and is thus refundable. The Department of Revenue (DOR) administers the program and is responsible for approving claims based on verification of qualifying information. The PTC is the state's 4th largest tax credit program with approximately $81 million in redemptions in fiscal year 2022.[1] Redemptions for fiscal year 2023 and 2024 decreased to approximately $76 million and $65 million, respectively.[2] Figure 1 shows annual Property Tax Credit redemptions, by fiscal year, for the 10 years ended June 30, 2022. Property Tax Credit redemptions over this period totaled $976.4 million according to DOR data.

Figure 1: Annual Redemptions by Fiscal Year[3]



Source: Prepared by the State Auditor's Office (SAO) using DOR-prepared Tax Credit Reports

Tax credit processing

The DOR uses the Revenue Premier software (RPS) to process all income tax returns and tax credit claims. Income tax returns submitted electronically are automatically processed through the RPS, tax returns with computer printed information are scanned and electronically processed, and handwritten tax returns are manually entered into the RPS by DOR personnel. Figure 2 identifies the DOR forms associated with the PTC:

Figure 2: DOR Forms associated with the PTC

Form	Purpose
MO-PTS	To determine amount of property tax credit, if claimant is required to file a MO-1040 form.
MO-PTC	To determine amount of property tax credit, if claimant is not required to file a MO-1040 form.
MO-1040	To verify income is within thresholds.
MO-CRP	To certify rent paid (completed by claimant).
5674	To verify rent paid (completed by landlord).
948	For Assessor to certify if home is on more than 5 acres or if claimant owns a mobile home.

[1] Redemptions are approximate. See Management Advisory Report (MAR) finding number 5 for additional information on understating of redemptions.
[2] Fiscal year 2023 and 2024 tax credits were not audited, but are referenced here for informational purposes only.
[3] The figures presented reflect amounts provided as of June 7, 2024, and may not reflect amounts reported by the DOR on past or future tax credit activity reports due to corrections and updates to the data made by the DOR.

The DOR implemented systematic "business rules" within the RPS to help evaluate each claim and determine the claimant's eligibility without human intervention. If the business rules determine the PTC claim is invalid or has an issue, an error occurs and the claim is then reviewed manually by DOR personnel. During the year ended June 30, 2022, 77.3 percent of PTC claims did not require a manual review. DOR personnel perform a manual review by reviewing the entire tax return, including the PTC claim, and evaluating the specific information that triggered the business rule error. Based on interviews with DOR personnel, manual reviews can be completed in 10 to 15 minutes for simple items and 30 minutes for complex items. If information is missing or identified as invalid, DOR personnel use various resources to research and adjust the claim to resolve the issue that triggered the business rule error. If the needed information is unavailable, DOR personnel request documentation from the claimant. Once a business rule is resolved by the manual reviewer, the claim is approved electronically by the RPS.

In addition, the DOR scores electronically processed claims to measure fraud risk using machine learning and artificial intelligence using patterns identified by the IRS, Information Sharing and Analysis Center (ISAC), other states, the RPS vendor, and the DOR's past history. Tax returns with a score above a certain threshold are manually reviewed by DOR personnel, because these represent potentially fraudulent tax returns. For all other types of returns and claims, the DOR's vendor performs cluster and pattern analysis to identify suspicious patterns. A list of suspicious claims is provided daily to DOR personnel, who then select claims to be manually reviewed. The fraud scoring process currently does not apply to claims submitted through the online portal on DOR's website (approximately 5 percent of claims); however, the DOR is in the process of implementing the scoring methodology for online portal PTC submissions. During fiscal year 2022, approximately 48 percent of claims were subject to the scoring and 52 percent were subject to the cluster and pattern analysis.

Reporting

The DOR provides the General Assembly and the public key program information for the PTC program annually through tax credit activity reports.

Agencies administering tax credit programs are required under Section 33.282.2, RSMo, to submit annual estimates of future tax credit redemptions to the state budget director for submission to the chairman of the Senate Appropriations Committee and the chairman of the House Budget Committee. The administering agencies submit the estimates on a tax credit analysis form, also commonly referred to as a "Form 14." The tax credit analysis forms also include information on cost/benefit analyses. The cost/benefit analyses compare the costs of the credits (amount redeemed) during the previous fiscal year to the expected increase in state revenues resulting from direct and indirect economic program activity.

Additional property tax relief legislation was approved in 2023

During 2023, the General Assembly passed legislation[4] (effective August 28, 2023) authorizing counties to implement a property tax cap to eligible taxpayers residing in each county, as long as the county adopts an ordinance to do so. Eligibility for this local property tax cap does not include income thresholds, but requires residents to be eligible for Social Security retirement benefits, be the owner of record or have a legal or equitable interest in a homestead, and be liable for the payment of real property taxes. The amount of the benefit received is to be equal to the difference between the real property tax liability on the homestead in a given year minus the real property tax liability on such homestead in the year in which the taxpayer became eligible for the cap. As ordinances are adopted by counties, the amount of PTC redeemed at the state level will decrease.

Scope and Methodology

The scope of our audit included, but was not necessarily limited to, the year ended June 30, 2022.

To evaluate the DOR's process for making property tax credit eligibility determinations and tax credit refunds, we reviewed written policies and procedures and interviewed various DOR personnel to obtain an understanding of the DOR's process for processing claims, verifying eligibility requirements, assessing risk of and identifying suspected fraudulent claims, and processing refunds. In addition, we tested a redacted[5] selection of approved claims and denied claims to determine if controls were functioning as designed. The business rules within the RPS and manual reviews performed by DOR personnel were considered significant internal controls within the context of this objective. During the audit, the DOR would not allow testing of the fraud scoring and pattern analysis. We believe we were able to obtain sufficient and appropriate audit evidence for our conclusion on this objective through the detailed testing of the selection of approved and denied PTC claims.

Our detailed testing of a selection of claims included testing to ensure approved claims met eligibility requirements, denied claims did not meet eligibility requirements, and documentation was maintained in accordance with the applicable record retention schedule. As part of our testing, we used the 2022 DOR fillable calculating PTC forms to recalculate and review the amount of credit awarded by the RPS. We used judgmental selection to select

[4] Senate Bill 190, First Regular Session, 102nd General Assembly (2023) <https://www.senate.mo.gov/23info/BTS_Web/Bill.aspx?SessionType=R&BillID=44564>, accessed August 1, 2024 and Section 137.1050, RSMo.

[5] The DOR redacted all personally identifiable taxpayer information from the records we received during the audit based on the department's interpretation of the Missouri Supreme Court decision in the case of Director of Revenue v. State Auditor 511 S.W.2d 779 (Mo. 1974). The redactions by the DOR did not prevent us from obtaining sufficient, appropriate evidence to meet our audit objectives.

the claims for testing, and the results of our testing cannot be projected to the entire population from which the test items were selected. See Management Advisory Report (MAR) finding number 1 for additional details.

To assess whether the property tax credit program fulfills its intended purpose, we reviewed Sections 135.010 through 135.035, RSMo, and the tax credit analysis form completed by the DOR with assistance from the Department of Economic Development for the fiscal year ended June 30, 2022. We compared the Missouri PTC program to bordering states' programs, including income thresholds, total program redemptions, eligibility criteria, characteristics of eligible property (if the claimant is a renter or an owner, if the property is residential, the amount of acreage, and the amount of time owned and/or occupied), methods of advertising the credit, whether the state or local governments administer the program, and whether the program adjusts key financial parameters of the credit based on inflation. We compared the number of approved PTC claims redeemed to calendar year 2021 detailed census information to determine if more or fewer Missouri residents were receiving the PTC compared to the potentially eligible population. We evaluated the impact of not adjusting PTC income thresholds and the maximum credit allowed for inflation. In addition, we compared average property taxes paid in Missouri and bordering states to the maximum credit allowable. We also interviewed various DOR personnel to obtain an understanding of the methods used to advertise the PTC program to potentially eligible taxpayers and evaluated DOR's statutory compliance with Section 135.030(3), RSMo. As part of that work, we compared the number of qualified Missouri taxpayers based on income alone with number of actual PTC claims.

