Missouri Budget Project E-News
State and Federal Policy Update
February 18, 2011

State Issues

Federal Issues

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1. House Committee Holds Hearing on Streamlined Sales Tax

The Streamlined Sales Tax collections mechanism, **House Bill 278** [http://www.house.mo.gov/billsummary.aspx?bill=HB278&year=2011&code=R] and House Bill 52, was presented to the House Tax Reform committee this week. The mechanism would allow Missouri to join 23 other states, including many of Missouri's neighboring states, in implementing the collections mechanism.

The streamlined sales tax legislation would level the playing field for Missouri's bricks and mortar retailers **and restore equity among taxpayers to the state's sales tax structure**. Taking the steps to modernize the state's sales tax structure is critical to ensure that Missouri prevents further loss of state and local tax revenue. **For more on this issue, see our latest fact sheet here.**
http://mobudget.org/files/Streamlined_Sales_Tax_Fact_Sheet_February_2011.pdf

The bills received broad support at the House Tax Reform committee as supportive testimony was presented by national experts representing the Streamlined Governing Board, the Missouri Budget Project, Partnership for Children, the Missouri Retailers Association, Missourians for Fair Taxation, and the Missouri Children's Leadership Council. Several additional organizations submitted written testimony in support. There was no opposing testimony.

2. House Committee Hears Troubling Insurance Proposal

The House Insurance Committee heard HB 262 [http://www.house.mo.gov/billsummary.aspx?bill=HB262&year=2011&code=R] on Tuesday, February 15. This bill would allow insurance companies from other states ("foreign" companies) to sell insurance in Missouri without being licensed by the Department of Insurance. The bill's sponsor believes that this would promote competition among insurance companies and provide lower cost options for insurance. While this bill could open the door to some low-cost options for insurance, the Missouri Budget Project opposes HB262 because it could also lead to negative unintended consequences.

Unlicensed insurance companies would not have to comply with the multiple consumer protections and mandated coverage in current state laws. This could result in an inadequate array of benefits and weak consumer protections. For example, last year a bipartisan effort resulted in certain therapies being mandated for children diagnosed with autism. "Foreign" insurance companies could ignore this mandate, as well as others that are in statute, such as treatment in clinical trials for cancer, and equipment and supplies for the treatment of diabetes. When Missourians

purchase insurance from licensed companies they are protected if that insurance company becomes insolvent. They also are protected in the event of disputed claims.
HB262 would allow healthy Missourians to be cherry-picked by the unlicensed insurance companies. This means those insured by licensed insurance companies would likely be sicker, thus raising their premiums. HB262 could also result in greater health disparities for rural Missourians, since "foreign" insurance companies would be most likely to market in areas near state lines in which they have networks of providers.

3. Legislative Action

Tax and Revenue Related Bills

Legislators Consider Bills to Reduce or Eliminate Corporate Tax: A series of bills that would reduce or eliminate the Missouri corporate income and franchise taxes are making their way through the Missouri Legislature. **At least one of these bills would pay for the lost state revenue by increasing the sales tax on individual consumers in Missouri:**

- **Senate Bill 19 and House Bill 76** would eliminate the corporate franchise tax over five year period. When fully phased in, the elimination of the corporate franchise tax would cost Missouri $85 million in state revenue annually. Senate Bill 19 has passed the Senate and has moved to the House. House Bill 76 passed the House Tax Reform committee. The issue is expected to be debated on the House floor early next week.

- **House Bill 408 would cut the corporate income tax in half, eliminate the corporate franchise tax and replace the lost revenue with an increased sales tax on Missourians.** Under the proposal, which was heard by the House Ways and Means committee this week, the corporate tax rate would be reduced from 6.25 percent to 3.125 percent by January 2012, the corporate franchise tax would be eliminated by January of 2013 *and* the state general revenue sales tax Missourians pay would increase from 3 percent to 3.4939 percent beginning in July of 2012. The cost of the measure, $295 million reduction in corporate tax collections, would be borne by Missouri consumers through the increased sales tax. Adding in statewide dedicated sales taxes of 1.225 percent, the statewide sales tax rate would increase from 4.225 percent to 4.7189 percent.

Some Corporate Tax Facts: 17 other states have some form of corporate tax (corporate franchise, modified gross receipts or value added taxes) in addition to their corporate income tax, including many of Missouri's neighbors of Arkansas, Illinois, Kansas, Oklahoma, and Tennessee. Missouri's Corporate Income Tax rate is 6.25 percent of Missouri taxable income. However, Missouri is **one of only five states** that allow corporations to deduct 50 percent of federal income tax payments, making the effective **corporate income tax rate just 5.2 percent**.[1] Missouri's corporate income tax is already the **7th lowest in the country**.[2]

TABOR is Back….Again
The House Committee on Downsizing State Government held a hearing this week on **House Joint Resolution 11**. The measure would put to voters a constitutional amendment creating a damaging revenue and spending lid known as "TABOR". The measure, referred to as TABOR after a similar constitutional amendment, is proven to have had devastating impacts in Colorado, generating diverse opposition from Missouri business and civic leaders for the last several years. There is ample evidence that Missouri would be harmed with cuts to education, transportation, health, mental health and other infrastructure needs should HJR 11 pass.

