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TAX CREDIT

Enterprise Zone and Enhanced Enterprise Zone Tax Credit Programs

September 2010

Report No. 2010-106

auditor.mo.gov

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YELLOW SHEET

Findings in the audit of Enterprise Zone and Enhanced Enterprise Zone Tax Credit Programs

Program Administration	Improvements are needed in the administration of the Enterprise Zone Tax Credit (EZTC) and Enhanced Enterprise Zone Tax Credit (EEZTC) programs. The Department of Economic Development (DED) does not adequately verify data submitted by businesses claiming the EZTC and has not adequately monitored the businesses receiving credits from either program, and the economic benefits of both programs reported to the legislature are overstated. These weaknesses make it difficult to determine whether the programs are an effective use of state resources. If the DED takes corrective action and subsequently determines the programs are effective, opportunities exist to more fully utilize program capacity.
Verification of business data	The DED does not require businesses claiming EZTCs to submit supporting documentation of the number of new jobs created and the amount of new investment put in place. In addition, the DED has not utilized its access to employment security data to verify employment levels of businesses claiming EZTCs. The DED has not performed adequate site monitoring to verify the information provided by applicants of both tax credits. As of March 30, 2010, only 15 of the 51 businesses that had been issued EEZTCs since the inception of the program in fiscal year 2006 had been visited. Also, none of the 158 businesses authorized to receive EZTCs since fiscal year 2000 had been visited.
Economic benefit forecasts	The business investment and jobs assumptions used to create the economic forecasts provided to the General Assembly for the EZTC and EEZTC are overstated. The DED economic forecasts do not utilize actual activity created by the tax credits, but instead use estimates of activity provided by businesses. Our review of 19 businesses authorized for tax credits in 2007, noted actual jobs created were 6.1 percent less than proposed and actual investment was 29.5 percent less than proposed.
Erroneous economic benefit information	Our review of the data inputs used by the DED to prepare the tax credit analysis form presented to the General Assembly identified erroneous information. Our review of 40 businesses that submitted information to the DED for an EEZTC in 2008 found errors in the number of estimated jobs or estimated investments for 17 businesses (a 43 percent error rate). For example, one business submitted an estimate to the DED indicating it would invest $11,388,848; however, the DED used an assumption of $49,358,848 (333 percent more) in the economic forecast. Another business estimated it would invest $5,697,000, but the DED used $87,600,000 (1438 percent more) in the economic forecast.

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Honorable Jeremiah W. (Jay) Nixon, Governor
and
Joint Committee on Tax Policy
and
David Kerr, Director
Department of Economic Development
Jefferson City, Missouri

We have audited the Enterprise Zone (EZ) and Enhanced Enterprise Zone (EEZ) Tax Credit Programs. The scope of our audit included, but was not necessarily limited to, the 2 years ended June 30, 2009. The objectives of our audit were to:

1. Analyze the costs and benefits of the programs to determine if they are effective and efficient uses of state resources.

2. Evaluate the internal controls over significant management and financial functions related to the programs.

3. Evaluate compliance with certain legal requirements related to the programs.

4. Evaluate the economy and efficiency of certain management practices and operations.

Our scope and methodology is included in the Introduction Section.

We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We also tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. However, providing an opinion on the effectiveness of internal controls was not an objective of our audit and accordingly, we do not express such an opinion.

We obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. Abuse, which refers to behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary given the facts and circumstances, does not necessarily involve noncompliance with legal provisions. Because the determination of abuse is subjective, our audit is not required to provide reasonable assurance of detecting abuse.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our 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 such a basis.

The accompanying Management Advisory Report presents our findings arising from our audit of the Enterprise Zone and Enhanced Enterprise Zone Tax Credit Programs.

Susan Montee, JD, CPA
State Auditor

The following auditors participated in the preparation of this report:

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Enterprise Zone and Enhanced Enterprise Zone Tax Credit Programs

Introduction

Background

Enterprise Zones (EZ) and Enhanced Enterprise Zones (EEZ) have been established throughout Missouri to provide tax incentives to facilitate the creation of new or expansion of existing businesses in the state. Enterprise and Enhanced Enterprise zones are specified geographic areas as certified by the Department of Economic Development (DED) based on demographic eligibility and approval of a request by a local government. The EZ and EEZ legislation promotes growth in disadvantaged areas through the creation of sustainable jobs in targeted industries or through local economic impact.