In addition, using DOR records, we estimated the potential impact in the volume of redemptions if maximum household income limits were adjusted for inflation.[6] Significant assumptions made include (1) additional eligible claimants exist in a similar amount to that of approved claimants, (2) all non-income related criteria are met for the additional estimated claimants, (3) total household income in DOR records accurately reflects actual household income, and (4) the maximum allowable amount of the credit remained unchanged. To estimate the potential increased redemption amounts, we queried DOR data for 4 of the filing statuses of qualified claimants within calculated ranges of total household income and multiplied the resulting volume by the calendar year 2022 average benefit per claim, which was provided by the DOR. See MAR finding number 2 for additional information.

[6] The data provided by the DOR included duplicate lines (occurring when changes or adjustments were made to claims), which were 0.52 percent of the data. The data lacked specific time stamps, so we could not determine which of the duplicates lines had the final income amount. We used the first line appearing in the data.

To evaluate the DOR's compliance with applicable record retention schedules, we interviewed various DOR personnel regarding the record retention process and analyzed Section 32.090, RSMo, which requires the DOR to keep record of each application or other document filed with the application and each certification or other official document issued by it. The DOR record retention schedules[7] further require the DOR to maintain record of individual income tax returns, including PTC claims, for 4 years. In addition, during our test of claims, we identified an issue with documentation retention. See MAR finding number 3 for more information.

To review the tax credit analysis form required by Section 33.282, RSMo, and to evaluate the data used for accuracy, we interviewed various DOR and Department of Economic Development personnel involved in the process, and analyzed the redemption data used in the cost/benefit analysis by the DOR. See MAR finding number 5 for additional information.

Limitations Encountered

During our audit, the DOR refused to provide the auditors access to the following sources of potential audit evidence:

- The Federal 1040 tax forms filed by the claimants. We requested this information for verification of income recorded on the MO-PTS. The DOR believes confidentiality laws prohibited the DOR from sharing such information with the State Auditor because it is considered "Federal Tax Information" under Internal Revenue Code (IRC) Section 7213.

- The MO-1040 tax forms filed by the claimants. We requested this information for verification of income recorded on the MO-PTS. The DOR believes Section 32.057, RSMo, prohibits the DOR from sharing such information with the State Auditor. However, Section 32.057.4 specifically states: "The state auditor or the auditor's duly authorized employees who have taken the oath of confidentiality required by section 29.070 shall have the right to inspect any report or return filed with the department of revenue if such inspection is related to and for the purpose of auditing the department of revenue; except that, the state auditor or the auditor's duly authorized employees shall have no greater right of access to, use and publication of information, audit and related activities with respect to income tax information obtained by the department of revenue pursuant to chapter 143 or federal statute than specifically exists pursuant to the laws of the United States and of the income tax laws of the state of Missouri." The DOR had no explanation regarding why it believes

[7] The relevant DOR record retention schedule is Record Series 6971, *Individual Income Tax Returns* and can be found at <https://www.sos.mo.gov/CMSImages/RecordsManagement/schedules/Rev/Taxation/Process/IndIncTax.pdf >, accessed on August 8, 2024.

Section 32.057, RSMo, prohibits the State Auditor from inspecting these tax forms in light of the statute specifically providing such access.

- The Revenue Premier business rules testing environment. We requested access to run tests over the business rules and identify how claims are flagged when certain data elements are input. DOR officials expressed significant concerns with the testing environment because some data entered in the testing environment may impact the actual information in the RPS, as well as the scoring process.

To mitigate these limitations, we reviewed all other documentation made available by the DOR during our review of PTC claims and we did not test information from Federal 1040 and MO-1040 tax forms. Based on the data reviewed we were able to obtain sufficient, appropriate audit evidence to provide a reasonable basis for our findings and conclusions based on the audit objectives.

1. Claimant Determination Controls Are Not Adequate

The Department of Revenue (DOR) does not have adequate internal controls or processes over Property Tax Credit (PTC) eligibility determinations. Our review of claims noted the DOR system approves PTC claims that are incomplete, including claims with critical eligibility information missing; approves ineligible claimants for the PTC; denies eligible claimants for the PTC; calculates the incorrect amount of the PTC based on the information provided by the claimant; and does not always identify claimant calculation errors. In addition, DOR personnel approved and awarded ineligible and incomplete claims, and denied eligible claims after DOR personnel performed manual reviews of the claims.

The DOR uses Revenue Premier software (RPS), which contains systematic business rules to help the DOR evaluate each claim and make an initial eligibility determination without human intervention. If a business rule is not triggered by the information provided by the claimant, then a positive eligibility determination is automatically made by the RPS. If the business rules in the system determine the PTC claim is invalid or has an issue in need of correction, an error occurs, and the claim is then reviewed manually by DOR personnel.

We judgmentally selected 100 claims to test the eligibility determinations made, along with the amount of the PTC awarded to each claimant, if the claimant was determined eligible. These 100 claims consisted of 60 approved claims without a manual review, 30 approved claims with a manual review, and 10 denied claims. For the year ended June 30, 2022, a total of 142,203 property tax claims were filed and processed by the DOR.

1.1 Tax processing system makes inappropriate claim determinations

The RPS, with the current business rules configuration, sometimes approves incomplete and ineligible applications, denies eligible applications, awards the incorrect amount of PTC to eligible claimants based on their reported income and living situation, and does not always identify claimant calculation errors. A test of 59 approved claims without a manual review[8] determined 31 claims (53 percent) had insufficient documentation to determine eligibility, 3 claims (5 percent) were eligible but the amount of credit was miscalculated, 1 claim (2 percent) was ineligible for the credit and was approved in error, and 24 claims (41 percent) were appropriately determined to be eligible and supported by required documentation. In total, during the year ended June 30, 2022, the RPS determined the eligibility, and applicable amount of the PTC award, for 109,951 claims, or for 77 percent of the total claims processed during this time period, without manual review by DOR personnel.

[8] We selected 60 claims that did not receive a manual review by DOR personnel, but we could not test 1 of the claims because it had a data entry error for a paper MO-1040 form, and was not actually a PTC claim.

System approved claims with incomplete documentation

During our test of 59 claims without a manual review, we determined 31 claims (53 percent) were missing critical documentation needed to prove the claimant's eligibility; however, the claimants were determined eligible for, and received, the PTC. The DOR instructions and forms direct taxpayers to attach various documents and indicate that failure to provide the attachments will result in denial or delay of the claim. The information missing from the claims included documents to verify Social Security payments, business income or loss, property taxes paid, rent paid, and property assessments, as follows:

- The SSA-1099/RRB-1099 form[9] or a letter from the Social Security Administration (SSA) was not provided for 28 of the 59 claims (47 percent) submitted. Without this information, the DOR could not determine the amount of social security benefits or equivalent railroad retirement benefits received during the year. These benefits are reported as part of the claimant's total household income and could impact both the eligibility and the amount of credit the claimant receives.

- Other income or non-business loss documents were not provided for 3 of the 59 claims (5 percent) submitted by claimants. Without this information, the DOR could not determine the claimant's total household income. Household income impacts both the claimants eligibility for the PTC and the amount of credit the claimant receives.

- The paid real estate tax receipt was not provided as required by state law for 15 of the 36 claims (42 percent) submitted by homeowners.[10] Section 135.010(6), RSMo, states, "The director of revenue shall require a tax receipt or other proof of property tax payment." Without this information, the DOR could not determine the amount of real estate taxes the claimant paid during the year. The amount of real estate taxes paid directly affects the amount of the PTC awarded because eligible homeowners receive a PTC refund equal to a portion of the actual taxes paid during the year.

