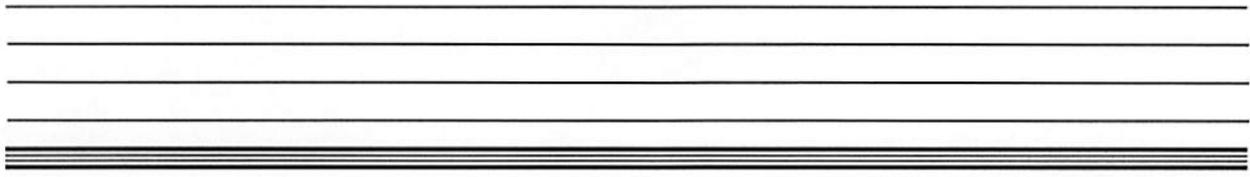


Oversight Division

Committee On Legislative Research

SUNSET REVIEW

CHILDREN IN CRISIS TAX CREDIT
Section 135.327, RSMo



Sunset Review

CHILDREN IN CRISIS TAX CREDIT
Section 135.327, RSMo

*Prepared for the Committee on Legislative Research
by the Oversight Division*

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TABLE OF CONTENTS

COMMITTEE ON LEGISLATIVE RESEARCH	ii
LETTER OF TRANSMITTAL	iii
EXECUTIVE SUMMARY	iv
PURPOSE / OBJECTIVES	page 1
SCOPE	page 1
METHODOLOGY	page 1
BACKGROUND	page 2
COMMENTS	page 11

Committee on Legislative Research Oversight Subcommittee

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THE COMMITTEE ON LEGISLATIVE RESEARCH is a permanent joint committee of the Missouri General Assembly comprised of the chairman of the Senate Appropriations Committee and nine other members of the Senate and the chairman of the House Budget Committee and nine other members of the House of Representatives. The Senate members are appointed by the President Pro Tem of the Senate and the House members are appointed by the Speaker of the House of Representatives. No more than six members from the House and six members from the Senate may be of the same political party.

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**COMMITTEE ON LEGISLATIVE RESEARCH
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Members of the General Assembly:

The Joint Committee on Legislative Research is required by Section 23.259 (1) (2) to conduct a performance evaluation of the Children in Crisis Tax Credit, RSMo 135.327, to determine and evaluate program performance in accordance with program objectives, responsibilities, and duties as set forth by statute or regulation.

The report includes Oversight's comments on (1) the sunset, continuation, or reorganization of the program, and on the need for the performance of the functions of the program; (2) the duplication of program functions; (3) the appropriation levels for each program for which sunset or reorganization is recommended; and if needed, (4) drafts of legislation necessary to carry out the committee's recommendations pursuant to (1) and (2) above.

We hope this information is helpful and can be used in a constructive manner for the betterment of the state program to which it relates. You may request a copy of the report from the Oversight Division by calling 751-4143.

Respectfully,

A handwritten signature in cursive script that reads "Tom Flanigan".

Representative Tom Flanigan
Chairman

EXECUTIVE SUMMARY

The Children in Crisis Tax Credit program allows for a tax credit to persons who make donations to qualified agencies. The credit is for fifty percent of the value of the donation. Qualified agencies are approved by the Department of Social Services and can be either Court Appointed Special Advocates, Child Advocacy Centers, or Crisis Care Centers. The program is funded by utilizing part of the unused \$2 million annual cap from the Special Needs Adoption - Resident tax credit. The program is set to expire on August 28, 2012.

The utilization of the program has grown steadily since its inception; \$168,129 credits redeemed in 2007 has increased to \$587,137 credits redeemed in 2011. These amounts plus the redemptions of Special Needs Adoption - Resident credits have been below combined \$2 million cap each year. The average amount of credit redeemed has been approximately \$480, and is used mostly by taxpayers filing individual income tax returns.

It appears, based upon the growth of the Children in Crisis tax credit redemptions as well as testimonials from several qualified agencies, that the program is being successfully used to generate more and perhaps larger donations. Oversight is not able to definitively determine if the donations would have been made to the qualified agencies if not but for this tax credit program, but it appears that the credit is at least a contributing factor to the increase in donations.

At the December 15, 2011 Joint Committee on Legislative Research quarterly meeting a motion was adopted stating "that while the committee feels the information in the report is factually accurate, the committee believes that the debate on sunsets in general, including those credits in this report specifically, should be continued in the General Assembly at large and this motion does not recommend extension or termination of any tax credit contained herein."

