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CUTTING THE TIES THAT BIND:

End Missouri's Corporate Income Tax

By Patrick Ishmael and Michael Rathbone

I. INTRODUCTION

For more than a decade, Missouri has suffered economically. Formerly a state of middling economic fortunes, Missouri now sits firmly in the bottom tier of growth nationally.[1] From 1997 to 2011, Missouri was ranked 48th out of 50 states in real state gross domestic product (GDP) growth and 46th in total employment growth.

Missouri is losing the development game, but what can policymakers and taxpayers do to change the prosperity equation? There are many possible avenues to revitalize the state's economic growth prospects. In order to start a healthy dialogue about how to improve Missouri's economic performance, policymakers should draft and discuss proposals that would restructure Missouri's tax code and make the tax code more pro-growth. If the state does not make substantive reforms, Missouri will likely continue to underperform relative to its neighbors and the country for the foreseeable future. One pro-growth proposal to consider would be the elimination of the state's corporate income tax (CIT).

I. WHY THE CIT?

First, it is destructive to growth. Studies have shown that taxes on capital are harmful to economic

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Missouri's economy is not performing well relative to other states.

development, with CITs among the very worst taxes a state can levy.[2] Second, the CIT can likely be extinguished without raising other taxes or forcing any cuts to services. The revenue that the CIT brings into Missouri's budget is nearly equivalent to how much the state's economic development tax credit program costs the state each year.[3] By eliminating many of those credits, policymakers could completely eliminate the CIT either immediately or over a phase-out period.

Finally, Missouri seizes a competitive advantage if it eliminates its CIT before other states. Most states have a CIT. Even states that do not tax income on pass-through entities, such as Kansas, still have a CIT. Instead of playing an ever-escalating game with other states of picking winners and losers with tax incentives, Missouri can change the game and completely eliminate a very destructive tax. Then, if other states do not follow its lead, Missouri will hold an advantage it can leverage to attract new businesses and retain existing ones.

II. SET MISSOURI'S CAPITAL FREE

For what they pay in taxes, taxpayers could have spent that money on a vacation, a new car, a new television, or some other product or service. They also could have saved that money for future use. Taxes affect the decisions that people make about spending and investing their money. In addition, tax rates affect where people work and employ their capital. The factors of production — the sources of income — are mobile. Once that is recognized, it is possible to better understand how tax rates affect economic growth.

Taxes on capital are viewed as among the most economically harmful.[4] People's savings fund projects all over the country — indeed, all over the world — because loans can cross political boundaries with electronic ease. Taxes on capital pose a problem for governments because capital is so movable. For a given return to a project, the after-tax return is highest wherever the tax rate is the lowest. Accordingly, if a company or a person wants to avoid being taxed on income, typically all the company or the person would have to do is move the capital from the taxing jurisdiction.

More to the point, there is evidence to suggest that the structure of taxes highly affects economic growth. In a study conducted for the Organisation for Economic Co-operation and Development, Jens Arnold assessed what the best and worst tax structures are for national growth.[5] He found that (emphasis added):

> [a] stronger reliance on income taxes seems to be associated with significantly lower levels of GDP per capita than the use

> of taxes on consumption and property. Within income taxes, those on corporate income seem to be associated with lower levels of GDP per capita than personal income taxes. **In fact, corporate income taxes appear to be the least attractive choice from the perspective of raising GDP per capita.**

Arnold's conclusions about income taxes are not isolated to trans-national circumstances, and Missouri would be well-served if policymakers took steps to eliminate similar taxes on capital at the statewide level.

Policymakers, however, would not have to significantly restructure the Missouri tax system if they pursue a growth policy that includes elimination of the state's CIT and abandonment of much of the state's development tax credit system. Development tax credits cost the state approximately the same amount as the CIT generates in revenue.[6] If policymakers eliminated both the tax and the credits, very little — if any — additional action would need to be taken to balance the budget in the future.[7]

III. NO EXTRA CHARGE

Why eliminate development tax credits, and how would a tax credits-for-CIT elimination swap work?

Like taxes, tax incentives affect taxpayer behavior. If the government subsidizes the production of widgets, the government will likely get more widgets from the private market. For example, in Missouri, the government administers a program that incentivizes the preservation of historic buildings, with relatively modest limits on what qualifies and how much recipients can receive. As a result, the state over the last decade has issued more than $1 billion in tax credits for historic building preservation, and that figure continues to grow.