- The Form 5674 (Verification of Rent Paid)[11] was not provided for 6 of the 23 claims (26 percent) submitted by renters.[12] Without this

[9] The SSA-1099/RRB-1099 forms are used to report the amount of Social Security benefits received or the Social Security equivalent Railroad Retirement benefits received. These benefits provide proof of qualification and document the claimant's total household income.

[10] While 59 claims approved by the RPS without a manual review were tested, the paid tax receipt was not applicable to 23 claims because the claimants indicated they were not homeowners.

[11] Landlords complete this form to report the gross rent the tenant paid, and to indicate whether the tenant received any housing assistance.

[12] While 59 claims approved by the RPS without a manual review were tested, the Form 5674 was not applicable to 36 claims because the claimants indicated they were not renters.

information, the RPS could not determine if the rent reported by the claimant was accurate. The amount of gross rent paid directly affects the amount of the PTC to be awarded to the eligible renter.

- The Form 948 (Assessor Certification)[13] was not provided for 1 of the 36 claims (3 percent) submitted by homeowners. Without this information, the RPS could not determine if the allowable credit should be reduced due to the property being larger than 5 acres.

System approved ineligible claim

During our test of 59 approved claims without a manual review, we determined 1 claimant (2 percent) was ineligible for the PTC; however, the RPS determined the claimant was eligible for, and received, the PTC. The claimant was ineligible because the total household income was above the maximum allowable amount. The claimant erroneously reported distributions from the claimant's Form 1099-R as a negative amount,[14] which reduced the total household income. The RPS did not identify this error, and as result, the claimant inappropriately received a PTC for $1,100 when the claimant was not eligible for any PTC amount.[15]

System calculated the incorrect amount of the PTC owed to eligible claimant

During our test of 59 approved claims without a manual review, we determined 1 claimant (2 percent) was eligible for the PTC, but the RPS calculated the incorrect amount of the PTC to award the claimant. This resulted in the eligible claimant receiving the incorrect amount of the award. The claimant received a credit based on the rent the claimant was responsible for paying before any rental assistance programs were considered, rather than basing it on the gross rent actually paid by the claimant. The RPS did not identify this discrepancy in the gross rent paid between the MO-CRP line 6 and Form 5674. As result, the claimant received $29 more than what the claimant was eligible to receive.

System did not always identify claimant calculation errors

During our test of 59 approved claims without a manual review, we determined 2 claimants (3 percent) were eligible for the PTC, but the RPS did not identify claimant errors. This resulted in the eligible claimants receiving incorrect award amounts as follows:

- For 1 of the claims, the attached paid tax receipt did not match the amount of property taxes paid reported on the form MO-PTC. According to the

[13] This form is used to report the assessed value of the claimant's homestead or mobile home.

[14] The Form 1099-R is a variant of the Form 1099. This form reports distributions from pensions, annuities, retirement or profit-sharing plans, IRAs, insurance contracts, or other similar sources of income.

[15] Per Section 135.030(1), RSMo, in the case of a homestead owned and occupied for the entire year by the claimant, the maximum upper limit shall be the sum of thirty thousand dollars. Furthermore, if the income on the return is greater than the maximum upper limit, no credit is to be awarded.

tax receipt, the claimant actually paid less than what the claimant reported on the form. This was a handwritten return, so this claim was manually entered into the RPS by DOR personnel, and the supporting documentation should have been verified by personnel at the time of entry. The RPS did not identify the discrepancy between the amount of property taxes paid on the property tax receipt and the amount the claimant and DOR personnel entered on the MO-PTC because the system cannot read non-DOR forms due to the inconsistent format. As result, the claimant received a PTC refund for $775 more than what the claimant was eligible to receive.

- For 1 of the claims, DOR personnel made a miscalculation and adjusted the claimant's nontaxable Social Security benefits for the entire year based on a payment increase that did not take effect until the end of the year. The manual review occurring based on cluster analysis should have detected this error because the supporting documentation provided by the claimant clearly stated the past Social Security benefits. However, the RPS did not flag the claim for further manual review. As result, the claimant received $33 less than what the claimant was eligible to receive.

When asked why the RPS approves claims with incomplete documentation, awards credits to ineligible claimants, and miscalculates the amount of PTC awarded to eligible claimants, DOR officials indicated a business rule was not triggered for these particular claims, nor did the electronic fraud scoring[16] require a manual review of the return. As a result, manual intervention or review was not required prior to issuing the PTCs to these claimants. DOR officials further indicated the system will not flag a claim as potential fraud, requiring manual review, if the claim is accurately submitted and within the parameters established for systemic processing. DOR officials also indicated the RPS cannot systematically identify the presence of each piece of supporting documentation, because supporting documentation is not produced in a consistent format.

1.2 DOR personnel made erroneous claim determinations

The results of our testing indicate DOR personnel approved incomplete claims, denied eligible claims, and awarded the incorrect amount of PTC to eligible claimants based on their reported income and living situation. During the year ended June 30, 2022, 32,252 of the 142,203 PTC claims (23 percent) received a manual review.[17]

[16] See the Tax Credit Processing section in the Background for additional information on this electronic scoring process.
[17] See the Tax Credit Processing section in the Background for additional information on the manual review process.

According to DOR personnel, manual reviewers receive multiple training opportunities and on-the-job training. DOR personnel also stated manual reviews can be completed in 10 to 15 minutes for simple items and 30 minutes for complex items. Based on interviews with DOR personnel, there is not an official quota of claims to be reviewed each day, but manual reviewers can review approximately 50 to 80 claims in a typical workday. The volume of claims submitted to the DOR significantly increases during tax season (January through April), and as a result, the volume of claims to be manually reviewed increases. According to DOR personnel, manual reviewers use the MO-PTC, MO-PTS, and other forms as a checklist for documentation during their reviews.

DOR personnel approved incomplete claims

During our test of 15 claims with a manual review,[18] we determined 2 claims (13 percent) were missing critical documentation to prove the claimant's eligibility; however, the claimants were determined eligible for, and received, the PTC. The DOR instructions and forms direct taxpayers to attach various documents and indicate that failure to provide the attachments will result in denial or delay of the claim. The information missing from the claims included the following:

- The SSA-1099/RRB-1099 form[19] or a letter from the SSA was not provided for 1 of the 15 claims (7 percent). Without this information, DOR personnel could not determine the amount of Social Security benefits or equivalent Railroad Retirement benefits received during the year. These benefits are reported as part of the claimant's total household income and could impact both the eligibility and the amount of credit the claimant receives.

- The Form 5674 (Verification of Rent Paid)[20] was not provided for 1 of the 8 claims (13 percent) submitted by renters.[21] Without this

[18] While 30 approved claims with a manual review were selected, 1 did not have any supporting documentation other than DOR forms (See MAR finding number 3 for additional details); and 14 could not be tested because 1 of the claims was a data entry error for a paper MO-1040 form that did not claim a PTC, and 13 of these 14 claims had various documentation that the DOR denied auditors access to, including wage and income documents from the Internal Revenue Service, claimant prior filing history, and copies of paid tax receipts available on county collector websites. See the Limitations Encountered section of the Scope and Methodology for additional information.

[19] The SSA-1099/RRB-1099 forms are used to report the amount of Social Security benefits received or the Social Security equivalent Railroad Retirement benefits received. These benefits provide proof of qualification and document the claimant's total household income.

[20] The Form 5674 is the verification of rent paid. Landlords complete this form to report the gross rent each tenant paid, and to indicate whether the tenant received any housing assistance.

[21] While 15 claims approved with a manual review were tested, Form 5674 was not applicable to 7 claims because the claimants indicated they were not renters. One claimant indicated they were both a homeowner and renter.

information, the RPS could not determine if the rent reported by the claimant was accurate. The amount of gross rent paid directly affects the amount of the PTC to be awarded to the eligible renter.

