

HCS HB 688 -- EARNINGS TAX

SPONSOR: Murphy

COMMITTEE ACTION: Voted "Do Pass with HCS" by the Standing Committee on Ways and Means by a vote of 8 to 3. Voted "Do Pass" by the Standing Committee on Rules- Administrative Oversight by a vote of 8 to 5.

The following is a summary of the House Committee Substitute for HB 688.

Currently, certain Constitutional Charter Cities may impose an earnings tax on compensation earned by a nonresident of the city for "work done or services performed or rendered in the city".

This bill provides that for all tax returns filed on or after January 1, 2021, "work done or services performed or rendered in the city" will not include any work or services performed or rendered through telecommuting or otherwise performed or rendered remotely unless the location where such remote work or services were performed is located in the city (Section 92.111, RSMo).

Currently, certain Constitutional Charter Cities must have the earnings tax reauthorized once every five years by the qualified voters of such city.

For the St. Louis City earnings tax, this bill changes the qualified voters for the reauthorization to individuals who currently reside in: St. Louis City; St. Louis County; St. Charles County; Jefferson County; and Franklin County.

For the Kansas City earnings tax, this bill changes the qualified voters for the reauthorization to individuals who reside in the counties in which all or part of such city is located. These counties currently are: Jackson County; Clay County; Cass County; Plate County (Section 92.115).

The following is a summary of the public testimony from the committee hearing. The testimony was based on the introduced version of the bill.

PROPONENTS: Supporters say that it is unfair that St. Louis City is currently taxing nonresidents who are physically outside of the city limits and working from home but are telecommuting to their places of work which are in St. Louis City. This is because nonresidents that do not enter the city do not utilize any of the services of the city.

Supporters contend that St. Louis City made the taxability determination as a result of the pandemic in order to collect revenue from nonresidents. This is a change from how the earnings tax was previously implemented considering St. Louis City offered refunds of taxes collected on nonresidents at the end of the year for taxes collected when nonresidents were not physically present in the city, regardless if nonresidents worked remotely or not.

Testifying for the bill were Representative Murphy; and Associated Industries Of Missouri.

OPPONENTS: Those who oppose the bill say that nonresidents still work in St. Louis City but are now working from their home computers. While nonresidents may not utilize the services offered by the city, their employers still use those services. Additionally, the city still offers tax refunds at the end of the year to nonresidents that are physically outside of the city limits, but do not offer these refunds to individuals who are telecommuting into the city.

Testifying against the bill were Thomas Vollmer, City of Saint Louis; and Arnie Dienoff.

OTHERS: Others testifying on the bill say that clarifying what "telecommuting" is would be helpful. Additionally, establishing a nexus for earnings tax purposes based upon the location of an employer's server would be incredibly complicated. Finally, how Kansas City collects its earnings tax would not be altered by this bill because Kansas City made a determination not to tax nonresidents who telecommute into the city.

Testifying on the bill were Sam Panettiere; Missouri Society of Certified Public Accountants.

Written testimony has been submitted for this bill. The full written testimony can be found under Testimony on the bill page on the House website.