

## **Legislative Update - March 4, 2010**

### **Brian Grace – MEDC Legislative Consultant**

The Missouri General Assembly adjourned this afternoon to begin a week-long spring break. At the unofficial mid-way point of the session, the legislature finds itself in an unprecedented situation of severe revenue decline. In a rarely used tactic, Republican House and Senate leadership have called on Governor Nixon to withdraw the budget proposals he submitted in January and issue a revised budget for the 2011 fiscal year. Tax credit reform will continue to be a hotly debated topic as the legislature looks for ways to slash spending. Below is a recap of what transpired this week.

#### **SENATE ECONOMIC DEVELOPMENT BILL**

On Wednesday evening the Senate began what will prove to be a protracted debate on SB 895, sponsored by Sen. Tom Dempsey (R-St. Peters). Although Sen. Dempsey is drafting a substitute bill that would modify his legislation, he announced that it is not yet ready to be brought to the Senate floor. The bill, as currently written, would create the following programs aimed at job creation:

- . Missouri Science and Innovation Reinvestment Act (MOSIRA): A key component of Governor Nixon's Missouri First Initiative would create a funding source to spark growth in research and technology enterprises by capturing a small percentage of the growth in state revenue over a base year from a designated group of Missouri science and innovation companies.
- . Proof of Concept Business Finance Program: The program, to be administered by the Missouri Technology Corporation, will provide one-time loans to eligible advanced technology companies which must be repaid within five years of the date of the loan in an amount equal to two times the amount of the loan.
- . Missouri Business First Act: Would allow the Director of the Department of Economic Development to authorize an increase in the amount of a tax incentive by up to an additional 10% for certain existing Missouri business expansion projects.
- . Show-Me Fund: Through the Quality Jobs Act, would allow a company to receive refundable tax credits equal to the amount of income tax withholdings for new employees over a period of five and twelve years.
- . Missouri Jobs for the Future: Would allow municipalities to collaborate with a college or university to create tax increment financing-like districts for the establishment of high-tech industrial parks.

The bill was up for discussion for approximately forty-five minutes - all of which were used by Sen. Dempsey and other sponsors of programs folded in to his bill to explain what the legislation would do and the benefits that Missouri could realize should it pass. The general theme of their remarks was an agreement that there are a lot of tax credits that have been in place for decades that may be obsolete and in need of reform, but that these programs are needed to spur job creation in the current economy. The bill was laid over before the proponents of tax credit reform had a chance offer remarks.

#### **FAIR TAX PROPOSAL**

At the same time a rally was being held today on the South lawn of the Capitol to protest Rex Sinquefeld's attempts to influence State policy, the Senate began debate on SJR 29, sponsored

by Sen. Chuck Purgason (R-Caulfield). This resolution, a top priority of Mr. Sinquefield's, would phase out the state income tax over five years and increase and broaden the state sales and use tax. Senators Purgason, Luann Ridgeway and Gary Nodler collectively spoke in favor of the resolution for approximately thirty minutes before it was laid over. The details of the legislation are the following:

- . The corporate income and corporate franchise taxes would be eliminated in the first year, while the personal income tax rate would be reduced by about 20 percent a year until it is phased out.

- . The sales tax rate would go up to offset the annual reductions in the income tax.

- . The general sales tax rate would be capped at 7 percent. (We're presuming that means dedicated taxes and local taxes would come on top of that.)

- . The sales tax would not apply to motor fuels, insurance, education (K-12, higher education and vocational education), charitable donations and purchases, food stamp or Women, Infant and Children (WIC) purchases. Other exemptions could only be added by a two-thirds vote of the Legislature.

- . Rebates would be given to all households. (No detail yet on how much.)

- . The Property Tax Credit (or Circuit Breaker) would be retained.

- . The plan would be placed on the November 2010 ballot, and if approved would become effective on Jan. 1, 2013.