- The Form 948 (Assessor Certification)[22] was not provided for 1 of the 8 claims (13 percent) submitted by homeowners. Without this information, the RPS could not determine if the allowable credit should be reduced due to the property being larger than 5 acres.

When asked why DOR personnel approved claims with incomplete documentation, DOR officials indicated one of the claims was prepared by a "trusted partner," Volunteer Income Tax Assistance (VITA),[23] which confirms taxpayer qualifications and required documentation prior to submission of a claim, but did not indicate why DOR personnel approved the claim without the documentation.

DOR personnel deny eligible claims

During the year ended June 30, 2022, 3,984 claims were denied by the RPS and DOR personnel during manual reviews. During our test of 10 denied claims, we determined 2 claimants (20 percent) were eligible for the PTC, totaling $569; however, DOR personnel determined the claimants were ineligible for the PTC and the PTC was not awarded.

- For 1 of the claims, DOR personnel entered the handwritten return into the RPS incorrectly. The claim was also manually reviewed by DOR personnel and incorrectly denied due to the claimant's income exceeding the limit when the claimants income was below the established income limit. When asked why DOR personnel denied the eligible claimant, DOR officials indicated the claim was disallowed due to a processing error.

- For 1 of the claims, the claimant incorrectly included housing assistance received as rent paid on the MO-CRP form, although the landlord did correctly indicate the amount of rent paid on the Form 5674. When asked why DOR personnel denied the eligible claimant, DOR officials indicated it was denied due to rent in excess of household income, along with conflicting information on the MO-CRP form and documentation provided. However, the conflicting information does not disqualify the claimant's eligibility for the PTC. In addition, based on the Form 5674, rent was not in excess of household income.

[22] The Form 948 is used by the Assessor to report the assessed value of the claimant's homestead or mobile home.
[23] VITA is an IRS program operated by IRS partners and staffed by volunteers, who must take and pass tax law training that meets or exceeds IRS standards.

Once these claims were brought to the DOR's attention, DOR personnel re-processed these claims, agreed the claimants were eligible for the PTC, and awarded the PTC to these claimants.

DOR personnel calculated the incorrect amount of the PTC owed to eligible claimants

During our test of 15 approved claims with a manual review,[24] we determined 1 claimant was eligible for the PTC, but DOR personnel calculated the incorrect amount of the PTC to award the claimant, which resulted in the eligible claimant receiving the incorrect amount of the award. The claimant submitted a handwritten return, which DOR personnel manually entered into the RPS. Based on the supporting documentation accompanying the handwritten return, the claimant incorrectly reported both income and the rent paid on the handwritten return. DOR personnel identified the error with the reported income, but did not identify the error with the amount of rent paid. This resulted in an excess award of $994 to the claimant.

When asked why DOR personnel calculated the incorrect amount of the PTC to award eligible claimants, DOR officials indicated an error was made in processing the claim, which resulted in an inflated PTC being issued.

Additional evidence of control weaknesses in DOR's eligibility determination processes

An additional example of an inappropriately approved claim was reviewed outside of our test work. A fraudulent claim submitted in January 2023, for $999, was approved without manual review by DOR personnel. The DOR issued a check for the claim, which was ultimately identified as fraudulent when the DOR's third party processer for electronic payments identified 15 fraudulent payments associated with the same Social Security number used on the PTC claim. A stop payment order was issued before the check could be deposited. The supporting documentation submitted to the DOR by the fraudulent claimant was a blank form unrelated to the PTC. It appeared to have been submitted to satisfy the requirement to attach a file. The system business rules failed to identify any concerns with this claim.

Conclusion

Improvements are needed to the DOR's controls and process for determining and reviewing the eligibility of claimants for the PTC. Under the current process and system of controls, incomplete claims are approved, eligible claims are denied, the incorrect amount of the PTC is awarded, and claimant errors are not identified. Errors occur both when the DOR's electronic system makes the eligibility determination and when the claim is reviewed manually by DOR personnel. By strengthening the review capabilities of the RPS and ensuring DOR personnel are both adequately trained and have sufficient time to review the PTC claims flagged for manual review, the DOR can better ensure the PTC is only awarded to eligible claimants, eligible claimants are not denied the PTC, and the proper amount of the PTC is awarded to these claimants.

[24] See footnote 18.

Recommendations

We recommend the DOR:

1.1 Develop additional systematic functionality to identify incomplete documentation, claimant errors, and discrepancies between DOR forms to improve the accuracy of RPS eligibility and award determinations.

1.2 Develop additional training and guidance for manual reviewers and facilitate additional time for the manual review process to ensure claims reviewed are complete and accurate.

Auditee's Response

The DOR did not disagree with the report's recommendations, but included comments in the response indicating the DOR does not believe the State Auditor's Office has the statutory authority to access income tax records referenced in the Limitations Encountered section on page 10 of this report. The DOR's full response is included in the Appendix.

Auditor's Comment

The DOR believes the portion of Section 32.057.4, RSMo, which specifies the State Auditor will have no greater access to income tax information than what specifically exists pursuant to the income tax laws of the State of Missouri, means the State Auditor is prohibited from inspecting these tax forms. Section 32.057.4, RSMo, specifically says the State Auditor or the auditor's duly authorized employees shall have the right to inspect any report or return filed with the DOR if such inspection is related to and for the purposes of auditing the DOR. Further, subsection 2 of Section 32.057, RSMo, specifically states that nothing in that section shall be construed to prohibit disclosure of tax returns to the state auditor or the auditor's duly authorized employees, as required by subsection 4 of that section.

2. Credit Has Become Less Effective in Fulfilling its Assumed Statutory Purpose

Statutorily fixed eligibility thresholds and the DOR's noncompliance with state law has resulted in the PTC program becoming less effective in fulfilling its assumed statutory purpose. Based on the provisions of state law, the assumed purpose of the PTC program is to provide a level of property tax relief for low-income, elderly, and disabled taxpayers.

Over time, the number of taxpayers eligible for the program has decreased due to static financial eligibility thresholds, and the value of the benefit provided to eligible taxpayers has been reduced due to inflationary factors. Missouri's lack of inclusion of inflationary adjustments in the PTC is inconsistent with similar programs of surrounding states. In addition, the DOR has not adequately notified potentially eligible taxpayers that have not filed a claim as required by state law.

2.1 Key financial eligibility thresholds not indexed to inflation

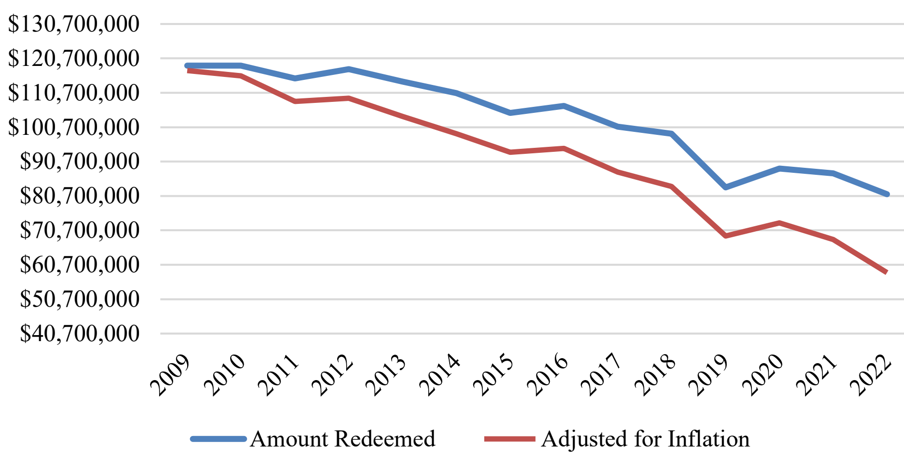
The primary eligibility threshold and the amount of the PTC award are not indexed to inflation[25] and have not been changed since 2008. At the same time, median household income has increased by approximately 40 percent since 2010. This results in fewer low income Missourians being eligible for the PTC program benefit each year, and fewer PTC redemptions over time. Additionally, taxpayers that still qualify for the credit are receiving a reduced benefit due to inflationary factors.

