

Missouri Budget Project E-News
State and Federal Policy Update
March 11, 2011

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Federal Issues

1. **FY 2011 Budget Discussions Continue**

State Issues

1. **Mega Tax: Income Taxes Do Not Control Economic, Population Growth**

Proponents of the mega tax often argue that states without income taxes experience higher economic and population growth. The Missouri Budget Project has issued two new reports examining the data, *Dispelling the Myth: State Individual Income Taxes Do Not Control Economic Growth* [<http://www.mobudget.org/files/Dispelling%20the%20Myth%20-%20State%20Individual%20Income%20Taxes%20Do%20Not%20Control%20Economic%20Growth.pdf>] and *State Income Taxes Do Not Drive Population Growth* [<http://www.mobudget.org/files/State%20Income%20Taxes%20Do%20Not%20Drive%20Population%20Growth.pdf>]. A careful review of the data shows that there is no consistent relationship between state income tax and state economic growth, and that population growth shown in the latest census merely continues the patterns of migration seen over the last century. To learn more, click here.

2. **Legislative Action on the State Budget**

HB15 [<http://www.house.mo.gov/billsummary.aspx?bill=HB15&year=2011&code=R>] (Silvey), the supplemental budget bill that appropriates federal money for education, is still stalled in the Senate. It is being filibustered by several Senators who want to send the money back to Washington D.C.

The House Budget Committee discussed potential changes in the 13 budget bills for FY2012 this week. They are expected to begin to begin mark-up, the process of offering amendments, next week. The committee will meet at 8 a.m. on Tuesday, 3/15, and Wednesday, 3/16 in Hearing Room 3 to consider the bills.

3. **Timely Update on Tax Credit Related Hearings & Bills**

Monday, 3/14: Nonprofit Workshop on Impact of SB 280 on Social and Contribution Tax Credits

Members of the Missouri Senate and the Tax Credit Review Commission are sponsoring a 2-hour workshop to discuss the impact of Senate Bill 280

[http://www.senate.mo.gov/11info/BTS_Web/Bill.aspx?SessionType=R&BillID=4147458] on the state's social and contribution tax credits.

Workshop speakers include Steven Stogel (DFC Group), Bill Hall (Hall Family Foundation), Bryan Keller (Rubin Brown) and Brian Schmidt (Joint Committee for Tax Policy). Each has extensive experience in non-profits, tax credits, donor tax consequences, and the legislative process. The proposed legislation and the changes will be described in detail, as well as how the new credit may be used in garnering donations and fundraising. A question and answer period will allow attendees to gain any additional information from the specialists on the panel.

The Department of Economic Development has been asked to provide the organizational logistics for the Workshop. Please RSVP to Keisha Gray @ 573-522-4173 or Keisha.gray@ded.mo.gov.

Additional Legislative Action on Tax Credit Reform Measures

The Senate Ways and Means Committee passed a committee substitute for **Senate Bill 280**

[http://www.senate.mo.gov/11info/BTS_Web/Bill.aspx?SessionType=R&BillID=4147458] (Purgason) on 3/10/11. The bill proposes significant changes to tax credits, some of which were recommended by the Tax Credit Reform Commission. The Commission was formed in recognition of the fact that while state revenues have declined significantly, spending on tax credit programs has grown.

In an interesting “twist,” while modifying several tax credits impacting neighborhoods, nonprofits, and low-income populations, the committee added to the bill the **repeal of the corporate franchise tax**. Click here to read the Missouri Budget Project's statement about the repeal.

http://www.mobudget.org/files/MO_House_Debates_Elimination_of_Corporate_Franchise_Tax.pdf

The fiscal summary of the committee substitute bill results in a combined gain of \$66.7 million in state revenue. However, while some provisions removed or limited state costs, others actually increased costs to the state. For example, provisions of the Senior Citizen Circuit Breaker/Property Tax Credit that allow renters with fixed incomes (seniors and people with disabilities) to receive a partial credit to offset their housing costs were eliminated, reducing the costs to the state of that credit by \$57 million per year. However, the elimination of the Corporate Franchise Tax reduces available state revenues by \$87 million per year, more than offsetting the savings from the circuit breaker provision and decreasing the bill's overall savings to the state.

The Committee substitute includes the following provisions:

- Removes renters from eligibility for the Senior Citizen Property Tax Credit (Circuit Breaker);
- Broadens the definitions of taxpayer under the Youth Opportunities Program, the Domestic Violence Shelter, the Maternity Home Tax Credit, the Pregnancy Resource Center Credit, Residential Treatment Agency Tax Credit and the Food Pantry Credit, but reduces the credit size under all of these categories from 50 percent to 35 percent;
- Prohibits International Adoptions from qualifying for the Special Needs Adoption Tax Credit;
- Reduces the Neighborhood Assistance Program (NAP) from a 50 percent credit to 35 percent and from 70 percent to 50 percent in rural areas and changes NAP from an entitlement-basis to discretionary and reduces annual funding available from \$16 million to \$10 million;
- Reduces the Affordable Housing Assistance Program from a 55 percent credit to 40 percent and decreases the total amount of funding available to \$10 million to \$8.5 million;
- Prohibits both the Neighborhood Assistance Program and Affordable Housing Assistance Program tax credits after August 28, 2015;
- Caps the Low Income Housing Tax Credit at \$80 million per year and prohibits stacking of Low Income Housing Tax Credits and Historic Preservation Tax Credits for the same project;
- Enacts a \$75 million cap on Historic Preservation Tax Credits;
- Replaces a number of corporate related credits including Quality Jobs, Enhanced Enterprise Zone, Business Facility, and others with a new “Compete Missouri Program.” The new credit allows companies to qualify for a sales and use tax reduction for a limited time period if the company is meeting required benchmarks for new jobs created at 90 percent of the average county wage;

