

Legislative Update – March 25, 2010

Brian Grace – MEDC Legislative Consultant

On the heels of an announcement by Governor Nixon that at least \$500 million needs to be trimmed from the state budget, the Missouri Senate on Tuesday suspended regular business to consider wide-ranging proposals from citizens, fellow lawmakers and the executive branch to balance the state's budget. Senators met in eight work groups to consider presentations by department directors and sort through more than 1,500 submissions from the public.

The work groups were: Agriculture/Outdoors/Department of Natural Resources, Courts/Legal/Department of Public Safety, Education, General Government/Office of Administration, Retirement, Social Programs, Tax Structure, and Transportation.

At the conclusion of the work groups, each chairman presented a half dozen or so recommendations to the entire Senate. One of the most notable recommendations was a tax credit reform proposal presented to the Tax Structure work group by Director David Kerr of the Department of Economic Development. Director Kerr introduced the proposal by stating that the current use of 61 tax credits in the state does not provide the most efficient return on the state's investment. Through his proposal, Director Kerr hopes to create a system that allows adaptation to changing economic times and prioritizes projects that create large and immediate benefits.

The tax credit reform proposal would:

1. Create a global tax credit authorization cap of 70% of 2009 redemptions (less the Circuit Breaker and Homestead Preservation tax credits) and allow for annual fluctuation consistent with General Revenue growth or decline. This would equate to \$314 million for the 2011 fiscal year.
2. Eliminate tax credit provisions of existing programs (except the Circuit Breaker and Homestead Preservation tax credits) and create six new tax credit programs; designed by purpose: Business Development, Redevelopment, Affordable Housing, Community Assistance, Public Infrastructure, and Financial and Insurance.
3. Establish the Department of Economic Development as the agency that administers all tax credits.

The Tax Structure work group made the following recommendations to the Senate:

1. Adopt the Department of Economic Development's tax credit reform proposal.
2. Establish an interim committee to discuss optimal tax policy and study the Fair Tax, flat tax, streamlined sales tax, and the "Geoffrey Loophole".
3. Quantify all of Missouri's sales tax exemptions.
4. Only allow a timely filing discount for corporate income taxes if they are filed electronically.
5. Adopt the Department of Revenue's recommendations on ways to enhance revenue collections.
6. Review bio-diesel and ethanol tax credits.