The maximum income for eligible homeowners is statutorily fixed at $30,000 for single filers and $34,000 for married filing combined. The maximum income for eligible renters is statutorily fixed at $27,200 for single filers and $29,200 for married filing combined. The maximum PTC awarded to eligible claimants is statutorily fixed at $1,100 for homeowners and $750 for renters.

Neither the dollar amount of the credit nor the maximum allowable income limitations have changed since 2008.[26] The value of the benefit provided to eligible taxpayers is reduced each year that the credit remains unchanged, while assessed real estate property valuations, and the associated property taxes and rents paid, have steadily increased since 2008.

Figure 3 shows annual PTC program redemptions by fiscal year for the last 14 years and redemptions adjusted for inflation. Based on Figure 3, PTC program redemptions have steadily decreased since 2009 to the point that, when adjusted for inflation, the dollar amount of the redemptions have been cut in half over the 12-year period.

Figure 3: PTC program redemptions by fiscal year, 2009 through 2022, nominal and adjusted for inflation



Source: Prepared by the SAO using the Consumer Price Index as of fiscal year end for All Urban Consumers from https://fred.stlouisfed.org/series/CPIAUCSL and DOR total PTC program redemptions as of fiscal year end.

[25] Throughout the report, we used the following source for our inflation calculations: *Consumer Price Index for All Urban Consumers* from <https://fred.stlouisfed.org/series/CPIAUCSL>, accessed August 9, 2024

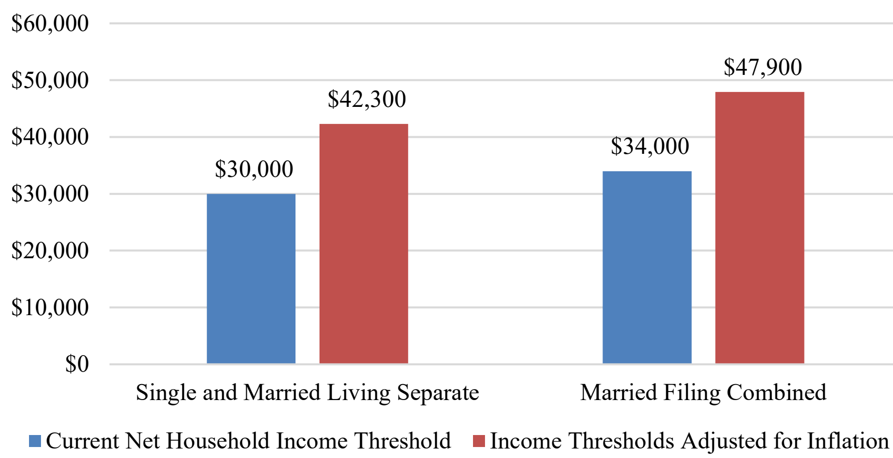
[26] The maximum upper limit was last increased on August 28, 2008.

Increases to the income thresholds should be considered

Median estimated household income has increased from $44,301 in 2010 to $61,847 in 2021 (39.6 percent increase). In addition, Social Security benefit cost of living adjustments (COLAs) ranged from 0 percent in 2010 to 5.9 percent in 2021. Since a taxpayer's income is one of several components in the calculation of the PTC credit, each year more taxpayers exceed the household income limit and become ineligible for the PTC. Accordingly, if the program is to provide a benefit to taxpayers that is equivalent to the benefit received in 2009, the income threshold would need to be increased.

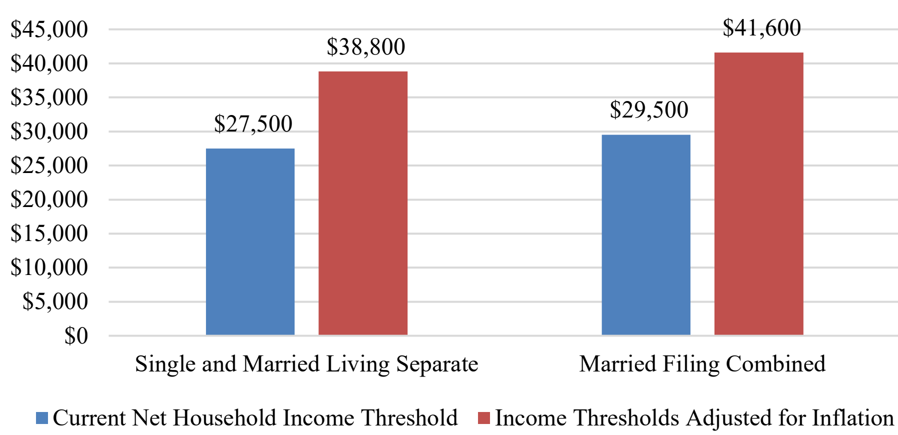
Figures 4 and 5 show the increases in the income thresholds needed for homeowners and renters, respectively, to remain eligible at the same income indexed for inflation to 2008.

Figure 4: Homeowner income thresholds & adjusted for inflation



Source: Prepared by the SAO using the income threshold in Sections 135.010(5) and 135.030(1), RSMo, and Consumer Price Index data for 2008 and 2022 from the St. Louis Federal Reserve.

Figure 5: Renter income thresholds & adjusted for inflation



Source: Prepared by the SAO using the income threshold in Sections 135.010(5) and 135.030(1), RSMo, and Consumer Price Index data for 2008 and 2022 from the St. Louis Federal Reserve.

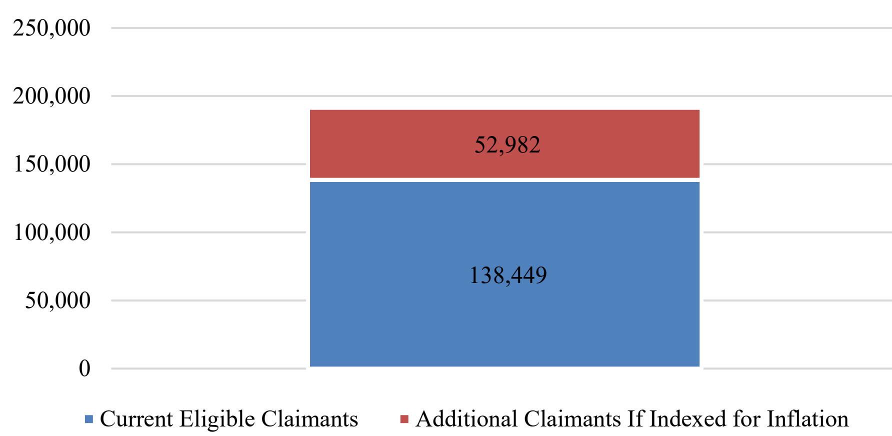
As shown in Figures 4 and 5, the homeowner and renter income thresholds would need to be increased considerably for the year end 2022 income thresholds to be equal to the 2008 income threshold dollars.

Increasing income thresholds would restore the number of qualified applicants to amounts seen in previous years.

Using DOR records, we estimated[27] the potential increase in claimants and redemptions if the upper maximum income threshold was adjusted for inflation to the amounts shown in Figures 4 and 5. The resulting estimate indicated a potential increase of 52,982 in the volume of claims and an increase of $31.2 million in redemptions for a total of 191,431 claims and $112.4 million in redemptions. These claimants would have been eligible for relief in previous years before increases in income and property values due to inflation resulted in their ineligibility from the PTC. Based on our estimates, redemptions after inflationary adjustments would be similar to total redemptions between the year ended June 30, 2013, and June 30, 2014, and would increase claims by an estimated 38 percent.