The process of obtaining the EZ and EEZ designation is locally driven. The local governing authority must submit an application to the DED stating an intent to be classified as an EZ or EEZ. Businesses within an EZ are eligible for a local tax abatement, in whole or in part, from assessment and payment of ad valorem taxes of one or more affected political subdivisions on improvements to real property. In addition to local tax abatement, businesses are eligible for a state income tax exemption and the Enterprise Zone Tax Credit (EZTC) administered through the DED. Businesses within an EEZ are also eligible for a local real property tax abatement on improvements to real property and the Enhanced Enterprise Zone Tax Credit (EEZTC) program administered through the DED.

The EZTC program started in 1982 and is established under Sections 135.200 to 135.270, RSMo. For a business to qualify for the EZTC, it must be located within an EZ. State law was changed in 2004 to phase out EZs and the EZTC and create EEZs and the EEZTC program. The EEZTC program is established under Sections 135.950 to 135.973, RSMo. A business must be located in an EEZ to be eligible for the EEZTC.

Enterprise Zone Tax Credit

The EZTC is in the process of being phased out. The last year of issuance for the tax credits will be tax year 2014 for those businesses that submitted initial applications prior to December 31, 2004. The tax credits are provided each year for a maximum of 10 years after the project commences operations, unless the life of the EZ expires before that time. The EZTC is an entitlement tax credit, therefore, if a business meets the requirements discussed below, it is entitled to the credit. The EZTC is also uncapped and refundable[1], but is not transferable. From fiscal years 1996 through 2008, redemptions of the EZTC averaged $18.2 million per year, but declined to $6.7 million in fiscal year 2009. A schedule of EZTCs authorized, issued, and redeemed by state fiscal year is included at Appendix A.

A business approved to receive the EZTC can receive the following: (1) a $400 credit for each new job created, (2) an additional $400 credit for each

[1] Tax liability is not required for issued tax credits to be redeemed. Section 135.245, RSMo, allows for a refundable provision in limited circumstances.

new employee who is a zone resident, (3) an additional $400 credit for each new employee who was defined as "difficult to employ"[2], (4) a 5.5 percent credit on the first $100,000 of new capital investment at the facility and 2 percent of new capital investment amounts above $100,000 at the facility, and (5) a 50 percent local property tax abatement on all improvements.

Enhanced Enterprise Zone Tax Credit

The EEZTC is a discretionary tax credit administered by the DED. Tax credits may be provided each year for 5 years after the project commences. A business may reapply after the 5 year period for additional tax credits over an additional 5 years. The EEZTC is a fully refundable credit, and is transferable. However, tax credits issued under the EEZTC program are statutorily limited to $24 million annually, effective August 28, 2008. From fiscal years 2007 through 2009, EEZTCs totaling approximately $2.2 million have been redeemed. A schedule of EEZTCs authorized, issued, and redeemed by state fiscal year is included at Appendix B.

To be eligible for the program, the DED must first offer program benefits to the business in a formal proposal. The company must return the accepted proposal within 90 days of the proposal date. Once a business plan has been accepted by the DED and business operations have commenced, actual investment and employee amounts are submitted by the businesses to the DED in the form of an annual tax credit application. This information is used by the DED to calculate the allowable amount of tax credit per business. State statute[3] allows the DED to choose the method of calculation for the tax credit, either using the method provided in the statute or by determining an alternate method. The statutory method of determining the credit amount allows the following: (1) a credit of $400 for each new employee, (2) an additional $400 credit for each new employee who is a resident of the EEZ, (3) an additional $400 credit for each new employee who is paid a wage that exceeds the average wage of the county and (4) a credit equal to 2 percent of new investment within the EEZ. The alternate method determined by the DED is to use a total of 2 percent of new payroll and .5 percent of new investment to determine the credit available to the business. The alternate method determined by the DED is normally the lower of the two methods. The DED issues the lesser of the statutory amount or the amount calculated using the alternate method.