Chapter 1

Purpose/Objectives

The General Assembly has provided by law that the Joint Committee on Legislative Research will conduct a performance evaluation of a program subject to the Missouri Sunset Act. The committee shall consider the criteria as listed in Section 23.268, RSMo in determining whether a public need exists for the continuation of a program, or for the performance of the functions of the program. A sunset review is the regular assessment of the continuing need for a state program to exist. A sunset review answers the basic questions of what has happened to this program since its inception and does the State of Missouri continue to “need” the services provided by the program.

The Joint Committee on Legislative Research directed the Oversight Division to conduct a Sunset Review of the Missouri Department of Revenue’s Children In Crisis Tax Credit program, Section 135.327, RSMo. This report provides a status on the Children In Crisis Tax Credit Program as created by SCS for HCS for HB 1485 in the 2006 legislative session and fulfills the requirement as established by Section 23.268, RSMo.

Oversight’s review addressed, but was not limited to the following:

1. Compiling all data related to the program since its inception.
2. Analysis of the events and changes to the program since its inception in 2006.

Scope

The Oversight Division researched the laws and activity regarding the Children In Crisis Tax Credit Program from 2006 through 2011. The analysis included a review of the Department of Social Services’ and the Department of Revenue’s data related to the program.

Methodology

The Oversight Division obtained information on the Children In Crisis Tax Credit Program through review of statutes, letter correspondence with the Missouri Department of Revenue (DOR) and Missouri Department of Social Services (DOS), and interviews with DOR and DOS staff who work directly with the program.

Background

House Bill 1485 from the 2006 legislative session created the Children In Crisis Tax Credit and stipulated that the program automatically sunset six years from its effective date. No changes have been made to the sunset language of this section of statute (135.327.14, RSMo) after the enabling legislation was passed; therefore, with an effective date of August 28, 2006, the credit is scheduled to expire on August 28, 2012.

Under this program, a tax credit may be claimed in an amount equal to fifty percent of a donation to a qualified agency. Qualified agencies include:

- **Court Appointed Special Advocates (CASA)** - agencies that advocate for the best interests of abused and neglected children through court proceedings. Roughly twenty-one CASAs received funding through the Court Appointed Special Advocate Fund (established in Section 476.777, RSMo) in FY 2010. (For a listing, please see Table 4).
- **Child Advocacy Centers (CAC)** - facilities where representatives from many disciplines (i.e. law enforcement, investigators, medical personnel, etc.) meet to discuss and make decisions about the investigation, prosecution, intervention and treatment of child abuse cases. A listing of sixteen Child Advocacy Centers is provided in Section 210.001.2, RSMo. (For a listing, please see Table 5).
- **Crisis Care Centers (CCC)** - organizations which contract with the Department of Social Services to provide temporary care for children whose ages ranges from birth through 17 years and whose parents or guardians are experiencing an unexpected and unstable or serious condition which requires immediate action. (For a listing, please see Table 6).

The Department of Social Services (DOS) sends letters to organizations that could meet the requirements for a qualified agency, asking if they want to be considered as such for purposes of the tax credit. Later, DOS reviews the submitted Agency Eligibility Verification Applications and determines if the organizations meet the requirements and have submitted all of the required information (copy of the organization's certificate of incorporation, verification of IRS tax exemption status, and a brief description of the agency's primary business function). Once approved, a final list of all qualifying agencies is submitted to the Department of Revenue by February 1st to be utilized in the tax credit verification process.

The tax credit has a minimum of \$50 (\$100 donation), and may be claimed against taxes imposed by Chapter 143. There is no individual limit on what a taxpayer may claim. The credits are non-refundable, may be sold/transferred/assigned, and may be carried forward for four subsequent years, but may not be carried back to previous years. Donations can also be non-cash items, such

as the value of donated office space.

The Children In Crisis Tax Credit is connected to the Special Needs Adoption Tax Credit, both of which are administered by the Department of Revenue (DOR). The Special Needs Adoption Tax Credit provides a credit for non-recurring adoption expenses for any person residing in Missouri who legally adopts a special needs child. Combined, the programs have a four million dollar annual cap but this is divided into three separate groups, Missourians adopting resident special-needs children, Missourians adopting non-resident special-needs children, and persons donating to approved Children in Crisis agencies. First, a two million dollar annual cap is set aside for Special Needs Adoption - residents; however, if not all of that allotment is utilized, then the unused balance is allocated for the Children In Crisis (CIC) tax credit program. The Special Needs Adoption - nonresidents can then utilize their two million annual allotment plus the remaining unused balance of the Special Needs Adoption - resident / Children in Crisis allotment. Table 1 shows the amount of tax credits redeemed through the Special Needs Adoption program as well as the average amount of credit per return.

