



TESTIMONY

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SENATE BILL 10

By Patrick Tuohey, David Stokes, and Elias Tsapelas

Testimony Before the Missouri House
Government Efficiency Committee

TO THE HONORABLE MEMBERS OF THIS COMMITTEE

Thank you for the opportunity to testify. My name is Patrick Tuohey, and joining me in this testimony are my co-authors David Stokes, director of municipal policy; and Elias Tsapelas, director of state budget and fiscal policy. We are from the Show-Me Institute, a nonprofit, nonpartisan, Missouri-based think tank that advances sensible, well-researched, free-market solutions to state and local policy issues. The ideas presented here are our own and are offered in consideration of proposals that will affect tax credits and similar programs in Missouri.

Senate Bill 10 would remove the expiration dates on a significant number of state laws relating to tax credits and reimbursement programs. As with all economic development programs, a tax credit is a subsidy meant to stimulate growth in the industry by reducing the tax liability incurred within Missouri. However, research and history show that tax credits rarely generate enough economic activity to justify their use.

THE MISSOURI-KANSAS TAX INCENTIVE BORDER WAR

Perhaps the most beneficial part of SB 10 is the removal of the expiration date for the border-war legislation that was passed in 2014 and extended in 2019. These limitations on the use of state tax credits by Missouri (depending on Kansas passing similar rules, which it has) within the greater Kansas City area have succeeded in limiting the race-to-the-bottom of using tax incentives to lure businesses across state lines with no resulting economic growth, employment, or productivity.

We know in Missouri that incentive projects rarely achieve the job-creation results that their proponents claim, and that cities do not attempt to end incentives for projects that fail to deliver on their promises. Fortunately, previous governors and legislators in both Kansas and Missouri recognized that the two states must stop fighting a battle everyone knew was wasteful but that no one was willing to end unilaterally. The 2014 and 2019 agreements may not have been perfect, but after both states and the

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involved cities all agreed to limit the use of tax subsidies, the overall use of economic development incentives and subsidies in Kansas City has decreased, at least with regard to cross-state subsidies.

PAST TAX-CREDIT PROGRAM FAILURES

While the renewal of the border-war legislation in this bill would be a positive move, there are numerous other tax credit changes that would be harmful. For example, SB 10 removes the expiration date on film and entertainment tax credits. Missouri's previous film tax-credit program was a failure that did not permanently stimulate growth in Missouri's film production industry.¹ The Tax Credit Review Commission went so far as to recommend that the tax credit be eliminated because it served too narrow an industry and didn't provide a positive return on investment.² Lawmakers were wise to allow this program to sunset in 2013.

Research has shown that across the nation film tax credits have not resulted in job growth, have not affected market share or industry output, and have resulted only in short-term wage gains for those in the industry.³ Film tax credits in many states generated just cents on the dollar, making them a huge waste of taxpayer dollars. As a Tax Foundation analyst pointed out, "non-favored activities and businesses remain on the hook to bear the full impact of the state's tax code."⁴

Film tax credits have haunted the Missouri legislature for years, and the question is always the same: Should one expect this tax credit to produce different results this time around?⁵ It should not have been reinstated a few years ago, and the current film and entertainment tax credit sunset dates should be maintained.

LAWMAKER INTERFERENCE IN THE MARKET

Targeted economic development tax credits are just another way for lawmakers to pick winners and losers, a job that is better left to consumers and the market. When tax breaks are given to some, other taxpayers have to make up for the lost revenue. Through a reauthorized film tax credit, lawmakers would be sending tax dollars to private

companies to artificially boost an industry. The desire to "do something" is understandable, but in the case of tax credits, it is often better to do nothing. While we're sure many want a thriving film industry in Missouri, if an industry cannot succeed here without government assistance, then maybe it shouldn't be here.

When the entertainment industry tax credit was passed in 2023, proponents claimed we needed it to compete against other states. The fact was that only one other state (Pennsylvania) had such a tax credit, and only one business in Missouri was poised to gain from it. Using state tax policy to directly benefit one business is poor public policy, and that sunset date, too, should be maintained.

Companies call for tax credits for their industries frequently, as they are the ones who directly benefit from them. If you have read the investigative reports by the *Post-Dispatch* on the activities involved with the state's Distressed Area Land Assemblage Tax Credit, you can't fail to notice how a small cadre of influential tax-credit peddlers consistently abuse these programs for personal profit at public expense.⁶

THE WRONG KIND OF LEADERSHIP

Missouri is already a national leader in state spending in the name of "economic development." Over the past few decades Missouri has foregone billions in state tax revenue to a host of narrow incentives that have consistently yielded poor results overall. In 2024, Missouri spent more than \$600 million on its various tax-credit programs. To put that spending into context, that amount of money could pay for a 50 percent reduction in the state's corporate income tax⁷ or, alternatively, a reduction to the individual income tax by a smaller increment. Instead of continuing down the path of subsidizing chosen entities, lawmakers should consider offering a broad-based tax cut that would benefit all Missourians.

HEALTHCARE FEDERAL REIMBURSEMENT PROGRAMS

Missouri is one of the most aggressive users of Medicaid provider taxes in the country.⁸ While the current provider-tax arrangement allows Missouri to pay Medicaid

providers higher rates than the state's tax base would otherwise be able to support, it does so at significant expense to the federal government.

Given the recent discussions in Washington, D.C., regarding reforming Medicaid to reduce federal expenditures on the program, now is not the time for Missouri to consider removing the mandatory periodic review that sunset clauses provide.⁹ Any federal change to Medicaid provider taxes would likely have an enormous impact on Missouri's budget, which means it is *more important*, not less, that state lawmakers frequently evaluate how best to fund the Medicaid program going forward.

CONCLUSION

Economic development tax-credit programs have not been successful in Missouri in the past, and the film tax credit program has been a great example of their failure. There is no evidence that extending dozens of tax credit programs by removing their expiration dates would produce a different result. Missouri has a plethora of economic opportunities, and it doesn't need lawmakers to artificially create more at the expense of taxpayers.

The aspect of this legislation that seeks to limit tax incentives—the border-war legislation in the bill—is the most beneficial portion of this bill precisely because it puts reasonable limitations on the use of tax subsidies. The extension of the border-war legislation included in SB 10 would benefit the people of Kansas City, and hopefully it would encourage Kansas to maintain its own regional subsidy limits.

NOTES

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3. "Lights, camera and no action: How state film subsidies fail." USC Press Release. <https://pressroom.usc.edu/lights-camera-and-no-action-how-state-film-subsidies-fail>.
4. Katherine Loughead. "Illuminating the Hidden Costs of State Tax Incentives." Tax Foundation. 2021. <https://taxfoundation.org/state-tax-incentives-costs>.
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6. Jacob Barker. "FBI investigated NorthSide Regeneration Tax Credit Deals, Report Shows," *St. Louis Post-Dispatch*, Jan. 14, 2022.
7. Patrick Ishmael and Michael Rathbone. "Cutting the Ties that Bind: End Missouri's Corporate Income Tax." Show-Me Institute, 2012. https://showmeinstitute.org/wp-content/uploads/2015/06/Essay_CorpIncomeTax_11_27_0.pdf.
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5297 Washington Place · Saint Louis, MO 63108 · 314-454-0647

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