Figure 6 shows the number of eligible claimants during the fiscal year ended June 30, 2022, and the estimated number of eligible claimants if the income thresholds had been updated for inflation. Essentially, Figure 6 shows the number of claimants that have effectively lost eligibility due to the effects of inflation.

Figure 6: Current eligible claimants & additional claimants if indexed for inflation



Source: Prepared by the SAO using the maximum award amounts in Section 135.030(2), RSMo, Consumer Price Index data from the St. Louis Federal Reserve, and estimates of the number of eligible claimants prepared by the SAO.

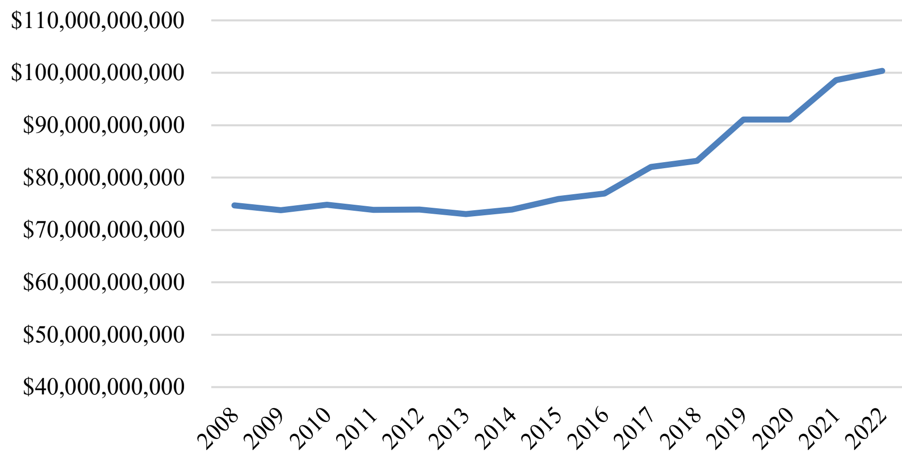
As shown by Figure 6, a significant number of claimants have lost eligibility due to the income thresholds remaining statutorily fixed.

[27] See assumptions in the Scope and Methodology section.

The value of the PTC provided to eligible claimants has been significantly diminished by increasing property values

The value of the benefit previously provided to taxpayers has been diminished significantly by inflation. Per Section 135.025, RSMo, the current maximum allowable amount of the PTC is fixed at $1,100 for homeowners and $750 for renters. While these amounts have remained fixed since 2008, locally assessed real estate property valuations have steadily increased by approximately 34 percent. See Figure 7.

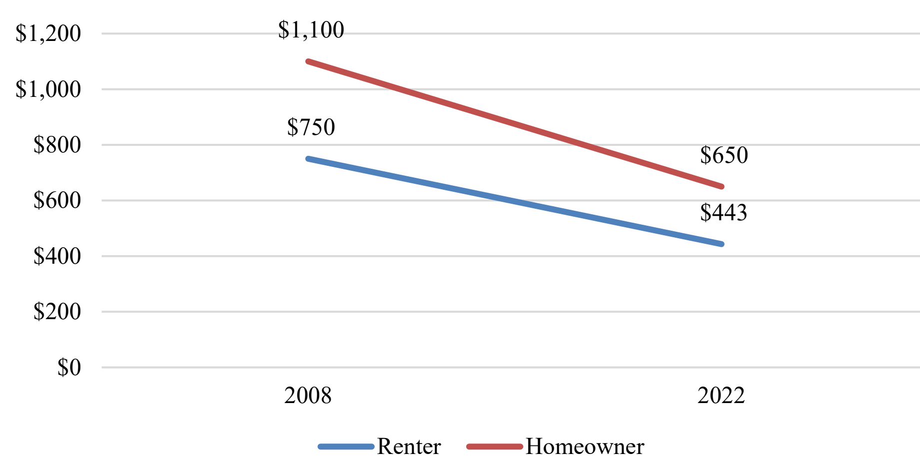
Figure 7: Locally assessed real property valuations 2008-2022



Source: State Tax Commission data <https://stc.mo.gov/annual-reports/>

As property valuation and resulting property taxes increase, this credit is becoming less effective at providing assistance to low-income, elderly, and disabled citizens. Figure 8 shows the effective decrease in benefit value for homeowners and renters when eligible for the PTC as a result of inflation since 2008.

Figure 8: Benefit value adjusted for inflation

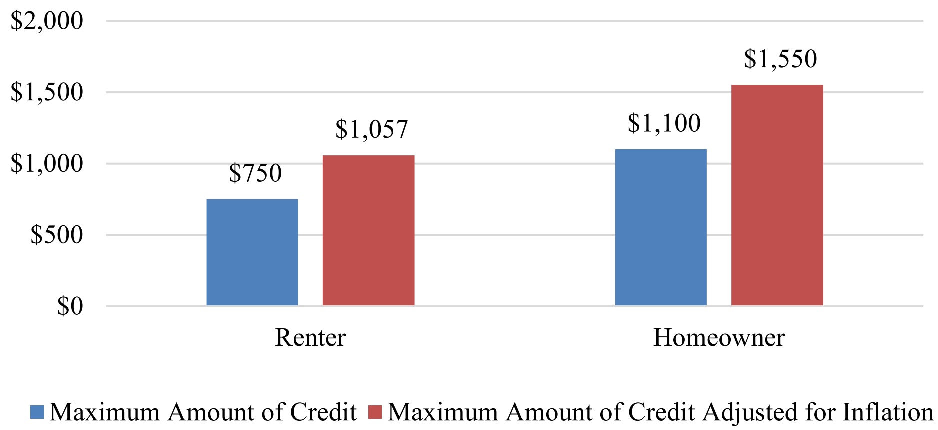


Source: Prepared by the SAO using the maximum award amounts in Section 135.030(2), RSMo, and Consumer Price Index data from the St. Louis Federal Reserve.

As shown in Figure 8, the credit is significantly less beneficial to the low-income, elderly, and disabled eligible claimants now than it was 14 years ago.

Similarly, Figure 9 shows the increases in the benefit levels needed for homeowners and renters to receive a comparable benefit to what was available to them in 2008.

Figure 9: Maximum allowable credit & adjusted for inflation



Source: Prepared by the SAO using the maximum award amounts in Section 135.025, RSMo, and Consumer Price Index data from the St. Louis Federal Reserve.

As shown in Figure 9, to provide a benefit with an equivalent value to 2008, the maximum allowable credit would need to be increased by $307 for renters and $450 for homeowners.

Border states preserve the eligibility threshold and value of the credit for their claimants

Based on our review of similar programs in bordering states, a significant number of them are adjusted for inflation in some manner. We selected 11 programs[28] related to property tax relief of the states sharing a border with the State of Missouri for review. Of the programs reviewed, 9 of 11 (82 percent) have similar tax credit programs, refund programs, or exemption programs adjusted periodically using the Consumer Price Index (CPI) for inflation.[29]

[28] The 11 programs selected for review were the Arkansas Homestead Tax Credit, Iowa Homestead Tax Credit, Iowa Disabled Veteran's Homestead Tax Credit, Iowa Elderly and Persons with Disabilities Credit and Rent Reimbursement, Illinois Property Tax Credit, Kentucky Homestead Exemption, Tennessee Property Tax Relief Reimbursement, Kansas Homestead Refund Program, Kansas Property Tax Relief for Low Income Seniors (SAFESR) Program, Nebraska Homestead Exemption Program, and Oklahoma Property Tax Credit.

