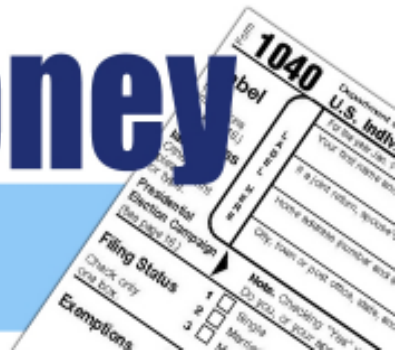




# Your Tax Money

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## 2006 Session

# Legislative Progress Report

### 2006 Legislative Session Reaches Unofficial Halfway Point

The 2006 Legislative Session began with Governor Matt Blunt announcing “a small but real surplus” in his annual State of the State address. As the session progressed, it became clear legislators will allocate any surplus revenues to education and health care priorities rather than tax relief, with a few notable exceptions, including a potential phase-out of the franchise tax.

Because of state fiscal considerations, several of TRIM’s legislative agenda items are not likely to receive approval this year. Among the issues that have fallen prey to revised fiscal estimates are the elimination of double taxation caused by the limitation on the federal income tax deduction, reduction in individual and corporation income tax rates, and the exemption from sales tax for purchases made in the research and development of new products, services and processes.

However, other parts of TRIM’s legislative agenda appear to be real possibilities this session. In addition to our agenda items, TRIM is tracking more than 160 bills on tax issues in the 2006 legislative session, protecting you from additional tax burden.

### Franchise Tax Elimination

While the complete elimination of the franchise tax is a bit much for the state budget to withstand in a single year, the idea of phasing the tax out over several years has received support from the House Ways and Means Committee. Chairman Mike Sutherland has sponsored HB 1619 that would phase out the tax over five years. TRIM presented Rep. Sutherland with an alternate approach that would have provided a rate reduction for all franchise taxpayers beginning in the



Rep. Mike Sutherland



Ray McCarty, executive director of TRIM, testified on behalf of HCR 30 legislation that supports the complete repeal of federal and state estate taxes. Rep. Kevin Wilson, sponsor of the bill, looks on.

first year.

The bill, as passed by the committee, exempts some smaller business taxpayers from paying the tax in the first two years and then begins to reduce the rate for all franchise taxpayers in the third year following passage. Nevertheless, the bill reduces the franchise tax burden and is supported by TRIM.

We thank the sponsor for considering our alternative and will ask the committee to review this approach in future years as revenues become available. This bill should be debated by the full House after the break.

### Estate Tax Repeal

TRIM supports the complete repeal of federal and state estate taxes and supports HCR 30, introduced by Rep. Kevin Wilson, encouraging the federal government to permanently eliminate such taxes. Bills that would have removed the state estate tax from the statutes could have resulted in no tax relief for taxpayers if the federal estate tax is not permanently eliminated at the federal level. The state estate tax is now zero and the federal tax is being phased out, but without further federal legislation, the tax will return in full force in 2011.

## Property Taxes

TRIM legislation to allow all business personal property to be assessed under the new rules passed in the 2005 legislative session is progressing.

Rep. Mike Sutherland has agreed to sponsor the legislation, eliminating the need for businesses to keep two sets of books. The concept has received informal support from county assessors, so passage this session remains a real possibility.

## Sales and Use Taxes

- Rep. Shannon Cooper sponsored HB 1749, TRIM legislation that would exempt sales tax on utilities used directly in manufacturing. Because of fiscal considerations, the bill will likely be trimmed back to apply to only the use of gas in certain production processes.

The Department of Revenue has expressed concern over the fiscal impact of allowing all utilities used in manufacturing to be exempt. Legislative changes enacted last year at the Department's request excluded some producers from the current exemption and it is likely that at least those that were inadvertently excluded will again be entitled to exemption under the committee substitute for HB 1749.

"Broadening the tax base" means taxing transactions that are now exempt, resulting in a tax increase. The Department of Revenue and some leaders in the Senate have repeatedly mentioned applying sales and use taxes to services. We will continue to represent our members and oppose any broadening of the tax base.



*Rep. Shannon Cooper debates legislation on the floor of the Missouri House of Representatives.*

- A recent court decision stated that equipment used to provide telecommunication services should be exempted from sales and use taxes as manufacturing equipment. We have heard rumors that some legislative leaders may recommend reversing this court decision with legislation and that senior officials and the leadership of the Missouri Department of Revenue may support such a change.

Again, the Taxpayers Research Institute of Missouri and Associated Industries of Missouri will continue to fight ALL attempts to raise taxes, either through increases in tax rates, expansion of the transactions that are taxable, or elimination of current tax exemptions.

## Income Taxes

- As previously stated, our proposal to lower the tax rates will not be possible this session. However, we also are committed to retaining the current choice of apportionment formula and to reducing complexity that is caused by decoupling. Neither issue has been seriously recommended so far this session, but we remain vigilant.