The evidence indicates that combining corporate income taxation and tax incentive programs is damaging to overall economic growth.[8] In 1993, William Easterly studied the effect distortions such as taxes and tax incentives have on economic growth. Easterly found that "[a] subsidy to one capital good financed by a tax on another capital good unambiguously lowers growth" — that tax incentives can actually hurt, rather than help, economic growth.

Missouri issued more than $400 million in development tax credits in 2012 alone.[9] That is a lot of wealth transference.

Yet the magnitude of Missouri's tax credit problem brings with it a great opportunity. Missouri's CIT recently

Formerly a state of middling economic fortunes, Missouri now sits firmly in the bottom tier of growth nationally.

[T]he CIT can likely be extinguished without raising other taxes or forcing any cuts to services.

has generated slightly more than $300 million per year for the state — nearly equivalent to what development tax credits cost Missouri each year.[10] In a sense, the CIT could be seen as underwriting the state's tax credit largesse, but as has been described before, both the CIT and these tax credits tend to hurt economic prosperity. It is a growth-busting double whammy.

Policymakers could (with some nuance, of course) strike both programs without affecting other elements of the budget. How? Although there are several multi-year phase-out plans that would be possible, the simplest route would be a one-year phase-out of the CIT. The proposal can be enacted in fiscal year 2014 — that is, the budget the Missouri Legislature passes in 2013.

To illustrate the mathematics, CIT and economic development tax credits are projected for the period 2014 through 2016. The projections are based on annual average growth rates. Admittedly, there is noise around any projection, but these estimates demonstrate that the proposal is feasible, even with some wiggle room.

The expected values for CIT revenue is built on the annual average growth. In other words, it is assumed that CIT revenue will increase at the same rate as it has for the past decade. This analysis projects CIT revenues and economic development tax credit issuances for future fiscal years using net corporate income tax revenue data from fiscal years 2002-2012 and the amount of economic development tax credit issuances for fiscal years 2008-2012.[11] These projections estimate the effect that eliminating the corporate income tax would have on state revenues with this proposal. The projections for future corporate income tax revenues and economic development tax credit issuances are shown in Table 1 (for details on the calculations, *see* Appendix).

According to these projections, the CIT could be eliminated in one year — and revenue neutrality occurs even without eliminating all of the state's development tax credits.[12] Because the forecast predicts that the CIT will bring in less revenue than the credits cost, some credits could still remain if the CIT savings are applied dollar for dollar. Painted with the simplest of brush strokes, if $400 million in tax credits are reduced by the CIT's $300 million in revenue, $100 million in tax credits would remain after the first year; the CIT's elimination would be revenue neutral and the elimination would remain neutral over the entire

TABLE 1

Projected Net Corporate Income Tax Receipts for Fiscal Years 2014-16

Fiscal Year	FY14 (PROJ)	FY15 (PROJ)	FY16 (PROJ)
Projected Net CIT Revenue	$ 303,212,229.06	$ 317,523,846.27	$ 332,510,971.82

Projected Development Tax Credit Issuances for Fiscal Years 2014-16

Fiscal Year	FY14 (PROJ)	FY15 (PROJ)	FY16 (PROJ)
Development Tax Credit Issuances	$ 469,543,699.53	$ 463,110,950.84	$ 456,766,330.82

three-year period of this projection. The amount of remaining (if any) economic development tax credits are shown in Chart 1.

The bottom line: projected net CIT receipts are less than the amount of projected economic development tax credit issuances for fiscal years 2014-2016. Based on these projections, net general revenue will not decrease if the elimination of the CIT is coupled with the elimination of an equal amount in these tax credits.

Even assuming absolutely no extra revenue from other sources, such as more personal income taxes due to the enhanced economic growth from elimination of a destructive tax, this proposal eliminates the CIT in one year without reducing state revenues. When considering the potential economic benefits that would follow from eliminating the CIT, the plan laid out here could actually bring in more money to the state than it would normally receive if the corporate income tax were still in place. This plan relies on conservative estimates in order to show that even under modest circumstances, this proposal is workable.

