

Missouri Budget Project E-News
State and Federal Policy Update
April 1, 2011

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State Issues

1. **Legislative Action on Tax & Revenue Related Bills**

New Streamlined Sales Tax Bill

Representative Funderburk, chair of the House Tax Reform Committee, introduced **House Bill 966**, which would implement the provisions of the streamlined sales tax agreement, allowing Missouri to collect sales taxes for online purchases just as it does for purchases made in local stores. To read more about this issue see:

http://www.mobudget.org/files/Streamlined_Sales_Tax_Fact_Sheet_February_2011.pdf

In addition, Representative Funderburk introduced **House Bill 970**, which would strengthen Missouri's definition of "Nexus" in order for the state to be able to require sales tax collections from online companies (sellers) that work with Missouri's bricks and mortar retail operations to sell their products online.

HB 966: <http://www.house.mo.gov/billsummary.aspx?bill=HB966&year=2011&code=R>

HB 970: <http://www.house.mo.gov/billsummary.aspx?bill=HB970&year=2011&code=R>

The "Mega Sales Tax" Could be debated Next Week

The House may debate **House Joint Resolution 8** next week. HJR 8 proposes a constitutional amendment to eliminate the state's current general revenue tax structure and replace it with a greatly expanded sales tax. The proposal is unlike anything ever enacted in any state and would expand the sales tax at a much higher rate to apply to nearly everything Missourians purchase including services such as child care and rent and items that are currently exempt from the sales tax such as food and prescription medication. The details of the proposal is fraught with uncertainty, however it caps the sales tax rate at 7 percent. Many independent analyses, including

assessments prepared by the Missouri Budget Project and assessments prepared by Jim Moody, former budget director under Governor Ashcroft found that the actual necessary rate would near 12 percent. As a result, a constitutionally capped rate of 7 percent would significantly compromise 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]

HJR8: [<http://www.house.mo.gov/billsummary.aspx?bill=HJR8&year=2011&code=R>]

Tax Credits

The Senate is considering a floor substitute for **Senate Bill 280** (Purgason), which includes significant changes to tax credits in Missouri. One of the most significant modifications to the bill is that the provision to eliminate the corporate franchise tax has been removed. However, the elimination of the corporate franchise tax has been passed by the Senate in a separate bill and will cost the state \$85 million annually.

SB 280 combines several existing tax credit programs including the Quality Jobs, Enhanced Enterprise Zone, BUILD, Development, Rebuilding Communities, and Business Facilities programs into one new program referred to as "**Compete Missouri**." Funding for Compete Missouri would be limited to \$15 million in FY 2012, increasing to \$60 million per year beginning in FY 2015. However, the currently outstanding tax credits under the programs that are being merged into Compete Missouri add significantly to the total costs of the tax credits and result in an overall cap for new and existing obligations of \$111 million in FY 2012, increasing to \$141 million in FY 2014.

The floor substitute continues to include provisions that:

- Remove renters from eligibility for the Senior Citizen Property Tax Credit (Circuit Breaker);
- Broaden 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 reduce the credit size under all of these categories from 50 percent to 35 percent for donations above \$1,000;
- Prohibit International Adoptions from qualifying for the Special Needs Adoption Tax Credit;
- Reduce the annual funding for the Neighborhood Assistance Program (NAP) from \$16 million to \$10 million and targets the program at specific neighborhoods;
- Reduce the Affordable Housing Assistance Program from a 55 percent credit to 40 percent and decrease the total amount of funding available to \$10 million to \$8.5 million;
- Prohibit stacking of Low Income Housing Tax Credits and Historic Preservation Tax Credits for the same project;
- Reduce funding for Historic Preservation Tax Credits from \$140 million to \$75 million per year.