Special Needs Adoption (Adoption) - resident credits must be filed with DOR by April 15th each year, as do the CIC credits. Once all of the Adoption - resident credits have been processed by DOR (after April 15th), the remainder of the \$2 million annual cap is apportioned equally among the three categories of qualified agencies. If needed, DOR can reapportion the credits among the three categories (for example, if more credits are needed for donations to CASAs than was originally allocated, then DOR can move credits available from the other two categories to CASAs). Then the remaining balance (if any) of the Adoption - resident / CIC \$2 million allotment is added to the Adoption - nonresident annual allotment. Adoption - nonresident credits must be filed with DOR between July 1 and December 31st. DOR states they have not hit the \$2 million ceiling for Adoption - resident / CIC credits in any year yet, so all who have correctly applied for these credits have been allowed.

According to the Code of State Regulations, in the event claims for the CIC credit total more than the available funds, the claims will be apportioned so that all claims for the CIC credit will receive an equal percentage. DOR states this scenario has not occurred yet since a sufficient balance of the \$2 million has remained after the Adoption - resident awards.

If more than \$4 million in credits were claimed in a given year, DOR would perform a systematic apportionment of the credits among all taxpayers filing claims that year. DOR also has the ability (in 135.327.4, RSMo) to request an increased appropriation if they determine that the amount of tax credits utilized under the three programs will exceed four million in a given year. DOR states they have not made this request yet. Returns utilizing the tax credit are held by DOR until April 15th to ensure that the annual cap of the program is not exceeded. Table 2 shows the amount of tax credit redeemed through the Adoption and the CIC programs for the past six years.

Table 1 - Special Needs Adoption Tax Credits

Special Needs Adoption						
Fiscal Year	Number of Resident Redemptions	Resident Credits Redeemed	Average Resident Credit	Number of Nonresident Redemptions	Nonresident Credits Redeemed	Average Nonresident Credit
2006	201	\$ 527,372	\$2,624	1,775	\$ 2,000,000	\$ 1,127
2007	152	\$ 427,777	\$2,814	1,120	\$ 2,498,905	\$ 2,231
2008	211	\$ 611,536	\$2,898	962	\$ 2,483,989	\$ 2,582
2009	161	\$ 454,354	\$2,822	626	\$ 1,767,881	\$ 2,824
2010	162	\$ 429,398	\$2,650	520	\$ 1,464,789	\$ 2,817
2011	125	\$ 296,502	\$2,372	383	\$ 1,049,952	\$ 2,741
Totals	1,012	\$2,746,939	\$2,714	5,386	\$11,265,516	\$ 2,092

Table 2 - Special Needs Adoption and Children in Crisis Tax Credits

Special Needs Adoption and Children in Crisis					
Fiscal Year	Resident Adoption Credits Redeemed	Children in Crisis Credits Redeemed	Total Resident Adoption plus CIC	Nonresident Adoption Credits Redeemed	Combined Total Credits Redeemed
2006	\$ 527,372	\$ 0	\$ 527,372	\$ 2,000,000	\$ 2,527,372
2007	\$ 427,777	\$ 168,129	\$ 595,906	\$ 2,498,905	\$ 3,094,811
2008	\$ 611,536	\$ 306,146	\$ 917,682	\$ 2,483,989	\$ 3,401,671
2009	\$ 454,354	\$ 403,420	\$ 857,774	\$ 1,767,881	\$ 2,625,655
2010	\$ 429,398	\$ 420,857	\$ 850,255	\$ 1,464,789	\$ 2,315,044
2011	\$ 296,502	\$ 587,137	\$ 883,639	\$ 1,049,952	\$ 1,933,591
Totals	\$ 2,746,939	\$ 1,885,689	\$ 4,632,628	\$11,265,516	\$ 15,898,144

To receive the credit, a taxpayer must submit with their return a completed MO-TC (Missouri - Tax Credit) form as well as a MO-CIC (Missouri - Children in Crisis Tax Credit) form. The MO-CIC provides the date of the contribution, amount of the contribution and the calculated (50%) amount of the tax credit. The form must list the qualified agency and their address and must be signed by the director of the agency. A separate MO-CIC form must be provided for each agency. Table 3 below shows the average amount of credit used per tax return.