Tax Credit Reporting

Agencies administering tax credit programs are required under Section 33.282, RSMo, to submit the estimated amount of tax credit activity for the next fiscal year to the budget director for submission to the chairmen of the

[2] Section 135.240, RSMo, defines a "difficult to employ" person as a person who was unemployed for at least 3 months immediately prior to being employed at the new business facility in the enterprise zone; or is eligible for aid to families with dependent children or general relief programs.
[3] Section 135.967.4(1), RSMo

senate appropriations and house budget committees. In addition to the estimates of tax credit activity, the agencies must also include a cost benefit analysis of the program for the preceding fiscal year. The annual estimates and cost benefit analyses are submitted on forms referred to as tax credit analysis forms. For the EZTC and EEZTC programs, the tax credit analysis forms show a positive economic impact.

Scope and Methodology

To gain an understanding of the EZTC and EEZTC programs, we interviewed DED officials involved in the application and approval process as well as staff involved in monitoring EZTC and EEZTC projects.

We analyzed data on all 90 EZTC projects and 58 EEZTC projects that were issued tax credits during fiscal years 2007 and 2008. In addition, we reviewed 5 EZTC project files and 15 EEZTC project files. As part of this review, we interviewed staff of the DED, reviewed documentation submitted by the businesses and determined if required procedures were followed. We also selected an additional five projects, one EZTC and four EEZTC, and performed on-site visits. During this review, we obtained supporting documentation for the applications submitted to the DED to ensure accuracy of reported information and verified the investments.

To understand how the economic impact of the EEZTC is calculated, we met with a representative of the DED responsible for completing the economic impact budgetary documents. We also discussed with DED staff the assumptions provided by the businesses to calculate the economic impact of the tax credits.

To determine total EZTCs and EEZTCs authorized, issued, and redeemed, we obtained data from the DED and the Department of Revenue (DOR). We also obtained aggregate totals of annual tax credit redemptions from the DOR. We were not provided detailed redemption information. The Director of the DOR denied us access due to 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). This external impairment limited our ability to conduct work and therefore, we could not verify the completeness and accuracy of annual redemption totals.

Program Administration

Improvements are needed in the administration of the Enterprise Zone Tax Credit (EZTC) and Enhanced Enterprise Zone Tax Credit (EEZTC) programs. The Department of Economic Development (DED) does not adequately verify data submitted by businesses claiming the EZTC and has not adequately monitored the businesses receiving credits from either program, and the economic benefits of both programs reported to the legislature are overstated. These weaknesses make it difficult to determine whether the programs are an effective use of state resources. If the DED takes corrective action and subsequently determines the programs are effective, opportunities exist to more fully utilize program capacity.

Verification of business data

The DED does not require businesses claiming EZTCs to submit supporting documentation of the number of new jobs created and the amount of new investment put in place. In addition, the DED has not utilized its access to employment security data to verify employment levels of businesses claiming EZTCs. Businesses are only required to submit a claim form containing a new employee total and a new investment total, which serve as the basis for the calculation of the credits. In contrast, the DED requires businesses claiming EEZTCs to provide verification of the number of jobs created, the total payroll, and the total business investment. The DED then verifies EEZTC project employment data utilizing state wage information.

In addition, the DED has not performed adequate site monitoring to verify the information provided by applicants of both tax credits. According to the DED, site visits of all businesses receiving EEZTCs will be performed. However, as of March 30, 2010, only 15 of the 51 businesses that had been issued EEZTCs since the inception of the program had been visited. According to DED officials, they plan to visit each business receiving EEZTCs after the first year credit is received and before their third year in the program. Also, none of the 158 businesses authorized to receive EZTCs since fiscal year 2000 had been visited. According to DED officials, since the EZTC program is in the process of being phased out, no site visits of businesses receiving EZTCs will be performed, even though tax credits may be issued through tax year 2014.

Validation of new jobs and investment, including payroll and investment reports from the businesses, payroll verification using state wage information, and site visits, is necessary to ensure projects receiving tax credits are providing the expected amount of economic benefit.

Economic benefit forecasts

The business investment and jobs assumptions used to create the economic forecasts provided to the General Assembly for the EZTC and EEZTC are overstated. The DED economic forecasts do not utilize actual activity created by the tax credits, but instead use estimates of activity provided by businesses. Our review determined these estimates were overstated.