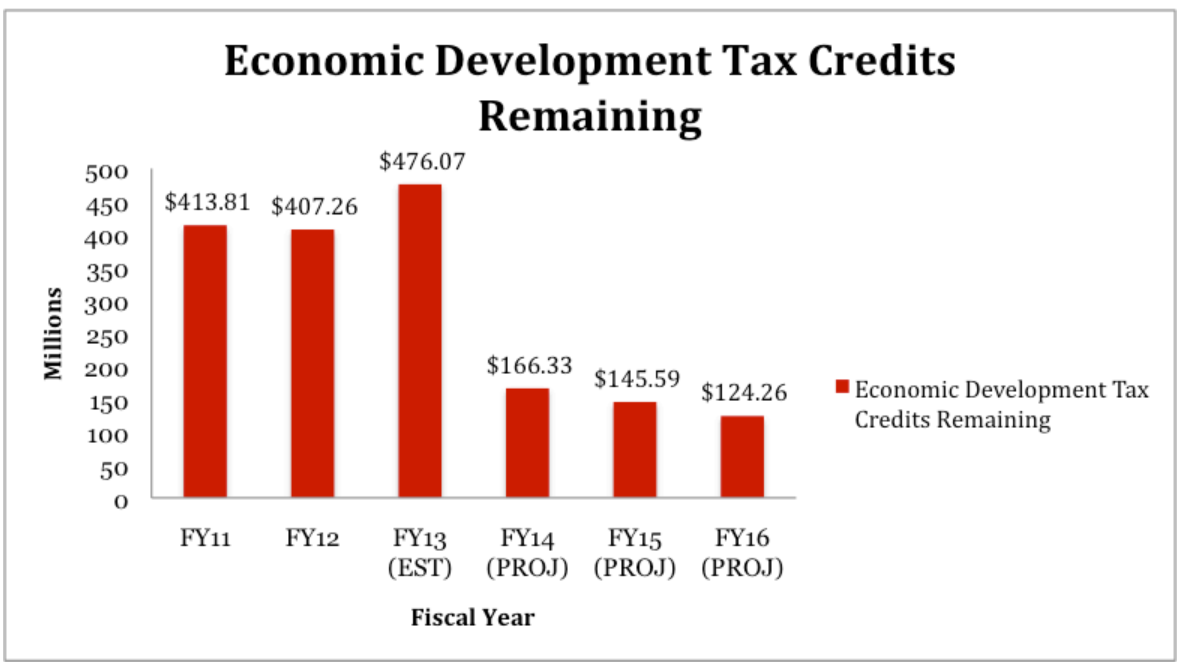
IV. FIRST IN THE POOL

Eliminating the CIT not only makes real-world economic sense. It can make strategic sense. Today, most states have a CIT or a gross receipts tax, the CIT's close taxation cousin. Each of the eight states that border Missouri has a CIT.[13]

Moving to spike the CIT could be a big deal. For Kansas City, it would give the

Taxes on capital are viewed as among the most economically harmful.

CHART 1



[T]here is evidence to suggest that the structure of taxes highly affects economic growth.

region a bargaining chip to compete with the state of Kansas' beggar-thy-neighbor tax incentive scheme. Rather than trying to lure companies 3 or 4 miles across the border with special tax packages, suddenly the game changes. Corporations can hardly do better than a zero income tax liability when making decisions to either relocate to or remain in Missouri. Saint Louis and other regions all around the state would similarly benefit by being able to further anchor existing corporations with the prospect of not taxing their incomes, as well as being able to attract new corporations with the same enticement.

It would be difficult for another state to directly compete with a 0 percent Missouri CIT.

V. SUMMARY

Missouri's economy is not performing well relative to other states. There are different steps that Missouri can take to recover its economic standing. This proposal may be one such step, but by no means is it the **only** step. Eliminating the CIT has the potential to strengthen Missouri's economic competitiveness and make the state more attractive to businesses. By eliminating or reducing the number of tax credits issued to offset the revenue lost from elimination of the CIT, the state will be reducing or eliminating the economic harm that both cause.

There are other things that need to be addressed when trying to reform Missouri's tax structure. For instance, this proposal eliminates tax credits that S-corporations, LLCs, and sole-proprietorships use, along with those that C-corporations use. Unlike C-corporations, the income of these entities is not subject to the CIT but is reported on individual income tax returns. Thus, this proposal will not reduce the tax burden associated with these entities. This is a problem that should be addressed but is beyond the scope of this paper.

Also, while proposing significant reductions in the number of economic development credits, this paper does not address the continued liability the state faces regarding the tax credits already issued or the liability of tax credits whose authorizations establish pre-existing legal rights to the recipient. The state still faces revenue losses due to future tax credit redemptions of issued credits, and this potential lost revenue is not insignificant. Again, dealing with this problem is beyond the scope of this paper. (*See* Appendix for more information.)