Table 3 - Children in Crisis Redemptions - average

Children in Crisis			
Fiscal Year	Number of Redemptions*	Amount of Credits Redeemed	Average credit per return
2006	0	\$ 0	\$ 0
2007	172	\$ 168,129	\$ 978
2008	573	\$ 306,146	\$ 534
2009	753	\$ 403,420	\$ 535
2010	1,180	\$ 420,857	\$ 357
2011	1,248	\$ 587,137	\$ 470
Totals	3,926	\$ 1,885,689	\$ 480

* Note: The bulk of redemptions are through Individual tax returns, there were fewer than 20 corporate redemptions in each year.

QUALIFIED AGENCY LISTINGS:

CASA

The Department of Social Services maintains a list of the agencies that are eligible to receive credit-generating donations under this program. Eighteen CASA organizations have been qualified by DOS since 2007. Table 4 shows the names and years the organization have applied and been accepted by DOS as a qualified CASA agency.

Table 4 - Qualified CASA Agencies

	Center Name	city	years qualified
1	Butler Co. Community Resource Council	Poplar Bluff	2010
2	Missouri CASA Association	Columbia	2007 - 2010
3	CASA of Dunklin County	Kennett	2009 - 2010
4	CASA of South Central MO	Rolla	2007 - 2010
5	CASA of Southeast MO	Cape Girardeau	2007 - 2010
6	CASA of Southwest MO	Springfield	2007 - 2010
7	CASA of St. Louis County	St. Louis	2007 - 2010
8	CASA of the 15 th Judicial Circuit	Lexington	2007 - 2010
9	CASA of the 37 th Judicial Circuit	West Plains	2007 - 2010
10	CASA of the 40 th Judicial Circuit	Neosho	2009 - 2010
11	CASA of the 5 th Judicial Circuit	St. Joseph	2007 - 2010
12	Douglass Community Services Inc	Hannibal	2007 - 2010
13	Franklin County CASA Inc	Union	2008 - 2010
14	Friends of CASA	Kirksville	2007, 2010
15	Heart of Missouri CASA	Columbia	2007 - 2010
16	Jackson County CASA	Kansas City	2008 - 2010
17	Mid-Ozark CASA	Cuba	2007 - 2010
18	Voices for the Children	St. Louis	2007 - 2010

CAC

Child Advocacy Centers are specifically listed in Section 210.001.2, RSMo. Table 5 shows the names and years the fifteen organizations have applied and been accepted by DOS as a qualified CAC agency.

Table 5 - Qualified CAC Agencies

	Center Name	city	years qualified
1	Boone County CAC	Columbia	2007 - 2010
2	Buchanan County CAC	St. Joseph	2007 - 2010
3	Camden County CAC	Osage Beach	2007 - 2010
4	Clay - Platte County CAC	Parkville	2008 - 2010
5	Greene County CAC	Springfield	2007 - 2010
6	Jackson County CAC	Kansas City	2007 - 2010
7	Jefferson County CAC	Desoto	2007 - 2010
8	Joplin CAC	Joplin	2007 - 2010
9	North Central MO CAC	Trenton	2007 - 2010
10	Ozark Foothills CAC	Doniphan	2007 - 2010
11	Pettis County CAC	Sedalia	2007 - 2010
12	Southeast MO CAC	Cape Girardeau	2007 - 2010
13	St. Charles County CAC	Wentzville	2007 - 2010
14	St. Louis City & County CAC	St. Louis	2007 - 2010
15	The Lakes Area	Branson West	2007

CCC

Crisis Care Centers contract with the state to provide temporary care for children whose ages ranges from birth through 17 years of age, and whose parents or guardians are experiencing an unexpected and unstable or serious condition that requires immediate action resulting in short term care; usually three to five continuous, uninterrupted days. There are 22 organizations that have been qualified by DOS to participate in the CIC program since 2007. Table 6 shows the names and years the organization has applied and been accepted as a qualified CCC agency.