During a review of 19 businesses authorized for tax credits in 2007, we noted differences in the actual jobs created and investment (as reported by the businesses) compared to the proposed jobs created and investment. Actual jobs created were 6.1 percent less than proposed, while actual investment was 29.5 percent less than proposed. For example, one business proposed an investment of $40 million in the first year and actually produced an investment of only $2.9 million (92.6 percent less than proposed). Another business proposed the creation of 165 jobs in the first year and actually created 107 jobs (35 percent less than proposed). As a result, although the EZTC and EEZTC programs still provide a positive economic benefit,[4] the overall economic outputs attributed to the programs and reported to the General Assembly were overstated.

Erroneous economic benefit information

Our review of the data inputs used by the DED to prepare the tax credit analysis form presented to the General Assembly identified erroneous information. We selected 40 businesses that submitted information to the DED for an EEZTC in 2008. For the businesses tested, we attempted to trace the information from the submitted Notice of Intent or accepted proposal, whichever was most up to date, to the supporting documentation for the economic forecast. Of those tested, we found errors in the number of estimated jobs or the amount of estimated investments used as assumptions for 17 businesses (a 43 percent error rate). For example, one business submitted an estimate to the DED indicating it would invest $11,388,848; however, the DED used an assumption of $49,358,848 (333 percent more) in the economic forecast. Another business's notice of intent to the DED estimated it would invest $5,697,000, but the DED used an assumption of $87,600,000 (1,438 percent more) in the economic forecast. In addition, the company in the second example was disqualified from receiving the tax credit and actually provided no economic benefit to the state. As a result of these errors, the overall economic outputs of the programs reported to the General Assembly were overstated. DED personnel could not provide an explanation of the first error noted, but stated the second example was the result of a keying error when the business's initial proposal amount of $8,760,000 was keyed in as $87,600,000.

Utilization of the EEZTC program

The utilization of the EEZTC is low compared to the current cap. While the EEZTC currently has a cap of $24 million, which has increased from $14 million in 2007 and $7 million in 2006, the DED has issued only approximately 6 percent of the total allowable cap amount available.

[4] The positive economic benefit would be a result of the low amount of tax credits issued relative to the jobs and economic benefits attributed to the tax credit.

Amount issued as a percentage of cap

Year	Amount Issued	Annual Cap	Percentage of Cap
2007	$ 115,319	$ 14,000,000	.82
2008	1,199,842	24,000,000	5.00
2009	2,262,259	24,000,000	9.43
	$ 3,577,420	$ 62,000,000	5.77

The low utilization of the EEZTC may be a result of (1) a lack of business interest and demand, (2) the DED method for calculating tax credits issued providing significantly less credits than the method specified in state statute, and (3) the imposition of a tax credit limit by the DED of $500,000 for each individual business. The low utilization figures have also occurred despite the broadening of the EZ eligibility criteria when the EZ law was updated in 2004.

Interest and demand

For fiscal years 2007 through 2009, the DED proposed EEZTC amounts that represent an average of 34 percent of the allowable cap. Tax credit proposals are dependent on potential new or expanding businesses showing an interest in the tax credits. The following table identifies the tax credit amounts proposed for each year as a percentage of the allowable annual cap:

Amount proposed as a percentage of cap

Year	Amount Proposed	Annual Cap	Percentage of Cap
2007	$ 2,034,029	$ 14,000,000	14.53
2008	6,940,064	24,000,000	28.92
2009	12,319,310	24,000,000	51.33
	$ 21,291,404	$ 62,000,000	34.34

According to DED officials, the lack of business interest in seeking proposals is a result of recent downturns in the economy, the EEZTC being a relatively new tax credit program, and other available tax credits being more financially appealing to businesses. DED staff indicated the Missouri Quality Jobs tax credit is generally more beneficial to the businesses. Under state statute,[5] businesses cannot use the EEZTC in conjunction with the Missouri Quality Jobs tax credit.

DED tax credit calculation

The calculation method developed and used by the DED to determine EEZTC amounts issued to businesses results in significantly lower credit amounts than calculations provided by statute, reducing the attractiveness of the program to prospective businesses. Using flexibility provided by the

[5] Section 135.967.2, RSMo

current statute,[6] the DED calculates individual business tax credits based on 2 percent of new payroll and .5 percent of new investment. State statute indicates the credit amount shall be the lesser of the method provided by the DED or the following: (1) a credit of $400 for each new employee, (2) an additional $400 credit for each new employee who is a resident of the EEZ, (3) an additional $400 credit for each new employee who is paid a wage that exceeds the average wage of the county, and (4) a credit equal to 2 percent of new investment within the EEZ.