This paper seeks to provide a functional framework for, and begin a conversation about, eliminating one of the state's most economically destructive taxes in the simplest manner possible. It does not seek to displace the policy and political discussions that would put this framework into action.

Appendix

This appendix sets forth the methodology we used to determine whether the revenues lost through elimination of the CIT could be offset by eliminating certain tax credits.

In this Appendix, first we describe the methodology to predict the net general revenue for fiscal years 2014-16. Then we detail our prediction for CIT revenue and the impact of economic development tax credit issuances for the same fiscal years. We predict the impact of the proposal to eliminate the CIT on net general revenue. We conclude with a brief general overview of the issuance of tax credits.

PREDICTING NET GENERAL REVENUE FOR FISCAL YEARS 2014-16

To estimate net general revenues for Missouri under the proposed plan, the net general revenue for fiscal years 2014, 2015, and 2016 must be projected:

A. We assume that revenue grows at the historical average annual rate. For fiscal years 1992-2012, net general revenue increased at an annual average rate of 3.52 percent.[14]

B. Applying this 3.52 percent annual average growth rate to the fiscal year 2013 consensus revenue estimate results in projected net general revenue for fiscal year 2014.[15] This process is illustrated as follows:

- Consensus revenue estimate for fiscal year 2013: $7,585,600,000
- Average net general revenue growth rate for fiscal years 1992-2012: 3.52 percent
- Projected fiscal year 2014 net general revenue: $7,585,600,000 x 1.0352 = $7,852,613,120

C. Table 2 shows the projected net general revenue for fiscal years 2015 and 2016, applying the same growth percentage.

PREDICTING CIT REVENUE FOR FISCAL YEARS 2014-16

To determine the revenue impact of the CIT's elimination, we project the total revenues the CIT could generate for fiscal years 2014, 2015, and 2016.

This plan relies on conservative estimates in order to show that even under modest circumstances, this proposal is workable.

TABLE 2

Fiscal Year	FY14 (PROJ)	FY15 (PROJ)	FY16 (PROJ)
Projected Net General Revenue	$7,852,613,120	$8,129,025,102	$8,415,166,785

Eliminating the CIT not only makes real-world economic sense. It can make strategic sense.

Determining an Average Growth Rate for CIT Revenues

We assume that CIT revenues will grow at the annual average growth rate for fiscal years 2014-16. For fiscal years 2002-12, net CIT revenues increased at an annual average rate of 4.72 percent.[16]

Determining an Estimate for CIT Receipts for FY 2013

Next, we estimate future CIT revenues.

A. Estimated CIT revenue for fiscal year 2013 is coupled with estimated franchise tax revenue.[17] Estimated CIT revenue is then calculated separate from estimates for franchise taxes. Taking net CIT revenue for each fiscal year from 2002 to 2012 and dividing it over the combined receipts for the corporate/franchise tax for those years yields the CIT revenue component for each fiscal year.[18] On average, the CIT revenue component is 77.63 percent.

B. Multiplying the 77.63 percent by the state's estimated corporate/franchise tax receipts for fiscal year 2013 results in expected CIT receipts for fiscal year 2013 of $403,701,383.23. This process is illustrated as follows:

- Average percent of corporate/franchise tax receipts composed of CIT revenue: 77.63 percent
- Expected corporate/franchise tax receipts for fiscal year 2013: $520,000,000
- Compute CIT revenue for fiscal year 2013 as follows: $520,000,000 x .7763 = $403,701,383.23 (the discrepancy between the product shown here and the true product of $520,000,000 x .7763 is due to rounding of the .7763 figure)

The Effect of Tax Credit Double-Counting

To account for any double-counting of tax credits — that is, economic development tax credits redeemed against the CIT — we must compute CIT as if the tax credits were not redeemed.

A. We start by estimating the average percentage of development tax credits redeemed against the CIT. We take the amount of development tax credit (*i.e.,* tax credits the Missouri Department of Economic Development administers) redemptions against the CIT for each fiscal year from 2008-12 and divide that value by the total amount of development tax credits redeemed in those years. The result is the percentage of development tax credits redeemed against the CIT for each year.[19] The process is illustrated as follows:

- Amount of economic development tax credits redeemed against the CIT in fiscal year 2008: $70,621,497.88

- Amount of economic development tax credits redeemed in fiscal year 2008: $371,997,867.77

- Percentage of economic development tax credit redemptions that were redeemed against the CIT in fiscal year 2008: 18.98 percent

B. The percentages were found for fiscal years 2008-12 and then averaged. The average percentage of economic development tax credits redeemed against the CIT was 15.85 percent.

