

HB 2540 -- TAX REFORM

SPONSOR: Haahr

DIVISION OF FACILITIES MANAGEMENT

This bill requires the maintenance and repair of all facilities belonging to the Department of Corrections be under the control and management of the Division of Facilities Management, Design and Construction (Section 8.110, RSMo).

STREAMLINED SALES AND USE TAX

This bill requires the Director of the Department of Revenue to enter into the "Streamlined Sales and Use Tax Agreement" with one or more states to simplify and modernize sales and use tax administration in order to substantially reduce the burden of tax compliance for all sellers and types of commerce. The bill specifies that:

(1) When a city annexes or detaches property, the city clerk must forward a certified copy of the ordinance to the department director within 10 days of adoption of the ordinance. The tax rate in the added or abolished territory must become effective on the first day of the calendar quarter 120 days after the sellers receive notice of the change (Section 32.087.18);

(2) When a political subdivision changes the tax rate or the local sales tax boundary, the change must become effective on the first day of the calendar quarter 120 days after the sellers receive notice of the change (Section 32.087.19); and

(3) When specified political subdivisions repeal an existing tax, the repeal must become effective on the first day of the calendar quarter 120 days after notice to sellers (Sections 66.620 - 67.1545, 67.1775, 67.2000, and 67.2530).

The bill also:

(1) Requires the department to establish the necessary rules to implement the compliance provisions of the agreement. The state must be represented by three delegates including a person appointed by the Governor, a member of the General Assembly appointed by mutual consent of the President Pro Tem of the Senate and the Speaker of the House of Representatives, and the department director or his or her designee. The delegates must make an annual report by January 15 on the status of the agreement (Section 32.070);

(2) Authorizes the department director to retain 1% of the amount of any local sales or use taxes collected by the department for the cost of collection (Sections 32.086 and 67.395 - 67.576);

(3) Requires the department director to perform all functions regarding the administration, collection, enforcement, and operation of all sales taxes. All state and local sales taxes must have the same base which means that exemptions at the state and local level must be identical (Sections 67.1545, 67.2030, and 67.2530);

(4) Defines "delivery charges," "food and food ingredients," "bottled water," "candy," "ancillary services," "lease or rental," and "purchase price" as they apply in the streamlined agreement. The bill also defines "engages in business activities within this state" and "maintains a place of business in this state" as they relate to the collection of taxes and defines "tangible personal property" to exclude specified digital products, digital audio-visual works, digital audio works, and digital books (Section 144.010);

(5) Establishes rules to determine the taxability of bundled transactions involving both taxable and nontaxable goods or services (Section 144.022);

(6) Requires uniform sourcing rules to determine what tax rates will apply to certain transactions (Sections 144.043, and 144.111 - 144.112);

(7) Requires the department director to participate in an online registration system that will allow sellers to register in this state and other member states. Registration with the central registration system and the collection of sales and use taxes in this state must not be used as a factor in determining whether the seller has nexus with this state for any tax at any time (Section 144.082);

(8) Requires the department director to establish rules and regulations for the remittance of sales and use taxes that allow for payments by all remitters and requires a seller to submit its sales and use tax returns electronically in a simplified format approved and prescribed by the department director (Section 144.084);

(9) Requires a seller to be allowed a deduction from taxable sales for bad debts attributable to taxable sales that have become uncollectable (Section 144.105);

(10) Requires the department director to provide and maintain an

electronic database that describes boundary changes for all taxing jurisdictions and the effective dates of the changes for sales and use tax purposes, a database of all sales and use tax rates for all taxing jurisdictions, and a database that assigns each five- and nine-digit zip code to the proper rates and taxing jurisdictions. The department director must complete a taxability matrix and provide reasonable notice of changes in the taxability of products or services listed in the matrix. A seller or certified service provider cannot be held liable for reliance upon erroneous data provided by the department director on tax rates, boundaries, or taxing jurisdiction assignments (Sections 144.123 - 144.124); and

(11) Authorizes an amnesty to certain out-of-state sellers with uncollected or unpaid sales or use tax if the seller was not registered in Missouri in the prior 12-month period before the effective date of this state's participation in the streamlined agreement (Section 144.125).

SALES AND USE TAX CHANGES FOR STREAMLINED SALES AND USE TAX

The bill:

(1) Authorizes a state and local sales and use tax exemption for sales of over-the-counter drugs to individuals with disabilities, and all sales of durable medical equipment, prosthetic devices, mobility enhancing equipment, and drugs dispensed by prescription (Section 144.030.2(19));

(2) Moves the state and local sales and use tax exemption for usual and customary delivery charges (SB 16, 2017) (Section 144.030.2(46));

(3) Removes the opt-out option for locals, changes the purchase limits on the back-to-school sales tax holiday from a per transaction limit to a per item limit and adds instructional materials and school computer supplies (Section 144.049); and

(4) Requires any out-of-state seller who voluntarily collects and remits use tax to file and remit the tax annually by January 31 of the following year (Section 144.655.7).