DED personnel indicated the tax credits awarded using the DED calculation would be comparable to the amounts calculated according to the method provided by statute; however, no documentation was provided to support this assertion. For the jobs component, the DED method would require each job added to have an annual salary of $60,000 per year to equal the $1,200 maximum credit allowed by the statutory method. In addition, DED personnel stated the method proposed by statute is very onerous on the businesses and the DED method is less time-consuming. However, we reviewed six businesses that received EEZTCs and found the tax credit amounts that would have been issued using the statutory method were much higher than the amount of tax credits issued using the DED method.

While we were unable to determine the exact amount of credits that would have been awarded using the statutory calculation because the DED does not require the employee data necessary to perform the calculation, the table below includes our calculation based on information included in the businesses tax credit application and the guidelines in state statute compared to the calculation prepared by the DED.

	Statutory Method $400 Per Employee 2% of Investment	DED Method 2% Payroll and .5% Investment	Percentage Difference
Business 1	$ 144,547	$ 34,102	76.41
Business 2	52,702	14,945	71.64
Business 3	20,989	6,186	70.53
Business 4	937,473	250,044	73.33
Business 5	43,843	19,653	55.17
Business 6	152,912	37,903	75.21
	$ 1,352,466	$ 362,833	73.17

Our test results indicate the statutory calculation[7] provides an average of 73 percent more in tax credits than the DED method. According to the DED,

[6] Section 135.967.4(1), RSMo

[7] Assumes only one of the $400 credits would apply to each employee and that none of the employees were eligible for the resident or above average wage portions of the credit. This assumption would produce the minimum credit based on the method described by statute.

this method of calculation is used to maximize the number of businesses that would be able to receive the credit. A DED official also stated the local tax abatement provided to the businesses was a significant benefit. Considering the low utilization of the available tax credit discussed above, the calculation method developed by the DED should be reevaluated to ensure the amount of credits being issued are sufficient to influence business decisions and create business expansion.

Program intent

The tax credit calculation implemented by the DED, discussed above, does not appear to be consistent with the intent of the EEZTC program. While the statutory language regarding how to calculate the tax credit to be issued encourages the employment of individuals who live in the boundaries of the EZ, and encourages the business to pay higher than average wages for the EZ, the DED method does not. By altering the basic method used to calculate the credit, the DED has also potentially altered the intent of the program.

Project limit

The DED has imposed a $500,000 per business tax credit limit for the EEZTCs issued. According to DED officials, the purpose of the limit is to ensure the maximum number of businesses receive benefits from the program, allowing several businesses to benefit rather than just a few larger businesses. This individual tax credit limit was established with the creation of the EEZTC program, when the program cap was $4 million and has not been adjusted to reflect statutory increases in the cap, which is now $24 million. The individual limit has not been reevaluated since that time. While the limit has been bypassed for several projects, the effect of such a limit potentially makes the EEZTC less attractive to larger prospective businesses.

Conclusions

The DED does not adequately verify data submitted by businesses claiming the EZTC, has not adequately monitored the businesses receiving either credit, and the economic benefits of both programs reported to the legislature are overstated. These weaknesses make it difficult to determine whether the programs are an effective use of state resources. Opportunities exist to more fully utilize program capacity because the current low utilization may be partially attributed to the individual project limit imposed by the DED and its method of calculating tax credits. The method in which the DED has chosen to calculate credits also does not appear to be consistent with the intent of the program.

Recommendations

The DED:

1. Require supporting documentation be submitted with all tax credit claims, utilize state wage information as part of the monitoring process, and make efforts to increase the number of on-site monitoring visits to help ensure the state is receiving the expected level of economic benefit.

2. Ensure the assumptions used to generate the overall economic forecast report to the General Assembly are accurate and can be traced to source documentation.

3. Reevaluate the amount of the individual project limit currently in place as well as DED method of calculating the EEZTC.

The General Assembly:

5. Evaluate the DED method of calculating the EEZTC to determine if it provides adequate tax credits to influence prospective business decisions and create business expansion, and is consistent with the type of activity encouraged by the statutory calculation method.