4. Legislative Action on Tax & Revenue Bills

The Mega Sales Tax Measure Does NOT Pass Rules Committee

The House Rules Committee skipped over House Joint Resolution 8

[\[http://www.house.mo.gov/billsummary.aspx?bill=HJR8&year=2011&code=R\]](http://www.house.mo.gov/billsummary.aspx?bill=HJR8&year=2011&code=R) this week. The measure proposes a constitutional amendment to eliminate the state’s individual and corporate income tax and replace them with a greatly expanded sales tax. In late February, the Secretary of State approved nine similar petition initiatives submitted by proponents of the measure, allowing signature gathering to begin. The details of these proposals are fraught with uncertainty; however, they all appear to cap the expanded sales tax on services and products at 7 percent. Many independent analyses demonstrate that a 7 percent rate is well below the more than 12 percent sales tax rate that would actually be needed to maintain revenues, significantly compromising the ability of Missouri to fund critical core services including education, health care and infrastructure. **To read Missouri Budget Project’s statement on the measure click here.**

[\[http://www.mobudget.org/files/Mega_tax_efforts_advance,Threaten_Missouris_future.pdf\]](http://www.mobudget.org/files/Mega_tax_efforts_advance,Threaten_Missouris_future.pdf)

Tax Amnesty & Collections Passes House

The House passed House Bill 116/House Bill 316 (Representatives Flanigan and Chris Kelly) on 3/3/11. The merged bill, House Committee Substitute for House Bill 116 & 316 [<http://www.house.mo.gov/BillSummary.aspx?bill=HB%20116&style=new>] would enact several tax collections and amnesty related provisions that are expected to generate \$7 million in general revenue in FY 2012, \$25 million in FY 2013 and \$26 million in FY 2014. The proposal now moves to the Senate.

Corporate Franchise Tax Bills

The House passed House Bill 76

[<http://www.house.mo.gov/billsummary.aspx?bill=HB76&year=2011&code=R>] (Nolte) on 3/3/11. The bill eliminates corporate franchise tax in Missouri. When fully phased in, the elimination of the corporate franchise tax will cost Missouri \$85 million in state general revenue annually. The Senate had already passed Senate Bill 19 [http://www.senate.mo.gov/11info/BTS_Web/Bill.aspx?SessionType=R&BillID=4065317] (Schmitt), which is substantially similar to HB 76. SB 19 has been taken up by the House, having been passed by the House International Trade and Job Creation committee and referred to the Rules committee. Depending on how the bills proceed, both bodies may need to reconcile and approve another version before final passage. Click here to see the MBP's statement on the issue. [http://www.mobudget.org/files/MO_House_Debates_Elimination_of_Corporate_Franchise_Tax.pdf]

Local Earnings Taxes Hearing

A hearing was held in the House Ways and Means Committee this week on House Bill 26 [<http://www.house.mo.gov/billsummary.aspx?bill=HB26&year=2011&code=R>] (Tishaura Jones). The bill would extend the reauthorization period for the city earnings taxes from every five years to every 20 years.

5. Other Bills Pertaining to Economic Opportunities for Missourians

Extended Unemployment Bill Stalls in Senate

House Bill 163 [<http://www.house.mo.gov/billsummary.aspx?bill=HB163&year=2011&code=R>] (Fisher), a bill that would allow Missourians who are facing long-term unemployment due to the economic recession to receive extended federally funded unemployment benefits, has stalled in the Senate. Three senators prevented passage of the bill this week. Technical language in Missouri's unemployment statute needs to be altered each time the extended benefits become available in order to draw down the money. Thousands of Missourians will be eligible for more than \$80 million in federally funded extended benefits beginning in April, assuming the bill is allowed to pass. The most recent unemployment numbers indicate that 9.6 percent of Missourians were unemployed in December.

6. Legislative Action on Health Care

On Tuesday, the House Health Insurance Committee heard House Bill 609 [<http://www.house.mo.gov/billssummary.aspx?bill=HB609&year=2011&code=R>] (Molendorp), a critically important bill that sets up a framework for the “exchange” required by the federal Affordable Care Act. While the Affordable Care Act is a federal law, most of the implementation changes will be shaped and decided by each individual state.

“Exchange” is the term used for establishing a competitive health insurance marketplace that gives consumers more control, quality choices and better protections when buying insurance. It will offer an easy to use website, similar to Travelocity or Consumer Reports, which allows consumers to compare choices between plans and then choose the one that best fits the consumers’ needs. Consumers that are not comfortable using the internet, or who do not have access to the internet, will have opportunities to get information from an individual either by phone or face-to-face conversation. Health insurance plans in the exchange will have to meet strict standards, and the site will be closely monitored to prevent fraud and protect consumers. The exchange levels the playing field by allowing individuals and small businesses to purchase insurance as part of a large group. The intent of the exchange is to bring real competition and greater transparency to the insurance market, which will in turn work to bring down consumer costs.

Federal Issues

1. FY 2011 Budget Discussions Continue

Congress continues to debate measures to fund the federal government for the remainder of Fiscal Year 2011. This week, the Senate rejected the House-passed bill that would cut funding by \$92 billion below the FY 2010 level. The Center on Budget and Policy Priorities has issued a paper outlining several proposals that are currently on the table. To read more, click here.

[<http://www.cbpp.org/cms/index.cfm?fa=view&id=3423&emailView=1>]