SB 280:

http://www.senate.mo.gov/11info/BTS_Web/Bill.aspx?SessionType=R&BillID=4147458

2. Legislative Action on Other Bills Pertaining to Economic Opportunities for Missourians

Extended Unemployment Bill Stalls in Senate

Thank you to those who contacted the four Senators who have continued to block the passage of **House Bill 163** (Fisher), which would allow Missourians who are facing long-term unemployment due to the economic recession to receive extended federally funded unemployment benefits. Since the bill did not pass this week, **9,767 Missourians will lose the federally funded extended benefits tomorrow, and 56,667 more will be impacted in the near future.**

Moreover, even if the bill does pass, Missourians may have to wait until August to see their benefits resume. The delay is the result of the removal of the bill's emergency clause, which means unless the clause is re-inserted, the legislation would not go into effect until August.

While the Senators have claimed they are trying to send a message about federal government spending, this "statement" is in protest of what amounts to 0.002 percent of the federal budget – that's two one-thousandths of a percent.

In addition, the move makes little economic sense: Mark Zandi of Moody's Economy.com estimates that unemployment insurance generates \$1.64 of GDP per dollar spent in the first year. According to the Congressional Budget Office, "Households receiving unemployment benefits tend to spend the additional benefits quickly, making this option both timely and cost-effective in spurring economic activity and employment." CBO estimates that providing additional unemployment insurance benefits would boost economic output by as much as \$1.90 per dollar of budgetary cost and increase employment by as many as 19,000 jobs per billion dollars of budgetary cost. As of December, 9.6 percent of Missourians were unemployed.

HB 163: <http://www.house.mo.gov/billsummary.aspx?bill=HB163&year=2011&code=R>

3. Legislative Action on the State Budget

The House passed the budget for FY 2012 this week, sending it to the Senate for consideration. The Missouri Budget Project is analyzing the floor amendments accepted by the House.

4. Legislative Action on Health Care

A second Committee Substitute for **House Bill 609** (Molendorp) has been prepared. This bill sets up the "Show-Me Health Insurance Exchange," the health insurance market through which individuals and small employers will be able to purchase health insurance starting in 2014. Under the Affordable Care Act, the Congress gave states the option of setting up a state-specific exchange or participating in a federal exchange. It is likely the bill will come to the House floor for debate next week. One of the key features of the bill is that it establishes the composition of the governing board for Missouri's exchange and includes on that board: the directors of the Departments of Social Services, Health, Mental Health and Insurance; four state legislators; three

insurance representatives; a large employer representative; a small employer representative; an individual with expertise in administering and negotiating health plan contracts on behalf of employees; one consumer representative; and two at-large representatives.

HB 609: <http://www.house.mo.gov/billsummary.aspx?bill=HB609&year=2011&code=R>

Federal Issues

1. New Report – Reducing Deficits and the National Debt: The Devilish Details

Last week, we linked to a primer report explaining differences between deficits and debts and how they impact our economy. This week, the Missouri Budget Project released a report, *Reducing Deficits and the National Debt: The Devilish Details*, which reviews the various recommendations that have been proposed to reduce deficits and stabilize the national debt.

The paper also discusses core principles that should guide public discussions about the nation's fiscal health. As the paper indicates, successful deficit reduction will be evenly balanced between spending cuts and revenue increases and will include all parts of the federal budget. In addition, those deficit reduction efforts would protect low-income families.

To read the report, click here. *Background on the National Deficit and Long-Term Debt: A Primer* can be read by clicking here.

http://www.mobudget.org/articles/show/189-Reducing_Deficits_and_the_National_Debt_The_Devilish_Details

http://www.mobudget.org/articles/show/187-A_Primer_on_the_National_Deficit_and_LongTerm_Debt

2. Greenstein Statement on Proposed Balanced Budget Amendment

In the context of current and future budget negotiations, Senate Republicans have raised a balanced budget amendment that would require a two-thirds vote from both houses of Congress for any bill that raises taxes, and a three-fifths vote from both houses to increase the debt limit.

In a statement, Robert Greenstein, the President of the Center on Budget and Policy Priorities, noted that, “this proposed balanced budget amendment to the Constitution risks doing serious damage to the economy, to the nation's basic social fabric, and to the well being of most Americans. It would take us much farther from fiscal and economic sanity, not closer to it.”

To learn more about the amendment and its impact, click here.

<http://www.cbpp.org/cms/index.cfm?fa=view&id=3442&emailView=1>