6. Evaluate the economic impact of the EEZTC program and its level of utilization and determine if the program should be discontinued, reduced, or expanded.

Auditee's Response

1. The Department of Economic Development (DED) does require businesses receiving the Enterprise Zone (EZ) tax credits to submit an aggregate payroll based on the company's employment count in the state, as well as an aggregate payroll of the specific project.

The DED recognizes the importance of on-site monitoring as a way to help ensure the state is receiving the expected level of economic benefit. When the EZ tax credit was created in 1982, a compliance team did not exist within the DED. In 2004, with the passage of Senate Bill 1155, the EZ tax credit was identified to expire. As a result, facilities that did not commence operations until January 1, 2005 or later were not eligible to receive further tax credits under the EZ program. In 2005, a DED compliance team was formed for the purpose of conducting internal file review and on-site monitoring. This team was formed with no additional FTE or funding authority (either personal services or expense and equipment.) To compensate for the shortage in funding and staffing, the compliance team developed a risk analysis process to apply to each tax credit program. The risk analysis is used by the team to evaluate programs and determine the amount and types of review that should be completed. The basis for the risk analysis includes numbers of projects, amounts of state funding, complexity of financing, capacity of organizations, and existence of other monitoring or auditing. Because of the limited funding and staff, it was determined that the compliance team would focus their efforts on active programs and projects. With the new Enhanced Enterprise Zone (EEZ) tax credit program, DED made compliance improvements. However, the direct result from limitations in staffing is the DED's inability to perform as many site visits as we would like.

2. *The DED relies on data entered into the Customer Management System (CMS) to run the economic forecasting reports. In some cases, erroneous data entry errors resulted in calculating the investment multiple times instead of representing the initial and only investment amount. Although errors are not frequent, the DED did not catch the referenced errors until after the Form 14s were published. It is most important to note however, that even in the examples cited, no benefits were paid beyond what was provided for in statute. A thorough review of all numbers in CMS has since been made and any identified errors have been corrected.*

3. *The department provides tax credits to businesses either locating or expanding inside the zone in a manner consistent with the statute and the local governments as published in their Enhanced Enterprise Zone (EEZ) plans. The methodology set out in statute requires an upfront estimate of jobs and investment. Implementation and payment of a credit however, is based on the actual number of jobs created. A credit is never provided if the project falls below the threshold of what is provided in the statute. The department's calculation is always less than the statutory calculation. The statutory calculation allows for $400/new business facility employee, $400/new business facility employee who is a resident of the zone and $400/new business facility employee who is paid more than the county average wage. DED calculates the tax credits awarded by taking 2% of new payroll and ½% of new investment. DED then compares $400 per job and 2% of investment to the DED calculation and uses whatever figure is less in awarding the tax credit.*

Auditor's Comment

1. The aggregate payroll referred to in the DED response consists of a DED form completed by the business applying for the credit. The form is not accompanied by supporting documentation such as payroll reports or documentation of business investment.

Enterprise Zone Tax Credit Activity

The following table lists the EZTCs authorized, issued and redeemed through June 30, 2009. As a result of the EZTC being an entitlement tax credit with no pre-authorization process, the amounts of EZTCs authorized and issued are the same each year. The EZTC is also only refundable in limited circumstances, which means the majority of the tax credits that have not been redeemed are expired.

Tax Credits Authorized, Issued, and Redeemed - Fiscal Year 1996 to 2009

Fiscal Year	Tax Credits Authorized	Tax Credits Issued	Tax Credits Redeemed
1996	$ 48,687,841	48,687,841	21,299,241
1997	60,837,613	60,837,613	18,694,077
1998	62,719,168	62,719,168	21,966,489
1999	73,041,097	73,041,097	20,797,129
2000	58,687,824	58,687,824	24,251,923
2001	69,221,607	69,221,607	24,218,725
2002	59,105,654	59,105,654	14,461,571
2003	43,987,082	43,987,082	13,767,273
2004	41,546,050	41,546,050	19,766,366
2005	39,066,023	39,066,023	15,485,501
2006	28,379,873	28,379,873	14,759,891
2007	14,964,927	14,964,927	13,202,069
2008	15,194,162	15,194,162	13,832,974
2009	10,366,073	10,366,073	6,719,004
Totals	$ 625,804,994	625,804,994	243,222,233

Source: Department of Economic Development and Department of Revenue data

Enhanced Enterprise Zone Tax Credit Activity

The following table lists the EEZTCs authorized, issued and redeemed through June 30, 2009.