C. We compute the product of 1 plus the average percentage of redeemed economic development tax credits times the expected 2013 CIT: 1.1585 x 403,701,383.23 = $467,688,052.47

Getting to Projected Net CIT Revenues, Accounting for Double-Counting

To identify **net** CIT, the amount of CIT refunds must be determined.

A. We divide the amount of CIT refunds for each fiscal year from 2002 to 2012 by the gross CIT receipts for those same fiscal years. We then compute the expected value for the percentage of CIT refunds.[20] The process is illustrated as follows:

- Gross CIT receipts for fiscal year 2002: $450,647,684

- CIT refunds for fiscal year 2002: $159,538,206

- Percentage of gross income tax receipts for fiscal year 2002 that were refunded: $159,538,206/$450,647,684 = 35.40 percent

- Average percentage of gross income tax receipts for fiscal years 2002-12 that were refunded: 38.09 percent

B. Net CIT revenue for fiscal year 2013 is the product of 1 minus the average refund percentage and the adjusted gross CIT revenue. This process is illustrated as follows:

- Average percentage of gross income tax receipts for fiscal years 2002-12 that were refunded: 38.09 percent

- Adjusted gross CIT revenue for fiscal year 2013: $467,688,052.47

- Net CIT revenue for fiscal year 2013: $467,688,052.47 x (1-.3809) = $289,545,673.28 (the discrepancy between the product

It would be difficult for another state to directly compete with a 0 percent Missouri CIT.

Eliminating the CIT has the potential to strengthen Missouri's economic competitiveness and make the state more attractive to businesses.

shown here and the true product of $467,688,052 x (1-.3809) is due to rounding of the .3809 figure)

C. Applying the average growth rate in net CIT revenues to the projected fiscal year 2013 net CIT revenue yields net CIT revenue for fiscal year 2014. This process is illustrated as follows:

- Estimated net CIT revenue for fiscal year 2013: $289,545,673.28
- Average net CIT revenue growth rate fiscal years 2002-2012: 4.72 percent
- Projected fiscal year 2014 net CIT revenue: $289,545,673.28 x 1.0472 = $303,212,229.06

D. Table 3 shows the result of applying the average CIT growth rate to fiscal year 2015 and fiscal year 2016 CIT revenues.

PREDICTING ECONOMIC DEVELOPMENT TAX CREDIT ISSUANCES FOR FISCAL YEARS 2014-2016

The proposal calls for eliminating economic development tax credits. For every $1 in CIT revenue lost, $1 less will be issued in new economic development tax credits. Net general revenue will only decline if projected CIT revenue for any year exceeds the amount of projected economic development tax credit issuances. To determine whether tax credit issuances exceed lost CIT revenue, we must project the number of new economic development tax credits that will be issued for fiscal years 2014, 2015, and 2016.

A. We use past economic development tax credit issuances to forecast future economic development tax credit issuances. Take the growth rate for each fiscal year from 2008 to 2012, and then average those rates. We calculate that tax credit issuances decreased at an annual average rate of -1.37 percent.[21] This process is illustrated as follows:

- Fiscal year 2008 economic development tax credit issuances: $432,712,559
- Fiscal year 2009 economic development tax credit issuances: $401,855,269
- 2008-2009 growth in economic development tax credit issuances: ($401,855,269-$432,712,559)/ $432,712,559 = -7.13 percent

TABLE 3

Fiscal Year	FY14 (PROJ)	FY15 (PROJ)	FY16 (PROJ)
Projected Net CIT Revenue	$ 303,212,229.06	$ 317,523,846.27	$ 332,510,971.82

• 2009-2010 growth in economic development tax credit issuances: 6.80 percent

• 2010-2011 growth in economic development tax credit issuances: -3.58 percent

• 2011-2012 growth in economic development tax credit issuances: -1.58 percent

• Average growth in economic development tax credit issuances: -1.37 percent

B. Given a negative growth rate, the amount of future economic development tax credits issuances will decline. Applying this negative growth rate to the estimated amount of issuances for fiscal year 2013 results in a projected amount of economic development issuances for fiscal year 2014 of $469,543,699.53.[22] This process is illustrated as follows:

• Estimated amount of economic development tax credit issuances for fiscal year 2013: $476,065,801

• Average growth in economic development tax credit issuances: -1.37 percent

• Projected amount of economic development tax credit issuances for fiscal year 2014: (1-.0137) x $476,065,801 = $469,543,699.53

C. Table 4 shows the projected taxcredit issuances based on applying this average percentage to fiscal years 2015 and 2016.

