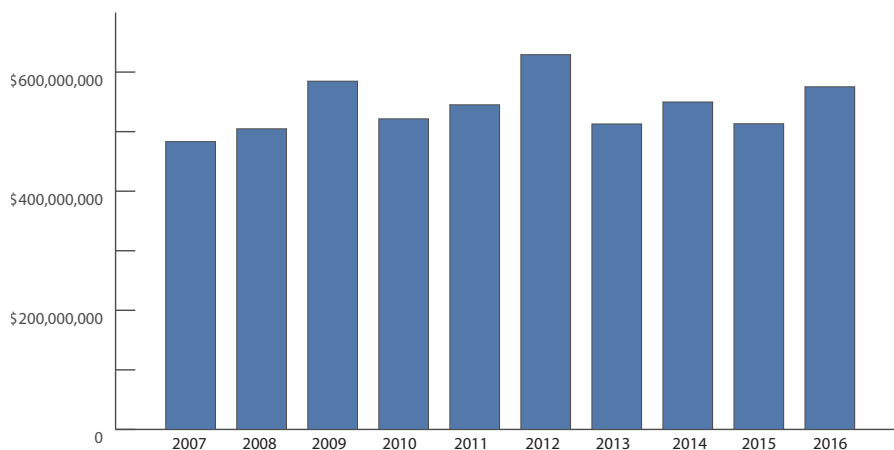


The growth of tax credits has significantly reduced state revenue, costing \$575 million in 2016 alone. While tax credits have public policy benefits that can't be overlooked, the value and impact of tax credits depends on how the credit is designed.

*Evaluate and improve tax credit to increase value for Missourians while achieving policy goals.*

### Missouri's Tax Credits Cost Hundreds of Millions Annually

Cost of Tax Credits to General Revenue By Fiscal Year



- Many tax credits serve important policy goals. Some are intended to help low-income seniors remain in their homes or help nonprofits like food banks, domestic violence centers, or organizations that serve children and pregnant moms leverage donations. Others promote affordable housing or economic development.
- Making changes to tax credit programs must be a precise and cautious endeavor.

- Lawmakers should carefully evaluate tax credit programs and make changes that increase efficiency and lower cost, while protecting the policy intent of the programs.
- For example, the Low Income Housing Tax Credit promotes growth in affordable housing. When developers qualify, they reduce their state tax burden. However, a reduction in state tax liability has the unintended consequence of increasing federal tax liability – diminishing 30 percent of the value of the credit.
- North Carolina addressed this concern by converting their Low Income Housing Tax Credit program to a no-interest forgivable loan program.<sup>1</sup> By doing something similar, Missouri could reduce the cost of the Low Income Housing Tax Credit, while maintaining the housing development policy benefits.

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**The Bottom Line:** Tax credits can be powerful tools to promote economic growth and provide other public policy benefits. Tax credit programs should be carefully evaluated to increase efficiency and lower cost, while protecting the policy intent of the programs.

## Notes

1. “Analysis of Low Income Housing Tax Credit Program,” State Audit Report No. 2008-23, April 2008, available at: <http://app.auditor.mo.gov/Repository/Press/2008-23.htm>
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