[29] Iowa Homestead Tax Credit, Iowa Disabled Veteran's Homestead Tax Credit, Iowa Elderly and Persons with Disabilities Credit and Rent Reimbursement, Illinois Property Tax Credit, Kentucky Homestead Exemption, Tennessee Property Tax Relief Reimbursement, Kansas Homestead Refund Program, Kansas SAFESR Program, and Nebraska Homestead Exemption Program.

Six of the programs[30] require a periodic adjustment of income thresholds for inflation. One program[31] requires a periodic adjustment of the maximum amount of the credit for inflation. Two programs[32] define the maximum credit as a percentage of the taxes paid and thus the nature of the program allows for adjustments over time. In 4 of the programs,[33] the law explicitly defines the purpose of the program, providing clear guidance to policymakers for when to modify the income parameters of the program.

Conclusion

The PTC has become available to significantly fewer claimants due to the impacts of inflation on increasing household incomes. The reduction in the number of taxpayers eligible for the credit has resulted in a reduction in redemptions over time. In addition, the value of the credit to eligible taxpayers has been reduced by the impacts of inflation. These factors have resulted in the PTC program effectively being phased out over time by inflation. As a result, the program has become less effective in fulfilling its assumed purpose.

2.2 DOR is not notifying potentially eligible taxpayers as required by state law

The DOR is not adequately fulfilling its statutory responsibility to notify taxpayers who may be eligible for the PTC. As a result, the credit is likely not being redeemed by all eligible taxpayers. Section 135.030.3, RSMo, states, ". . . the department of revenue or any duly authorized employee or agent shall determine whether any taxpayer filing a report or return with the department of revenue who has not applied for the credit allowed pursuant to section 135.020 may quality for the credit, and shall notify any qualified claimant of the claimant's potential eligibility, where the department determines such potential eligibility exists."

Current methods to advertise the credit

The PTC program is currently advertised to the public through several different methods. Citizens can find information about the PTC program on their own through online searches of the DOR website, National Association of Realtor's website, or county assessors' websites. In the last three years, DOR personnel indicated the DOR has posted approximately 24 times on social media advertising the PTC, issued a press release each January to include information about the credit, annually attended the Missouri State Fair to discuss the PTC, and advertised the MO-PTC form on digital display boards in the DOR's walk-in offices. However, each of these advertisement methods requires the taxpayer to pursue information. In addition, the DOR

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[30] Iowa Homestead Tax Credit, Iowa Disabled Veteran's Homestead Tax Credit, Iowa Elderly and Persons with Disabilities Credit and Rent Reimbursement, Tennessee Property Tax Relief Reimbursement, Kansas Homestead Refund Program, and Nebraska Homestead Exemption Program.

[31] Kentucky Homestead Exemption.

[32] Illinois Property Tax Credit and Kansas SAFESR Program.

[33] Illinois Property Tax Credit, Kansas Homestead Refund Program, Kansas SAFESR Program, and Nebraska Homestead Exemption Program.

provides general information about the PTC on MO-1040 tax forms, but not all eligible claimants are required to complete a MO-1040 form.

None of the DOR's efforts satisfy its statutory requirement to notify potentially eligible claimants of the PTC. The DOR is not sending a deliberate and direct notification to any one individual about potential eligibility, and is instead broadly notifying the public of the credit through indirect methods. In addition, the methods used by the DOR are primarily social media and more widely used by younger taxpayers rather than using media or locations that older taxpayers would be more likely to encounter.

Estimated additional eligible taxpayers

Upon our request, the DOR estimated the potential number of eligible PTC claimants[34] in Missouri for the year ended June 30, 2022. According to DOR personnel, an estimated total of 188,478 taxpayers may have been eligible for the credit in 2022, while 140,026 claims were approved for the credit during the same time period. Department personnel indicated they did not have a high degree of confidence in their estimate because a significant amount of the eligibility-related data is not statutorily required to be reported on individual tax returns.

Recommendations

2.1 The General Assembly consider modifying statute to clarify the purpose of the program, and consider if indexing key eligibility thresholds to inflation would be more effective in fulfilling the program's intended purpose, or assess whether the program is accomplishing its intended goal or should be eliminated in whole or in part.

2.2 The DOR directly notify taxpayers it reasonably estimates are potentially eligible for the credit. If this is not practical, then the DOR should work with the Legislature to revise the DOR's responsibilities regarding notifying potentially eligible taxpayers.

Auditee's Response

2.1 Due to this recommendation being legislative in nature, no management response can be obtained. While the recommendation is not addressed to the DOR, department officials provided a response. That response is included in the Appendix.

2.2 The DOR did not disagree with the report's recommendations. The DOR's full response is included in the Appendix.

[34] The estimated eligible taxpayers provided by the DOR included taxpayers who filed a Missouri individual income tax return during the fiscal year ended June 30, 2022. The DOR used taxpayer federal adjusted gross income, filing status, and indication of over 65 years of age or 100 percent disability status.

3. Documents Not Retained In Accordance with State Law

There is a significant limitation with the DOR's document retrieval system, which does not allow the DOR to retain all documentation required by state law. In 4 of the 100 claims (4 percent) reviewed, the DOR could not provide any supporting documentation other than the DOR forms,[35] despite additional documents being submitted with the original return. For these 4 claims, 1 claim of $694 was approved without a manual review, 1 claim of $1,059 was approved after a manual review, and 2 claims were denied after a manual review. According to the DOR, these documents were submitted in a format through its online portal that does not allow the DOR to retrieve the documents. The DOR attempted to use an alternative method to obtain these documents, but was unsuccessful.

When a taxpayer submits files with a PTC claim via the online PTC portal, the taxpayer selects the format of the documentation. According to the DOR, its document retrieval system can only read and save attachments submitted as a portable document format (PDF) or tagged image file (TIF); all other file types are incompatible with the system. However, taxpayers are able to submit files in other formats, including joint photographic experts group (JPEG) files.

Because of this limitation, the DOR cannot always determine claimant eligibility during a manual review. According to Section 32.090, RSMo, "The department of revenue shall keep a record of each application or other document filed with it and each certificate or other official document issued by it." The DOR's applicable record retention schedule further specifies all records documenting individual income tax returns, including PTC claims, are to be retained for a total of 4 years before being destroyed.

Recommendation

The DOR ensure the online PTC portal only allows documents in formats that can be properly retained. If this is not practical, then the DOR should work with Office of Administration Information Technology Services Division to expand the document retrieval system capabilities to accept common file types.

Auditee's Response

The DOR did not disagree with the report's recommendations. The DOR's full response is included in the Appendix.

4. Significant Control Risk Identified

A total of 460 DOR employees have the authority to update or otherwise change the payee address within the RPS after a refund has been approved, but before the refund is disbursed. According to DOR personnel, no supervisory approval is necessary for such changes. During the year ended June 30, 2022, a total of 12,854 addresses were changed for PTC claims by a total of 147 DOR users. During our review, we noted 22 percent of the

[35] The only forms the DOR was able to produce were the MO-PTC and MO-CRP forms.

changes were completed manually by DOR users and 78 percent of the changes were electronically updated as a result of the National Change of Address Program or other returns being processed for the same payee. No instances of inappropriate address changes were noted by auditors.

According to the year ended June 30, 2022, Annual Comprehensive Financial Report (ACFR),[36] the DOR had 1,154 full time equivalent employees. Based on this information, approximately 40 percent of full-time DOR employees can change a payee address after the credit is approved. Failing to limit the number of employees with this access or establish adequate oversight of the mailing address changes increases the risk for a refund to be misappropriated if the payee address is changed to an inappropriate location.

The DOR uses RPS to track various details about PTC claims including the mailing address for refunds. The DOR indicated 10 job positions, ranging from Associate Research/Data Analyst to Division Director,[37] have access within the RPS to update an address for any type or return.

