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State Issues

1. **Unfair Mega Tax: Hearing, Fiscal Note Cannot be Completed**

On Wednesday, 2/9/11, the House Tax Reform Committee held a hearing on HJR 8, the “mega sales tax” proposal. Significant and diverse opposition presented testimony on the drastic impact of the proposal that would create a constitutional amendment to eliminate Missouri’s current tax structure and replace it with a greatly expanded sales tax. Jim Moody, former budget director under Governor Ashcroft, testified that the measure would require a more than 12 percent sales tax rate on everything from rent to child care. The Missouri Budget Project, the Kansas City Chamber of Commerce, the Missouri Realtors Association, the Missouri Retailers Association, Partnership for Children, the Missouri Catholic Conference, Catholic Charities, the Missouri Municipal League, the MNEA, and others testified against the measure. For more on the measure, click here [http://mobudget.org/files/Mega_Tax_Talking_Points_February_%202011.pdf]

Also this week on the same topic, Missouri State Auditor Tom Schweich released a statement indicating that the Auditor’s office is not able to fully ascertain the impact of the nine initiative petitions that have been filed on the issue. The Auditor indicated that the initiatives are unable to be fully quantified because critical factors are unknown, including what the tax rate would be, what items or services would be exempted by the legislature, and what economic consequences there might be, such as retailers and service providers relocating out of the state. The inability of his office to estimate the impact underscores the fact that this proposal has no place in the state’s constitution. The uncertainty could prove devastating, and as a constitutional provision, it would be very difficult to reverse.

2. **House Tax Reform Committee to Hold Hearing on the Streamlined Sales Tax**

The House Tax Reform Committee, chaired by Representative Funderburk, will hold a hearing on Wednesday, 2/16, at 8 a.m. in House Hearing Room #5 to discuss the Streamlined Sales Tax proposal.

The Missouri Budget Project supports this proposal, and urges lawmakers to ensure that Missouri joins the twenty-four states that have already enacted the mechanism, including most of the state’s neighbors. The state sales tax hasn’t kept up with the changing economy. In the last year, Missourians spent approximately \$2.8 billion on e-commerce, but most of the state and local sales and use taxes on these purchases have gone uncollected or to other states. This gives an unfair advantage to online retailers compared to Missouri’s brick and mortar stores and results in a significant loss of state and local revenue. In fact, Missouri is estimated to lose \$210 million in state and local sales tax revenue in 2012 if it fails to adopt the Streamlined Sales Tax, the mechanism necessary to address this inequity.

3. Legislative Action

Tax & Revenue

The Senate gave preliminary approval to SB 18 which would cap corporate franchise taxes at \$2 million annually. SB 19, which phases out the corporate franchise tax over a five year period, was referred to the Senate Committee on Ways and Means and Fiscal Oversight. The Committee will hear the bill at its meeting on Monday, 2/14, at 3:45 p.m. in the Senate Lounge. The official state fiscal note for SB 18 indicates that it would reduce state revenue by an estimated \$1.18 million in FY 2013. SB 19 would cost \$27.8 million in FY 2013 and \$42.2 million in FY 2014.

Meanwhile, on Wednesday, the House Committee on Tax Reform passed as a substitute HB 76. The bill, which originally would have limited corporate taxes to \$2 million per year, now eliminates the tax over a five year period. The bill has been referred to the House Rules Committee. The state's fiscal note estimates that the substitute will cost the state more than \$16.5 million in FY 2013 and \$35 million in FY 2014.

On Thursday, the House Committee on Ways and Means heard HB 316. The committee did not act on the bill, which incorporates many of the revenue enhancements that were included in the Governor's budget, such as tax and debt collections.

SB 198, which repeals the estate tax, was also sent to the Senate Committee on Ways and Means and Fiscal Oversight.

Budget and Appropriations

Upon afternoon adjournment on Monday, 2/14, the House Rules Committee will meet in Hearing Room 2. Their agenda includes two supplemental appropriations bills, HB 14, and HB 15, the supplemental Department of Social Services appropriations bill.

The Appropriations Committees will hold further meetings next week on the budget.

The House Appropriations Committee for Health, Mental Health, and Social Services will meet Monday, 2/14 at 12 p.m. in Hearing Room 5 to continue the presentation from the Department of Mental Health and for a budget presentation from the Department of Social Services.

The House Education Appropriations Committee meets on Tuesday, 2/15, at 2 p.m. in Hearing Room 1. The committee will reconvene on Wednesday, 2/16 at 8 a.m. in Hearing Room 3, and at 2 p.m. in Hearing Room 1, for a presentation by Higher Education Institution Presidents.

The Senate Appropriations Committee will meet at 8 a.m. on Thursday, 2/17, in Senate Committee Room 2 to discuss the Department of Higher Education.

Health

On Tuesday, 2/15, at noon, the House Committee on Health Insurance will hear HB 262. The bill would allow Missourians to purchase a health insurance policy that is licensed in certain other states, even if the carrier is not licensed or in compliance with Missouri state laws.

At noon on Wednesday, 2/16, the House Health Care Policy Committee will hear HB 201 in House Hearing Room #6. The bill authorizes MO Health Net to establish a dental service delivery system.

SB 191 was referred to the Senate Education Committee. The bill establishes the Caring for Missourians program to provide grants to higher education nursing programs, and is intended to expand the pool of nursing personnel.

Government Structure

The Senate Financial and Governmental Organizations and Elections Committee heard SJR 13, a bill that would require petition initiatives to be signed by a threshold of voters in all congressional districts, rather than 2/3 of the districts as required by current law.

Federal Issues

1. Senator McCaskill Introduces Legislation to Cap Spending

Senator Claire McCaskill recently released a proposal with Senator Bob Corker to limit federal spending to 20.6 percent of Gross Domestic Product. The limit, which was based on the average spending from 1970 to 2008, would take effect in 2013 and phase in over a ten year period. The Center on Budget and Policy Priorities analyzed the proposal and countered that it did not take into account the aging of the population, significant increases in health care costs, or new federal responsibilities, including homeland security, Medicare prescription drug coverage, or veterans' health costs.

The proposal requires automatic spending cuts if spending limits are exceeded, and the CBPP indicates that, due to the way the cuts would be managed under the bill, social security, Medicare, Medicaid, food stamps, and other programs would experience disproportionate, automatic cuts.

To read the full CBPP analysis, click here [<http://www.cbpp.org/cms/index.cfm?fa=view&id=3385>].

2. Unemployment Insurance Proposals Unveiled

The Center on Budget and Policy Priorities recently released a report outlining a plan that would enable states to improve the long-term outlook for their unemployment insurance (UI) systems. President Obama will detail a plan with similar elements in his budget next week.

Due to the national recession, many states exhausted their UI trust funds and borrowed from the federal UI trust fund in order to cover benefits. Under current law, states must repay those loans within two years, or the federal government must raise federal UI taxes on employers in that state.

The proposal by the CBPP, and the President's reported framework, would postpone interest payments by states and gradually increase the amount of a worker's wages subject to the federal UI tax, helping to rebuild state trust funds. As a result, employers would not pay higher UI taxes during a weak economy, nor would states pay millions of dollars in interest while still facing budget shortfalls.

To learn more about the CBPP proposal, click here [<http://www.cbpp.org/cms/index.cfm?fa=view&id=3394>].

To read a report from the Missouri Budget Project about Missouri's UI trust fund, click here.
<http://www.mobudget.org/files/UI%20Trust%20Fund%20Faces%20Deficit%20August%202010.pdf>