Tax Credits Authorized, Issued, and Redeemed - Fiscal Year 2006 to 2009

Fiscal Year	Tax Credits Authorized	Tax Credits Issued	Tax Credits Redeemed
2006	$ 1,369,946	0	0
2007	3,650,200	115,319	5,188
2008	7,614,660	1,199,842	756,006
2009	9,807,051	2,262,259	1,454,319
Totals	$ 22,441,857	3,577,420	2,215,513

Source: *Report on Missouri Tax Credits Administered by the Department of Economic Development*, January 2009 and February 2010.

Tax Credit Review History

The following table shows the state tax credit programs reviewed by the State Auditor's office, the administering department, and the corresponding report number.

Tax Credit Programs Reviewed

Program	Administering Department	Report Number
Enhanced Enterprise Zone	Economic Development	2010-106
Enterprise Zone	Economic Development	2010-106
Affordable Housing Assistance	Economic Development	2008-47
Missouri Low Income Housing	Economic Development	2008-23
Wood Energy	Natural Resources	2007-58
New Generation Cooperative Incentive	Agriculture	2007-06
Agricultural Product Utilization Contributor	Agriculture	2007-05
Community Development Corporation/Bank	Economic Development	2005-55
Small Business Investment (Capital)	Economic Development	2005-54
Certified Capital Companies	Economic Development	2004-56
New Enterprise Creation	Economic Development	2004-56
Adoption (Special Needs)	Revenue	2004-13
Community College New Jobs Training Bonds	Economic Development	2003-32
Brownfield Jobs/Investment	Economic Development	2002-33
Brownfield Remediation/Demolition	Economic Development	2002-33
Historic Preservation	Economic Development	2002-33
Qualified Research Expense	Economic Development	2002-33
Seed Capital[1]	Economic Development	2002-33
Youth Opportunities and Violence Prevention	Economic Development	2002-33
Film Production	Economic Development	2001-13
Rebuilding Communities	Economic Development	2001-13
Small Business Incubator	Economic Development	2001-13
Winery and Grape Growers	Economic Development	2001-13

[1] Tax credit was replaced by the New Enterprise Creation Act Tax Credit.

Source: State Auditor's Office

Tax Credit Redemptions

The following table shows the redeemed tax credits for fiscal years 2005 through 2009 for all state tax credit programs. We did not audit the information.

Tax Credit Redemptions by Program

Program	Year Ended June 30, 2006	2007	2008	2009
Adoption (Special Needs)	$2,460,245	2,931,967	3,095,525	2,222,415
Affordable Housing Assistance	4,080,564	10,497,793	11,392,907	9,917,951
Agricultural Product Utilization Contributor	1,857,235	2,248,989	1,207,849	145,162
Alternative Fuel Vehicle Refueling Property	n/a	n/a	n/a	0
Bank Franchise	2,413,631	1,771,165	2,137,560	2,710,300
Bank Tax Credit for S Corporation Shareholders	1,451,903	1,248,932	1,149,975	1,862,266
Brownfield Jobs/Investment	1,476,143	1,701,409	1,726,005	1,965,406
Brownfield Remediation/Demolition	10,611,324	16,733,274	26,493,252	29,194,789
BUILD Missouri Bonds	5,402,416	6,958,318	4,975,510	7,074,994
Business Facility	5,892,727	6,066,136	2,815,251	5,896,798
Cellulose Casings[1]	341,315	574,180	n/a	n/a
Certified Capital Companies	13,164,904	13,121,442	9,874,295	4,754,869
Charcoal Producers[1]	70,151	180,987	106,952	134,663
Children in Crisis	n/a	168,128	306,146	403,291
Community Development Corporation/Bank	34,870	2,958	11,990	990
Community College New Jobs Training Bonds	5,771,777	4,920,374	4,762,743	4,175,591
Development	4,518,483	2,100,685	696,889	966,216
Disabled Access	36,549	11,813	28,922	17,206
Distressed Areas Land Assemblage	n/a	0	0	0
Domestic Violence	525,348	696,670	750,714	612,456
Dry Fire Hydrant	805	3,737	742	11,133
Enhanced Enterprise Zone	n/a	5,188	756,006	1,454,319
Enterprise Zone	14,759,891	13,202,069	13,832,974	6,719,004
Examination Fees and Other Fees[2,3]	5,413,885	4,881,750	2,686,591	4,322,410
Family Development Account	9,237	11,761	8,749	0
Family Farms Act	0	0	33,818	88,137
Film Production	788,596	1,240,972	1,920,709	970,673
Food Pantry	n/a	n/a	243,711	459,810
Guarantee Fee	73,009	68,607	39,694	30,812
Health Care Access Fund	n/a	n/a	0	0
Historic Preservation	103,134,226	132,841,728	140,111,002	186,426,164
Homestead Preservation	n/a	2,932,514	1,030,621	94,337
Life and Health Guarantee Association[2]	4,910	0	0	0
Maternity Home	760,674	983,509	983,153	842,674
MDFB Bond Guarantee	0	276,241	0	0

