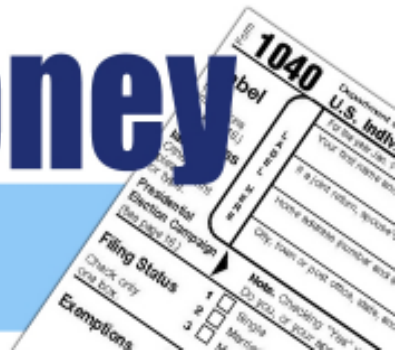




Your Tax Money

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TRIM's Legislative Agenda

While the successes of the 2005 legislative session are still fresh in the minds of business men and women across the state, there is still much work that may be accomplished to make Missouri a better place to do business. Making the state's tax environment more business-friendly is the goal of the Taxpayers Research Institute of Missouri. To that end, the Tax Committee of Associated Industries has developed several key items that will be the focus of our legislative efforts in the 2006 session.

Property Taxes

An effective date included in last year's reform of business personal property tax will apply those new standardized provisions of assessment only to property "placed in service" after Jan. 2, 2006. This will create the need for each business to incur the additional expense and administrative difficulty of maintaining two sets of books – one for property placed in service before that date and another for property placed in service after that date. There is no logical reason to have two systems. TRIM will propose legislation requiring all business personal property to be assessed under the new standardized provisions beginning in the 2007 tax year to help reduce the administrative burden for taxpayers and county officials.

Sales and Use Taxes

Currently, the purchase of electricity used in manufacturing, processing or producing is exempted from sales and use taxes if the cost of electricity exceeds 10 percent of the total cost of production. Gas and other energy used for the same purpose are fully taxable. TRIM will propose legislation that would provide equality in taxation of this energy by exempting all energy used for manufacturing, processing or producing a product.

The advancement of technology in the fields of manufacturing and science depend on research and development. Encouraging



In December, Ray McCarty, left, executive director of the Taxpayers Research Institute of Missouri, joined Gary Marble, president of Associated Industries of Missouri, and Jim Kistler, executive vice president of AIM, at a press conference announcing the legislative priorities for TRIM and Associated Industries.

such advancement is critical if Missouri is to keep pace with the evolution of the world economy. TRIM will propose an exemption from sales and use taxes for purchases made in the research and development of new products, processes and services.

The Joint Committee on Tax Policy has received testimony from several witnesses that appear to be in favor of "broadening" the tax base and lowering the rate. On the surface, many believe the idea has merit – but, the devil is in the details. "Broadening" the tax base means applying the tax to services and transactions that are not subject to tax under current law. In sales and use tax law, broadening the base is most often associated with the taxing of services as all tangible

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personal property is already subject to tax, unless specifically exempted. Taxing services has appeal for government bureaucrats that are anxious to have more money to spend. But when other states, like Florida, have attempted to tax services, the political backlash has resulted in a quick repeal. Because more taxes would be collected, many advocates of broadening the base also favor lowering the current rates. While lowering the rates alone may be a good idea because it stimulates the economy, spreading the tax around to other services and transactions simply makes our law more complicated and is a tax increase for those that were not subject to the tax before the change. TRIM will oppose efforts to expand sales and use taxes to services and other measures designed to “broaden” the tax base. TRIM supports lowering tax rates to stimulate the economy.

Heralded in recent years by state tax administrators as the cure-all for state budget woes, and fueled by an increase in internet shopping activity and competition with home-town retailers, many are clamoring for Missouri to adopt the provisions of the Streamlined Sales Tax Project Agreement. The Project is an effort spearheaded by state tax administrators to simplify the sales and use tax structure in participating states in an effort to convince Congress to force internet and mail order retailers to collect the states’ sales and use taxes. The plan is also supported by many retailers that must compete with internet retailers and are placed at a disadvantage because they must collect sales tax and internet retailers without sufficient contact to collect the tax are able to sell tax-free. However, adoption of the agreement in Missouri would mean that the point of taxation (or situs) and the sales tax rate that must be charged on delivered goods would shift from the business location of the retailer to the delivery location of the purchaser. For internet sales, this makes perfect sense. But for businesses in which delivery is a necessary part of their business like furniture stores, appliance stores, lumberyards, even some grocery stores, the change would greatly complicate their current sales tax collection burden as they would be responsible for collecting and reporting the correct tax rate for each customer and accurately tracking and reporting those transactions to the Department of Revenue. One solution to this shift in tax burden is the establishment of Certified Service Providers that would relieve the retailer of tax collection responsibility. In fact, the Streamlined Sales Tax Project agreement discusses these CSP in great detail. While every retailer would love for their tax collection burden to be lifted, we have yet to witness this