The provisions of the bill regarding the "Streamlined Sales and Use Tax Agreement" will become effective January 1, 2019.

SINGLE SALES FACTOR APPORTIONMENT

Currently, a corporation can use three factor apportionment (property, payroll, & sales) or single factor (sales) apportionment to determine its Missouri taxable income when the corporation has

both in-state and out-of-state income. This bill eliminates the three factor, requiring corporations to use single factor (Section 32.200).

SENIOR CITIZENS PROPERTY TAX CREDIT FOR RENTERS

This bill prohibits the issuance of the renter's portion of the senior citizens property tax credit (Sections 135.025 to 135.030).

INCOME TAX

Current law provides for a reduction in the top rate of income tax over a period of years from 6% to 5.5%, with each cut becoming effective if net general revenue collections meet a certain trigger. This bill eliminates some of the tax rate brackets so that the top tax rate is 5% for all income over \$7,000, indexed for inflation beginning in the 2020 calendar year (Sections 143.011 and 143.021).

CORPORATE INCOME TAX

Beginning January 1, 2019, this bill reduces the corporation tax rate from 6.25% to 5% (Section 143.071).

FEDERAL TAX DEDUCTION

Currently, an individual can deduct his or her federal income tax liability up to \$5,000 or if a combined return, up to \$10,000; and a corporation can deduct up to 50% of its federal income tax liability. Beginning January 1, 2019, this bill phases out this deduction for both individuals and corporations based on taxable income limits (Section 143.171).

WITHHOLDING TAX COMPENSATION

Currently, an employer is allowed to retain an amount between .5% to 2% of the amount of withholding tax due to the state if the employer timely remits the tax due on or before the due date. This bill repeals such allowance (Sections 143.225 and 143.261).

SALES AND USE TAX ALLOWANCE

Currently, a vendor is allowed to retain 2% of the amount of sales or use tax due to the state if the vendor timely remits the tax due on or before the due date. This bill repeals such allowance (Sections 144.070, 144.140 and 144.710).

MANAGED CARE ORGANIZATIONS

Currently, each Medicaid managed care organization in this state must pay, in addition to all other fees or taxes required by law, a Medicaid managed care organization reimbursement based on a formula set forth in rules promulgated by the Department of Social Services. Beginning July 1, 2018, this bill changes the allowance to managed care organizations including Health Maintenance Organizations (HMOs) providing benefits to MO HealthNet managed care program eligibility groups. The managed care organization reimbursement allowance may be imposed on the basis of revenue or enrollment and can impose differential rates on Medicaid and commercial business. The Department of Social Services must recognize the cost of the reimbursement allowance as a cost in calculating actuarially sound reimbursement rates (Sections 208.431 to 208.437).

MO SENIOR SERVICES PROTECTION FUND

This bill requires the Department of Revenue to calculate the amount claimed for the federal tax liability deduction of corporations in Section 143.171 in the 2018 fiscal year and allocate up to \$40 million to be transferred, upon appropriation, from the General Revenue Fund to the Missouri Senior Services Protection Fund annually (Section 208.1050).

MOTOR VEHICLE FEES

This bill increases motor vehicle fees to account for inflation from 1984 to 2018. Beginning 2020 and every third year thereafter, the bill requires motor vehicle fees to be indexed to inflation. The Director of Revenue is required to publish the increased fee amounts by October first and the fee adjustments will take effect the following January first (Sections 301.015 to 301.4000, 302.012 to 302.735, 306.012 to 306.550, and 307.360 to 307.365).

CAPITOL COMPLEX TAX CREDIT ACT

Beginning January 1, 2019, this bill creates the Capitol Complex Tax Credit Act and authorizes a tax credit equal to 50% of any monetary donation and 30% of the value of any eligible artifact donation. The credit for monetary donations is refundable while the credit for donated artifacts is not refundable, but can be carried forward for up to four years or sold. The credits are capped at \$10 million per year and are on a first-come, first-served basis. Donations received after the cap is met will have priority the following tax year.

Monetary donations will be deposited into the newly created, Capitol Complex Fund, and shall be segregated into two accounts: a

rehabilitation and renovation account, and a maintenance account. Ninety percent of the revenues deposited into the fund will go for the rehabilitation and renovation account and 7.5% of revenues deposited in the fund will go to the maintenance account. The remaining 2.5% of the funds may be used for fundraising, advertising, and administrative costs. The Commissioner of Administration will decide which projects, the methods of carrying out the projects, and the procurement of goods and services.

The provisions of this credit will sunset December 31 six years after the effective date (Section 620.3210).