Appendix D
Tax Credit Redemptions

Program	Year Ended June 30, 2006	2007	2008	2009
MDFB Development and Reserve	0	500	0	0
MDFB Export Finance	0	0	0	0
MDFB Infrastructure Development	21,858,725	24,706,809	19,877,329	26,916,508
Missouri Business Modernization and Technology	60,313	82,977	34,317	11,133
Missouri Health Insurance Pool[2]	5,497,999	3,672,701	723,364	2,631,835
Missouri Low Income Housing	61,963,799	81,646,784	98,305,085	105,967,104
Missouri Property and Casualty Guarantee Association[2]	6,019,763	5,754,394	1,186,805	2,214,045
Missouri Quality Jobs	0	1,715,530	2,805,251	6,203,572
Neighborhood Assistance	10,009,497	13,924,340	11,039,982	13,202,082
Neighborhood Preservation	4,627,368	5,549,062	5,343,647	5,176,659
New Enterprise Creation	1,534,647	1,048,997	813,513	320,766
New Generation Cooperative Incentive	4,990,666	4,136,380	5,068,747	4,190,256
Pharmaceutical[1]	1,672	n/a	n/a	n/a
Pregnancy Resource	n/a	0	563,669	951,744
Property Tax	96,090,703	93,118,747	100,164,994	118,573,853
Public Safety Officer Surviving Spouse	n/a	0	0	9,583
Qualified Beef	n/a	0	0	0
Qualified Equity Investment	n/a	0	0	0
Qualified Research Expense[1]	1,006,688	487,320	100,926	0
Rebuilding Communities	1,764,167	1,390,803	1,967,262	1,548,622
Residential Dwelling Accessibility	n/a	n/a	0	16,363
Residential Treatment Agency	n/a	0	214,901	202,900
Retain Jobs	2,882,995	4,285,366	5,546,167	9,992,850
Self-Employed Health Insurance	n/a	n/a	1,039,564	1,729,167
Shared Care	39,247	105,757	78,360	92,803
Small Business Incubator	322,278	179,368	252,392	548,639
Small Business Investment (Capital)	58,189	66,720	20,711	30,634
Sponsorship and Mentoring Program[1]	0	0	n/a	n/a
Transportation Development[1]	980,806	910,421	2,223,821	1,066,386
Winery and Grape Growers	69,564	174,736	118,844	153,821
Wood Energy	3,728,100	2,709,211	1,215,292	4,576,446
Youth Opportunities and Violence Prevention	3,256,950	4,893,591	4,137,223	4,723,545
Totals	$411,818,954	478,943,810	496,022,421	584,526,152

n/a - Tax credit did not exist in this fiscal year.

[1] The tax credit has expired or has been repealed. Redemptions may be reported due to carry forward provisions.

[2] Redemptions are calendar year rather than fiscal year and are based on the tax year the credit was applied against.

[3] Until the fiscal year 2007 budget process the amount reported by the Department of Insurance, Financial Institutions, and Professional Registration for this credit was only the examination fee portion and not other taxes and fees for which credits were also redeemed.

Source: Office of Administration, Department of Revenue, and tax credit administering agencies