“The Taxpayers Research Institute of Missouri and Associated Industries of Missouri’s position has been and continues to be that the fiscal needs of the state can be met through economic expansion and job growth and not through increased employer taxes.”
- AIM Public Policy Council

process actually working in over-the-counter sale situations and we have recently learned that the bill for these Certified Service Providers will not be paid by the state tax administrators as originally promised. This means adoption of the agreement in Missouri will add complexity and cost to our Missouri businesses that deliver their goods to their customers. For this reason, TRIM will closely monitor any attempts to move forward with the Streamlined Sales Tax Project and express opposition to adoption of the agreement until these problems may be resolved.

Income and Franchise Taxes

Because tax burden is one of the top factors considered when companies are choosing a new business location, Missouri should strive to make the state’s tax environment as favorable as possible. Reducing Missouri’s business tax burden will result in job creation and keeping jobs in Missouri that could be lost to other states or countries with more favorable tax environments. The largest tax burden on Missouri businesses results from income and franchise taxes.

TRIM supports legislation restoring the full deductibility of individual and corporation federal income taxes for all Missouri taxpayers. The

current limitation on the amount that may be deducted results in state taxes on federal tax moneys – a double tax situation that affects all corporations and many small businesses that report their taxes as individuals.

TRIM also will propose legislation to eliminate the corporation franchise tax. As the late Sen. Harry Wiggins often said, “Franchise tax is a tax corporations pay for the privilege of paying more taxes”.

Of course, TRIM supports reducing individual and corporation income tax rates to a level that is responsible and maintainable and that improves Missouri’s ability to compete for jobs with other states and countries with lower tax rates.

TRIM will support preserving Missouri taxpayers’ current choice of apportionment methods for corporation income tax (3-factor and single sales). Apportionment is the allocation of a business’ income to the states in which it does business to determine the proper portion of income upon which each state’s income tax must be paid. Efforts to eliminate one of the options have been made in past legislative sessions. Companies have told us the choice in apportionment factor makes Missouri

more attractive when compared with states that have only one apportionment method.

Another idea that appears attractive to state legislators is decoupling from the federal tax code. Missouri's tax code is said to be "coupled" with the federal tax code because our tax code uses the same definitions and many of the exemptions and deductions that are allowed under the federal tax code. Definitions and many calculations are aligned with the federal tax code so that when a change is made at the federal level, the change will flow through to the Missouri tax code. In recent years, Missouri lawmakers have chosen to selectively decouple from provisions of the federal tax law that would have lowered the tax burden of Missouri businesses, including disallowing the accelerated depreciation and net operating loss provisions that were part of federal economic stimulus packages. Because lawmakers took this action, Missouri businesses are not able to receive the benefit of these stimuli on their state tax returns and double sets of books must be kept for depreciation of business property. The net operating loss provisions have been the subject of several cleanup bills since the state chose to disallow the more favorable net operating loss provisions in federal law and we are likely to address the situation again in the upcoming session. Complexity results when Missouri decouples from the federal tax code and TRIM will oppose such decoupling.

Tax Credits

More attention has appropriately been given in recent years to the amount and types of tax credits and their impact on Missouri's economy and tax collection structure. TRIM realizes the value tax credits and other tax relief provide in increasing economic activity and enhancing investment in Missouri. TRIM will carefully examine all recommended



Members of AIM's Tax Policy Committee met in Jefferson City recently at the Associated Industries of Missouri Building.

changes to tax credits to ensure employer interests are protected. While consolidation and reduction of some under-utilized tax credit programs may be necessary, TRIM will advocate maintaining the state's current overall investment in tax credits and other tax relief measures by increasing the amount dedicated to other tax credit programs or tax relief measures that are efficient and worthy of the state's investment.

Administrative Issues

In addition to these legislative issues, TRIM will explore the possibility of

stimulating interest in voluntary electronic filing by giving taxpayers that electronically file and pay an additional discount or other incentives. We will work with the Department of Revenue to find creative ways to stimulate participation in electronic filing programs.

TRIM will oppose any attempts to require manufacturing, producing or processing equipment sales and use tax exemptions to be prorated based on the exempt use of the equipment. TRIM supports the courts' current interpretation that equipment used for an exempt purpose is completely exempt.



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To Become Involved with TRIM, Contact Ray McCarty, Executive Director of TRIM, at (573) 893-6914 or e-mail him at raythetaxman@earthlink.net.