Table 6 - Qualified CCC Agencies

	Center Name	city	years qualified
1	Annie Malone	St. Louis	2007 - 2010
2	Boys Town of Mo Inc	St. James	2008 - 2010
3	Butterfield Youth Services	Marshall	2007, 2009 - 2010
4	Child Abuse & Neglect Emergency Shelter (Rainbow House)	Columbia	2007 - 2010
5	Child Center Marygrove	Florissant	2007 - 2010
6	Children's Foundation of Mid-America	St. Louis	2009 - 2010
7	Children's Haven of SWMO	Joplin	2008, 2010
8	Crider Health Care	Wentzville	2008
9	Crisis Nursery of the Ozarks	Springfield	2007 - 2010
10	Delta Children's Home	Kennett	2007 - 2008, 2010
11	Epworth Children & Family Services	St. Louis	2007 - 2010
12	Every Child's Hope	St. Louis	2009 - 2010
13	Family Counseling Center Inc	Kennett	2007, 2009
14	House of Hope Inc	Lexington	2009
15	Lutheran Family & Children Services	St. Louis	2007 - 2010
16	MBCH Children & Family Ministries	Bridgeton	2007 - 2010
17	Our Little Haven	St. Louis	2010
18	Presbyterian Children's Service	St. Louis	2007 - 2008
19	St. Louis Crisis Nursery	St. Louis	2007 - 2010
20	Salvation Army Children's Shelter	Kansas City	2007
21	Synergy Services	Parkville	2010
22	Youth in Need	St. Charles	2007 - 2010

According to the Department of Revenue, just under \$1.9 million of Children in Crisis tax credits have been redeemed since the inception of the program. DOR was able to provide a breakout of the redemptions by year according to the type of organization that received the donation. Of the \$1.9 million total, CASAs accounted for roughly 26 percent (\$486,285), Child Advocacy Centers roughly 25 percent (\$477,685), and Crisis Care Centers roughly 49 percent (\$921,719).

Table 7 - Children in Crisis tax credit redemptions by agency type

Fiscal Year	CASA	Child Advocacy Centers	Crisis Care Centers	Total Redemptions
2006	\$ 0	\$ 0	\$ 0	\$ 0
2007	\$ 8,639	\$ 20,629	\$ 138,861	\$ 168,129
2008	\$ 63,786	\$ 49,843	\$ 192,517	\$ 306,146
2009	\$ 150,450	\$ 140,880	\$ 112,090	\$ 403,420
2010	\$ 122,673	\$ 125,297	\$ 172,887	\$ 420,857
2011	\$ 140,737	\$ 141,036	\$ 305,364	\$ 587,137
Totals	\$ 486,285	\$ 477,685	\$ 921,719	\$ 1,885,689

The Department of Revenue was not able to provide a further breakout of redemptions into the specific organizations within the agency groupings. According to DOR, this information is not captured during the processing of a tax credit. DOR states they simply verify that the agency who signed off on the MO-CIC form (as having received a donation) is on the listing provided by the Department of Social Services. The donation information is also not required to be collected by DOS. Therefore, Oversight does not have aggregate information regarding which specific agencies received the tax credit-generating donations.

As of June 30, 2011, the outstanding balance (approved but not yet redeemed) of CIC tax credits was \$619,949. The outstanding balance for this program as of June 30, 2010 was \$354,845. This balance represents credits that have been submitted to DOR and have been determined to be valid, but taxpayers were not able to redeem the credit on their tax return. Potential reasons for this include;

- The taxpayer's credits could exceed their tax liability. For example, the taxpayer may have a \$500 Missouri tax liability, but possess various credits (CIC, Food Pantry, Youth Opportunities, etc.) that exceed that liability. Since the credits under this program are non-refundable, the taxpayer can't fully utilize the credits this year, but is allowed to carry

the credit forward for the subsequent four years. DOR believes this is the most common reason for a carry-forward.

- An agency could exceed the amount of donations/credits that the Department of Revenue allotted to them. For example, if CASAs were allotted \$250,000 in credits by DOR under this program, but their donations for the year totaled \$1 million, then taxpayers would only be allowed to utilize 50% of their credit in the first year. \$500,000 in credits were earned by donors (50% of donations), but this exceeded their allotment; therefore, only half of the credits could be utilized in the first year and the other \$250,000 could be carried forward. DOR is allowed to reallocate tax credits within the filing year between the agency types, so that the credits can be fully utilized. So far, DOR states that they have reallocated funds sufficiently to ensure that their annual cap has not been reached and therefore all tax credits under this program can be fully utilized.