According to DOR personnel, permission to change a payee address in the RPS is based on an employee's position and job title. It is very common for taxpayers to move from one address to another multiple times; therefore, the DOR granted this permission to numerous individuals of varying job titles. When asked why there is no supervisory review or approval after an address is changed, DOR personnel indicated staff are trained to appropriately make the correct change to an address, and they trust the employees and their education. DOR personnel further indicated it would not be practical to verify every change based on the large quantity of addresses that require updating.

Recommendation

The DOR evaluate who needs access to change the mailing address in the RPS and consider establishing oversight of the changes.

Auditee's Response

The DOR did not disagree with the report's recommendations. The DOR's full response is included in the Appendix.

[36] Fiscal year 2022 ACFR, page 241, <https://oa.mo.gov/accounting/reports/annual-reports/annual-comprehensive-financial-reports>, accessed on August 9, 2024.
[37] Additional job positions include: Deputy Division Director, Assistant Deputy Division Director, Associate Customer Service Representative, Customer Service Representative, Lead Customer Service Representative, Customer Service Supervisor, Customer Service Manager, and Administrative Manager.

5. Reported Redemption Amounts Understated

PTC program redemption amounts reported to the General Assembly for the year ended June 30, 2022, via the tax credit analysis form were understated by approximately $1.3 million. Based on discussions with DOR personnel, the DOR has reported inaccurate PTC program redemptions to the General Assembly for multiple years, but personnel do not know exactly how long this has been happening or how inaccurate the data is. As a result, the General Assembly does not have complete and accurate information for use in budget decisions. During the year ended June 30, 2022, the DOR reported total PTC program redemptions of approximately $81 million, so redemptions attributable to the program were understated by an estimated 1.6 percent.

State law[38] requires agencies administering tax credit programs to submit annual reductions in revenue collections for the fiscal year as a result of each deduction, exemption, credit, or other tax preference. The DOR prepared and presented the analysis to the General Assembly for fiscal year 2022, but inaccurately reported credits applied to taxes owed or credits applied to future estimated taxes.

When the claimant receives a property tax credit refund, the claimant can apply it to current taxes owed or to future estimated taxes. According to DOR, when DOR personnel prepare the annual tax credit analysis form for the PTC, personnel only report the fiscal year refunds based on refunds disbursed via check, which does not include tax credits applied to current taxes owed or to future estimated taxes. Based on the 2,136 claims applied to current year taxes owed in fiscal year 2022, and 158 claims applied to future estimated taxes, multiplied by the calendar year 2022 average $587 benefit of all approved claims, an estimated total of $1,346,578 was not reported on the tax credit analysis form for fiscal year 2022. A key component of the annual report is the cost/benefit analysis, which allows the General Assembly to ascertain the financial impacts of the specific credit. The cost/benefit analysis of the PTC program applies the total redemptions as the variable in the equation for direct fiscal cost, but because the total redemptions were understated, this analysis is also inaccurate.

Department personnel indicated they are aware current procedures do not include any tax credits applied to current year taxes or to future estimated taxes. Although the DOR knows credits redeemed to offset tax liabilities or carried forward to a future year are not reflected in the tax credit analysis, they stated they do not know if those amounts should be included in the report based on how the law is worded. Tax credit redemptions are used to estimate revenue of the general revenue fund. As the DOR does not include credits redeemed and carried forward to a future year, the revenue estimate for the state's budget for the general revenue fund is inaccurate. Per Section 33.282.2,

[38] Section 33.282, RSMo.

RSMo, "on or before October first of each year each state department authorized by law to offer deductions, exemptions, credits or other tax preferences shall submit to the budget director the estimated amount of such tax expenditures for the fiscal year beginning July first of the following year and a cost/benefit analysis of such tax expenditures for the preceding fiscal year."

DOR personnel further indicated the fiscal team members that obtain the data for the tax credit analysis form are new to their positions, and they have not yet analyzed alternative methods for the report that include offsets and carryforwards. Therefore, they continue to follow the same method the DOR has historically used, resulting in an inaccurate report.

Accurate and complete tax credit redemptions are a critical part of the information needed by the General Assembly to make informed budgeting decisions.

Recommendation

The DOR establish procedures to ensure redemptions reported to the General Assembly include accurate redemptions of the preceding fiscal year.

Auditee's Response

The DOR did not disagree with the report's recommendations. The DOR's full response is included in the Appendix.

MICHAEL L. PARSON
GOVERNOR

WAYNE WALLINGFORD
DIRECTOR OF REVENUE

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October 3, 2024

Scott Fitzpatrick
Missouri State Auditor
Missouri State Auditor's Office
PO Box 869
Jefferson City, MO 65102

Dear Mr. Fitzpatrick:

The Department of Revenue acknowledges the recommendations in the Missouri State Auditor's report on Property Tax Credit.

Recommendation 1.1 — Develop additional systematic functionality to identify incomplete documentation, claimant errors, and discrepancies between DOR forms to improve the accuracy of RPS eligibility and award determinations.

DOR Response 1.1 — The Department will continue to work with our vendor for RPS to ensure property tax credits are processed accurately.

Recommendation 1.2 — Develop additional training and guidance for manual reviewers and facilitate additional time for the manual review process to ensure claims reviewed are complete and accurate.

DOR Response 1.2 — The Department will continue to provide training and guidance to our team members and complete quality assurance checks to ensure property tax credit claims are complete and accurate.

Recommendation 2.1 — The General Assembly consider modifying statute to clarify the purpose of the program, and consider if indexing key eligibility thresholds to inflation would be more effective in fulfilling the program's intended purpose, or assess whether the program is accomplishing its intended goal or should be eliminated in whole or in part.

DOR Response 2.1 — If the General Assembly passes legislation that requires action, the Department of Revenue will incorporate those provisions into our processes and comply with any state laws regarding this recommendation.

Recommendation 2.2 — The DOR should directly notify taxpayers it reasonably estimates are potentially eligible for the credit but have not done so. If this is not practical, then the DOR should work with the Legislature to revise the DOR's responsibilities regarding notifying potentially eligible taxpayers.

DOR Response 2.2 — The Department will continue to promote the property tax credit program to taxpayers and will notify taxpayers who are potentially eligible. In addition, if the General Assembly passes legislation that requires action, the Department of Revenue will incorporate those provisions into our processes and comply with any state laws regarding this recommendation.

Recommendation 3 — The DOR ensure the online PTC portal only allows documents in formats that can be properly retained. If this is not practical, then the DOR should work with Office of Administration Information Technology Services Division to expand the document retrieval system capabilities to accept common file types.

DOR Response 3 — The Department will work with the RPS vendor to limit the acceptable document type to portable document format (PDF) until Office of Administration Information Technology Services Division is able to expand the document retrieval system capabilities to accept additional file types.

Recommendation 4 — The DOR evaluate who needs access to change the mailing address in the RPS and consider establishing oversight of the changes.

DOR Response 4 — The Department has instituted additional measures to review payee address updates within RPS and will evaluate the user access requirements in Revenue Premier to ensure there is proper oversight.

Recommendation 5 — The DOR establish procedures to ensure redemptions reported to the General Assembly include accurate redemptions of the preceding fiscal year.

DOR Response 5 — The Department has evaluated the procedures for property tax credit redemptions reported to the General Assembly and will make necessary changes for future reporting.

In response to the Limitation Encountered bullet point on page 9 regarding access to DOR income tax records, the plain meaning of §32.057,.4, RSMo. specifies that the SAO will have no greater access to income tax information than what specifically exists pursuant to the income tax laws of the State of Missouri. This has been the longstanding position of the Department through multiple State Auditor Office audits.

If you have any questions, please contact Joshua Shope at (573) 526-1207, or Joshua.Shope@dor.mo.gov.

Sincerely,

Wayne Wallingford

JKS/

c: Lynn Kempker, Cheryl Bosch, Cindy Doss, Daniel Follett, Dustin Birch