- A proposal drafted by members of AIM's Tax Committee to address flaws resulting from the decoupling from previous federal tax stimulus packages has again been introduced this legislative session. The language corrects unintended consequences in the net operating loss and depreciation provisions that were caused by the state's denial of more favorable tax treatment afforded under the federal legislation. The bill, HB 1966, sponsored by Rep. Shannon Cooper, will be heard following the break.

Revisions to some tax credit programs as recommended by the Incentive Review Committee will be proposed soon by the Department of Economic Development. It appears TRIM's goal of maintaining the same amount of credits and retooling the amount dedicated to tax relief from programs that no longer provide benefit to programs that do provide benefit will be realized in the recommended legislation. We

A promotional graphic for a conference. On the left, the year "2006" is written vertically in large, bold, black letters. To the right of the year is a photograph of five people (three men and two women) in business attire standing together and smiling. Below the photo, the text "Human Resource &amp; Employment Law Conference" is written in a bold, black, sans-serif font. At the bottom of the graphic, the text "Tan-Tar-A Resort Osage Beach, MO May 15-16, 2006" is displayed in a large, white, bold, sans-serif font with a slight drop shadow, set against a background of a lake and hills.

continue to work closely with the Department of Economic Development toward this goal.

- The Missouri Department of Revenue proposed legislation mandating electronic filing for withholding taxpayers, sales and use taxpayers, and tax preparers. TRIM remains opposed to requiring electronic filing, but we remain committed to assisting the Department in making electronic filing more attractive to encourage the voluntary use of electronic filing.

On the regulatory front, the Missouri Department of Revenue has proposed a rule regarding when other state taxes must be added back into income for Missouri state tax purposes. TRIM has worked with the Department in an attempt to improve the rule and many of our recommended changes have been made. But some objections to the Department's proposed rule remain, including the inclusion of the California Franchise Tax as a state income tax that must be added back. The proposed rule has yet to be published in the Missouri Register by the Secretary of State's office but companies with income from activities in other states should pay very close attention to this rule change.

### **Tax Increment Financing (TIF) Reform and Economic Development Legislation**

Among the hottest issues this legislative session is the legislature's attempt to reform tax increment financing (TIF). Interim committees have studied the issue. Senator John Griesheimer, Chairman of the Senate Economic Development, Tourism and Local Government Committee, has

introduced a TIF reform bill, SB 832, which allows TIF to continue but addresses some of the shortcomings of current TIF projects. In the House, Representative Bob Johnson, Chairman of the House Local Government Committee, has also introduced HB 1070 that is more restrictive than the Senate bill in addressing the concerns.



**Sen. John Griesheimer**

It is likely that one of these two bills will pass and be signed into law, simply because of public pressure surrounding TIF and eminent domain issues this session. Because TIF can make the difference in a company's decision to locate in Missouri, preservation of the responsible use of TIF as an economic development tool is important to the economy of Missouri and all Missouri businesses.



**Rep. Ron Richard**

One of the likely outcomes of either bill will be the restriction of the use of TIF in so-called "green fields", or previously undeveloped areas. The Missouri Economic Development

Council (MEDC) has developed a solution to this problem that is supported by Associated Industries of Missouri (AIM) and the Taxpayers Research Institute of Missouri (TRIM).

The Missouri Economic Development Code, HB 1782, sponsored by Representative Ron Richard, would allow local governments to continue to provide financing of projects based on future tax revenues in an entirely voluntary manner. Each taxing district

may decide what portion, if any, of future tax revenues they want to commit to the project. Like TIF, the projects would be reviewed by a locally appointed commission made up of representatives of all taxing districts and bonds could be issued by such commissions or city or county governments to finance development projects, with the principal and interest of such bonds to be paid for by the increase in tax revenues dedicated to financing the project.

The MEDCode projects avoid the pitfalls of the current TIF program by not allowing eminent domain to be used for the project, preventing the use of the MEDCode for residential developments unless all affected school districts approve of the plan, and eliminating the sometimes necessity to find a property is "blighted". The MEDCode has received the support of attorneys for bond issuance companies, the Department of Economic Development, and local economic developers from across the state.

The bill was voted out of the House Job Creation and Economic Development Committee and will likely be debated by the full House following the legislative break.

- TRIM also supports HB 1859, a bill that allows small businesses adding jobs that provide good wages and benefits to retain a portion of the withholding tax from the newly created jobs. The bill is sponsored by Rep. Doug Ervin, Chairman of the House Small Business Committee and helps small businesses partially overcome the daunting expense of providing healthcare insurance coverage for employees. This cost represents a barrier to business growth that is reduced by the benefits provided in HB 1859 and TRIM supports reducing tax burden for all businesses.



**Rep. Doug Ervin**

# We need *your* help.



**Missouri's Spending Lobby is Well-Funded and Has Many Ways to Get Their Message Out.**



**Help TRIM Get the Business Community's Message Out.**

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