Chapter 2

Comments

Oversight attempted to determine if the CIC credit has accomplished the assumed intention of the program of generating additional donations to the various agencies that qualify under the credit. However, neither the Department of Revenue nor the Department of Social Services were tasked with tracking the amount of donations made to these agencies before the tax credit existed. Therefore, Oversight inquired with a few organizations that are related to the qualified agencies to determine if donations to the agencies have increased since the tax credit program was established. Normally, Oversight does not include responses from associations, especially if they would have a vested interest in the subject; however, since no other source is available, Oversight will provide their responses for informational purposes.

Missouri KidsFirst (formerly the Missouri Network of Child Advocacy Centers - a statewide agency located in Jefferson City serving the fifteen regions in the state) collected information from various Child Advocacy Centers in the state and submitted them to Oversight. According to Carolyn Green of Child Safe of Central Missouri in Sedalia, the CIC Tax Credit has 'dramatically increased cash donations to Child Safe over the past five years'. The average amount of donations received by Child Safe from 2001 - 2006 (before the credit) was \$9,534 per year; while the average amount of donations from 2006 - 2010 was \$43,023 per year. Four other CACs responded through Missouri KidsFirst with the general response that they have been able to utilize this credit to generate larger and a greater number of donations that they may not have gotten otherwise.

Oversight also solicited information from the Missouri CASA Association in Columbia regarding the impact the tax credit has had on the qualified CASA agencies. According to CASA of South Central Missouri (Rolla), donation totals (classified as 'community donations', 'fund raising' and 'in-kind donations') averaged \$10,540 per year in 2005 - 2006. In 2007 - 2010, the annual average was \$33,295. Also, the Jackson County CASA reported donations of \$117,816 in 2008, \$124,564 in 2009 and \$146,730 in 2010. Again, all agencies responding through the Missouri CASA Association claimed the tax credit has enabled them to increase the size and number of donations coming in.

Table 8 below shows the annual CIC tax credit redemptions (and assumed submitted donations to qualified agencies to generate the credits) throughout the life of the program. Because redemptions have steadily risen throughout the life of the program, it appears donations have also risen.

Table 8 - Children in Crisis donations by year.

Year	Tax Credit Redeemed	Assumed Donations
2007	\$ 168,129	\$ 336,258
2008	\$ 306,146	\$ 612,292
2009	\$ 403,420	\$ 806,840
2010	\$ 420,857	\$ 841,714
2011	\$ 587,137	\$ 1,174,274
Totals	\$ 1,885,689	\$ 3,771,378

It appears, with the growth in tax credits redeemed and also with the above testimonials, that the CIC tax credit has had a positive impact on qualified agencies' ability to solicit donations. Oversight is not able to definitively determine if the donations would have been made to the qualified agencies if not but for this tax credit program, but it appears that the credit is at least a contributing factor to the increase in donations.

As stated earlier, non-cash donations can also be considered a 'contribution', generating a CIC tax credit. However, whether or not the donation was cash or something else of value, is not captured on the MO-CIC form. The form simply asks for the 'Contribution Amount', not the type of asset donated. This information could be helpful to DOS and DOR and could be captured with a change in the MO-CIC form and with DOR programming changes.

Recommendations:

Possible options available to the Missouri General Assembly include letting the program expire or extending the sunset of the program:

- First, the General Assembly could allow the program to expire in August, 2012 by taking no further action regarding this program. This option could potentially save the state revenue that would be lost through the tax credit redemptions. The annual limit of the program is directly tied to the Adoption tax credit (\$2 million combined), so an annual potential loss is somewhere less than \$2 million. Currently, the annual redemption amount on this program has not exceeded \$600,000. However, additional credits may be utilized on tax returns filed in FY 2012 than what has been redeemed previously. A possible negative impact of this action could be reduced donations to the agencies qualified by DOS to participate in the program.
- Second, the General Assembly can extend the sunset up to an additional twelve years (roughly until August 2024).
- Third, the General Assembly could extend the program for a period of time less than the stated twelve years

At the December 15, 2011 Joint Committee on Legislative Research quarterly meeting a motion was adopted stating “that while the committee feels the information in the report is factually accurate, the committee believes that the debate on sunsets in general, including those credits in this report specifically, should be continued in the General Assembly at large and this motion does not recommend extension or termination of any tax credit contained herein.”