PREDICTING THE IMPACT OF THE PROPOSAL ON NET GENERAL REVENUE

With this proposal, for every $1 in revenue lost due to the CIT's elimination, there will be $1 less in economic development issuances. This process is illustrated as follows:

• If CIT revenue declines, from $5 to $0, then economic development tax credit issuances will decrease from $100 to $95.

The amount of economic development tax credits projected to be issued for fiscal years 2014, 2015, and 2016 is shown in Table 4.

The projected amount of CIT revenue for fiscal years 2014, 2015, and 2016 is shown in Table 3.

Under this proposal, eliminating the CIT will reduce the amount of economic development tax credit

By eliminating or reducing the number of tax credits issued to offset the revenue lost from elimination of the CIT, the state will be reducing or eliminating the economic harm that both cause.

TABLE 4

Fiscal Year	FY14 (PROJ)	FY15 (PROJ)	FY16 (PROJ)
Projected DED Issuances	$ 469,543,699.53	$ 463,110,950.84	$ 456,766,330.82

issuances by $303,212,229.06 in fiscal year 2014; $317,523,846.27 in fiscal year 2015; and $332,510,971.82 in fiscal year 2016. If the amount of projected CIT revenue exceeds the amount of projected economic development tax credit issuances, then the difference would be subtracted from net general revenue.

This process is illustrated as follows:

If CIT Revenue > Economic Development Tax Credit Issuances, then New Net General Revenue = Old Net General Revenue - (CIT Revenue-(Economic Development Tax Credit Issuances)).

Projected CIT revenue at no time exceeds projected economic development tax credit issuances for fiscal years 2014-16, and thus no reduction in net general revenue will occur. The remaining economic development tax credits that will be issued are shown in Table 5.

Eliminating the CIT will not affect net general revenues. The amount of projected net general revenues is shown in Table 6.

There are other things that need to be addressed when trying to reform Missouri's tax structure.

TABLE 5

Fiscal Year	FY14 (PROJ)	FY15 (PROJ)	FY16 (PROJ)
Projected Remaining Tax Credits	$ 166,331,470.46	$ 145,587,104.57	$ 124,255,359.00

TABLE 6

Fiscal Year	FY14 (PROJ)	FY15 (PROJ)	FY16 (PROJ)
Projected Net General Revenue	$7,852,613,120	$8,129,025,102	$8,415,166,785

CAVEATS REGARDING TAX CREDITS

Tax credits are not necessarily redeemed the same year they are issued. Thus, losses to state revenue due to tax credit redemptions from the issuance of new credits do not necessarily correspond to the issuances for that year. It might be necessary to cap or eliminate more than $1 of economic development tax credits to offset $1 of lost CIT revenue for a given fiscal year to achieve neutrality if one accounts for credits outstanding and ready for redemption.

Despite the uncertainty of the timing of tax credit redemptions, the state would still eliminate $1 of liability against its future income by capping or eliminating economic development tax credits that it would have to meet if those tax credits were still issued. The proposal does not use redemptions in its analysis because redemptions exist for already issued tax credits. The state is obligated to honor the redemption-issued tax credits unless state law provides otherwise.

As of fiscal year 2011, $641,982,951 remains in issued but not redeemed tax credits.[23]

This is a continuing liability for the state and this paper does not seek to address how the state should deal with this situation, although the nature of the solution proposed here — elimination of an income tax — would seem to partially address that issue through its own mechanics. If there is no corporate income to tax, a tax credit against that tax burden would be superfluous, though likely driving those credits to be applied to other state income taxes that remain in existence. However, there is no attempt to explore those implications at any particular length here.

This analysis looks at eliminating tax credit issuances because that is the point at which a new liability for the state is created. Eliminating the issuance of tax credits eliminates the new liability to the state. State money that would have been used to meet the liability created that the issued tax credit created can be used to make up for revenue lost due to the elimination of the CIT.

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Notes

[1] Haslag, Joseph, and Podgursky, Michael. "Slip Sliding Away: The Weak Relative Growth of the Missouri Economy." Show-Me Institute, Essay, July 2012.