Tax Amnesty & Collections
House Bill 24 was heard by the House Ways and Means committee on 2/10. The bill would enact the Governor's revenue collections recommendations, totaling approximately $50.1 million, include the following:
- "Tax Amnesty" provided on a limited basis to delinquent taxpayers to encourage payment of past-due tax obligations, estimated to bring in $20 million in revenue;

[1] Federation of Tax Administrators and Regional Chamber and Growth Association
[2] St. Louis Post Dispatch, "What's to show for all of Missouri's business friendliness", editorial, February 8, 2011

- Tax and debt collections enhancements through the Department of Revenue including requiring businesses to pay all tax debt to retain licensure or receive payments from the state and administrative streamlining, including centralizing debt collection in the Department of Revenue. The combination of actions are projected to raise $25.6 million in FY 2012; and
- Implementation of some of the recommendations of the Tax Credit Review Commission, including sunsets on select tax credits and reduced caps, totaling $4.5 million.[3]

FRA Extensions:
House Bill 236 would extend the sunset date of several current provider taxes/federal reimbursement allowance (FRA) from 2011 to 2016. The measure includes the ambulance service FRA, nursing facility reimbursement allowance, the Medicaid managed care reimbursement allowance, the pharmacy reimbursement allowance, the intermediate care facilities assessment and the hospital reimbursement allowance. These funds and assessments currently generate more than $1 billion in state-based revenue that in turn brings into Missouri $1.86 billion in federal funding for health care services. The measure was filed with bi-partisan support by Representative Chris Kelly with the co-sponsorship of Representative Ryan Silvey, chair of the House Budget Committee. House Bill 236 has been passed by the House Budget Committee.

Local Earnings Taxes:
House Bill 26, which would change the reauthorization period for the city earnings taxes from every five years to every 20 years, has been referred to the House Ways and Means committee.

Tax Credit Bills:
The legislature is also considering several bills that would modify Missouri tax credit programs. HB 251 would eliminate film tax credits, SB 139 would make all tax credits subject to appropriations, SB 140 would eliminate the circuit breaker property tax credit for those who rent, and SB 185 would impose a sunset date on tax credits that currently don't have one.

Budget and Appropriations Bills

The House Rules Committee passed two supplemental appropriations bills, HB 14 [http://www.house.mo.gov/billsummary.aspx?bill=HB14&year=2011&code=R], and HB 15 [http://www.house.mo.gov/billsummary.aspx?bill=HB14&year=2011&code=R], the supplemental Department of Social Services appropriations bill.

Several House Appropriations bills (House Bills 1-9, 12-13) were sent to the House Budget Committee. In addition, HB 446 [http://www.house.mo.gov/billsummary.aspx?bill=HB446&year=2011&code=R], which modifies the foundation formula for elementary and secondary education, was sent to the Elementary and Secondary Education Committee this week.

The House Appropriations Health, Mental Health, and Social Services Committee will meet on Monday, 2/21 at 2 p.m. in Hearing Room 5 to mark up HB 10 and HB 11, the Department of Mental Health & Department of Health and Senior Services, and Department of Social Services appropriations bills.

The **House Appropriations Education Committee** meets Tuesday, 2/22, at 2 p.m. in Hearing Room #1for markup of HB 2 [http://www.house.mo.gov/billsummary.aspx?bill=HB2&year=2011&code=R] and HB 3 [http://www.house.mo.gov/billsummary.aspx?bill=HB2&year=2011&code=R] . HB 2 appropriates funds for the Department of Elementary and Secondary Education, and HB 3 appropriates money to the Department of Higher Education.

Health Related Bills

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[3] IBID

The House Health Care Policy Committee heard HB 201 this week, and it is on the agenda for the Committee's meeting on Wednesday, 2/23, at 12 p.m. in Hearing Room #6. The bill authorizes MO Health Net to establish a dental service delivery system.

Federal Issues

1. President Obama Releases FY 2012 Budget Proposal

President Obama released his FY 2012 budget proposal on Monday. The full budget proposal and an interactive breakdown of where federal dollars are allocated within the budget can be found at http://www.whitehouse.gov/winning-the-future.

Robert Greenstein, the Executive Director of the CBPP, indicates that the President's proposal took a step towards stabilizing the nation's debt for most of the current decade, but does not go far enough to stabilize it in the long-term. To read his full statement on the President's budget, prospects for long-term deficit reduction, and budget negotiations, click here. [http://www.cbpp.org/cms/index.cfm?fa=view&id=3398]. To listen to a CBPP podcast on the issue, click here. [http://www.cbpp.org/cms/index.cfm?fa=view&id=3401]

A primer on the federal budget process can be found here. [http://www.cbpp.org/cms/index.cfm?fa=view&id=155]

2. House GOP Budget Proposal Would Slash Programs

The House GOP continuing resolution proposal on the floor this week would drastically cut numerous important programs. Because Congress has not passed a budget for the current fiscal year, FY 2011, the federal government is operating through funding authorized in a continuing resolution that expires on March 4th. The proposal, which would fund federal government operations through the end of the fiscal year, would cut current year spending by 13.8 percent. However, in order to achieve 13.8 percent spending cuts in non-security discretionary spending during the current fiscal year, funding for programs would have to be reduced by 24 percent, on average, over the next 7 months.

As a result, Pell Grants helping students attend college would fall by nearly 25 percent and more than 150,000 at-risk children could lose education, health, nutrition, and other services under Head Start. To read more about the proposal, click here. [http://www.cbpp.org/cms/index.cfm?fa=view&id=3405]

To see the impact of the cuts on Missouri, see the CBPP's state-by-state breakdown by clicking here. [http://www.cbpp.org/files/2-17-11bud-tables.pdf]