[2] Arnold, Jens. "Do Tax Structures Affect Aggregate Economic Growth? Empirical Evidence From a Panel of OECD Countries." Organisation for Economic Co-operation and Development, Economics Department Working Papers No. 643. Oct. 14, 2008.

[3] Show-Me Sunshine on DocumentCloud: https://www.documentcloud.org/documents/463318-tax-credit-programs.html and https://www.documentcloud.org/documents/461218-refunds-historical-corp-tax-for-rathbone.html.

[4] Arnold, Jens. "Do Tax Structures Affect Aggregate Economic Growth? Empirical Evidence From a Panel of OECD Countries." Organisation for Economic Co-operation and Development, Economics Department Working Papers No. 643. Oct. 14, 2008.

[5] Ibid.

[6] Show-Me Sunshine on DocumentCloud: https://www.documentcloud.org/documents/463318-tax-credit-programs.html and https://www.documentcloud.org/documents/461218-refunds-historical-corp-tax-for-rathbone.html.

[7] To be clear, this plan does not specifically address the problem of tax credit redemptions, which policymakers will have to grapple with regardless of a CIT phase-out plan. This plan deals with addressing the state's growth issues on a going forward basis and does not attempt to fix the state's redemption concerns, which are no doubt pressing as well.

[8] Easterly, William. "How Much do Distortions Affect Growth?" Journal of Monetary Economics, 32, No. 2. Nov. 1993.

[9] These reports are from the Missouri Department of Revenue. The fiscal year 2012 issuances used in this analysis are the sum of the issuances for the quarter in each report. The reports can be found at the following links; http://dor.mo.gov/publicreports/First_Quarter_FY12_Tax_Credit_Report.pdf, http://dor.mo.gov/publicreports/Second_Quarter_FY12_Tax_Credit_Report.pdf, http://dor.mo.gov/publicreports/Third_Quarter_FY12_Tax_Credit_Report.pdf, http://dor.mo.gov/publicreports/Fourth_Quarter_FY12_Tax_Credit_Report.pdf.

[10] Show-Me Sunshine on DocumentCloud: https://www.documentcloud.org/documents/463318-tax-credit-programs.html and https://www.documentcloud.org/documents/461218-refunds-historical-corp-tax-for-rathbone.html.

[11] This analysis uses tax credits "issued" rather than "redeemed" because first, this proposal is not attempting to address the state's substantial outstanding tax credit liability, and second, the annual cost of tax credit redemptions can vary wildly and thus do not lend them easily to projection. The demonstration starts both tax credits and the CIT at the same "starting line" — no credits issued, no liabilities incurred, no revenue received — and it is up to policymakers to address tax credits issued before that line in time. Indeed, redemptions will likely vary in future years as well, affecting the exact annual budgetary outlook, but the net effect, as demonstrated, allows for the extinguishing of the CIT without incurring new liabilities that must be paid through tax hikes or program cuts outside of the development tax credit programs. See the Appendix for more information about why issuances were used instead of redemptions.

[12] The economic development tax credits subject to elimination include those that S-Corps, sole-proprietorships, and LLCs use. In regards to the potential issues eliminating these credits could create, see the Summary.

[13] 35 Ill. Comp. Stat. § 5/201, Ky. Rev. Stat. Ann. § 141.040, Tenn. Code Ann. § 67-4-2007, Ark. Code Ann. § 26-51-205, Okla. Stat. tit. 68, § 2355, Kan. Stat. Ann. § 79-32,110, Neb. Rev. Stat. § 77-2734.02, Iowa Code Ann. 422.33

[14] Missouri Senate Appropriations 2012 Annual Fiscal Report P52: http://www.senate.mo.gov/12info/redbook12.pdf & Show-Me Sunshine DocumentCloud: https://www.documentcloud.org/documents/461127-cre-amp-actuals-fy92-fy13-3-6-12.html (under "Actual" Column).

[15] Missouri Senate Appropriations 2012 Annual Fiscal Report: P52. http://www.senate.mo.gov/12info/redbook12.pdf.

[16] Show-Me Sunshine on DocumentCloud: https://www.documentcloud.org/documents/461218-refunds-historical-corp-tax-for-rathbone.html (Corporate Income Net Row) & Show-Me-Sunshine on DocumentCloud: https://www.

documentcloud.org/documents/461198-cit-2012-pdf.html.

[17] Executive Budget Fiscal Year 2013 P10: http://oa.mo.gov/bp/budg2013/ExecutiveBudget2013.pdf (Under Consensus Estimate 2013 column).

[18] https://www.documentcloud.org/documents/461132-historical-corp-tax-for-rathbone.html, https://www.documentcloud.org/documents/461198-cit-2012-pdf.html and https://www.documentcloud.org/documents/461218-refunds-historical-corp-tax-for-rathbone.html.

[19] These reports are from the Missouri Department of Revenue. The fiscal year 2012 redemptions used in this analysis are the sum of the redemptions for the quarter in each report. The reports can be found at: http://dor.mo.gov/publicreports/First_Quarter_FY12_Tax_Credit_Report.pdf, http://dor.mo.gov/publicreports/Second_Quarter_FY12_Tax_Credit_Report.pdf, http://dor.mo.gov/publicreports/Third_Quarter_FY12_Tax_Credit_Report.pdf, http://dor.mo.gov/publicreports/Fourth_Quarter_FY12_Tax_Credit_Report.pdf The Missouri Department of Revenue shared these tax credit reports for fiscal years 2008-11. The analysis uses the sum of the fiscal year to date to the total development credits that were redeemed for the given fiscal year and the sum of the development credits under the CIT column to get tax credits redeemed against the CIT. They can be found at Show-Me Sunshine on DocumentCloud: https://www.documentcloud.org/documents/461131-fiscal-years-08-11-tax-credit-redemptions-fy11.html, https://www.documentcloud.org/documents/461130-fiscal-years-08-11-tax-credit-redemptions-fy10.html, https://www.documentcloud.org/documents/461129-fiscal-years-08-11-tax-credit-redemptions-fy09.html, https://www.documentcloud.org/documents/461128-fiscal-years-08-11-tax-credit-redemptions-fy08.html.

[20] Show-Me Sunshine on DocumentCloud: https://www.documentcloud.org/documents/461218-refunds-historical-corp-tax-for-rathbone.html and https://www.documentcloud.org/documents/461132-historical-corp-tax-for-rathbone.html. It is likely that some of the CIT refunds are from refundable tax credits. Based on the data available, it was difficult to determine the actual amount of the CIT refunds that were composed of tax credits refunded against the CIT and issued in the same year. Even if the estimated issuances for all six refundable development tax credit programs (Missouri Business Use Incentives for Large-Scale Development, Enterprise Zone, Enhanced Enterprise Zone, New and Expanded Business Facility, Missouri Quality Jobs, and Brownfield Jobs/Investment) were all redeemed and refunded against the CIT, the state would still have enough economic development tax credits to cover the revenue shortfall caused by the elimination of the CIT.

[21] The totals used for this analysis were found under the Issuances column for each fiscal year. The totals can be found on Show-Me Sunshine DocumentCloud: https://www.documentcloud.org/documents/463318-tax-credit-programs.html, The Missouri House Budget Committee provided the Tax Credit Analyses that contained the data used for this document. These analyses can be found on Show-Me Sunshine: http://showmesunshine.org/blog/2012/07/missouri-tax-credit-estimates-fy-2012-and-fy-2013.html. The fiscal year 2012 issuances were from the Missouri Department of Revenue tax credit reports. The fiscal year 2012 issuances used in this analysis are the sum of the issuances for the quarter in each report. The reports can be found at: http://dor.mo.gov/publicreports/First_Quarter_FY12_Tax_Credit_Report.pdf, http://dor.mo.gov/publicreports/Second_Quarter_FY12_Tax_Credit_Report.pdf, http://dor.mo.gov/publicreports/Third_Quarter_FY12_Tax_Credit_Report.pdf, http://dor.mo.gov/publicreports/Fourth_Quarter_FY12_Tax_Credit_Report.pdf.

[22] The totals used for this analysis were found under the Issuances column for FY 2013. The totals can be found on Show-Me Sunshine DocumentCloud: https://www.documentcloud.org/documents/463318-tax-credit-programs.html, the data used for this document were obtained from Tax Credit Analyses provided by the Missouri House Budget Committee. These analyses can be found on Show-Me Sunshine: http://showmesunshine.org/blog/2012/07/missouri-tax-credit-estimates-fy-2012-and-fy-2013.html.

[23] The totals used for this analysis were found under the Issued by Not Redeemed column for FY 2013. The totals can be found on Show-Me Sunshine on: DocumentCloud: https://www.documentcloud.org/documents/463300-tc-outstanding.html.

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