

SB 26	Modifies laws regarding taxation		
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[Full Bill Text](#) |
 [All Actions](#) |
 [Amendments/CCRs/CCSs](#) |
 [Available Summaries](#) |
 [Senate Home Page](#) |
 [List of 2013 Senate Bills](#)

Current Bill Summary

SS#2/SCS/SBs 26, 11 & 31 - This act modifies laws regarding taxation.

INCOME TAX

The act modifies the individual income tax rate table. Beginning with the 2014 tax year, the maximum tax rate on personal income will be reduced by 0.75% over a period of five years. For all tax years beginning on or after 2018, the maximum tax rate will be 5.25%. If the federal government pass the Marketplace Fairness Act of 2013, or similar legislation, the maximum rate of tax on personal income will be reduced an additional 0.25%. (Sections 143.011 & 143.021)

The act creates an individual income tax deduction for business income and phases it in over a five-year period. Taxpayers will be allowed to deduct ten percent of business income for the 2014 tax year and, once fully phased-in, will be allowed a fifty percent deduction for all tax years after the 2017 tax year. Shareholders of S corporations and partners in partnerships will be allowed a proportional deduction based their share of ownership. (Section 143.022)

The act reduces the tax rate on corporate income by 0.75% over a period of five years, beginning with the 2014 tax year. For all tax years beginning on or after January 1, 2018, the tax rate on corporate income will be 5.5%. If the federal government pass the Marketplace Fairness Act of 2013, or similar legislation, the maximum rate of tax on personal income will be reduced an additional 0.25%. The act also exempts the first \$25,000 of corporate income from taxation. (Section 143.071)

Currently, there is a personal exemption amount of \$2,100 for personal income taxes. This act increases the exemption amount by \$2,000 for individuals with a Missouri adjusted gross income of less than \$20,000. (Section 143.151)

SALES AND USE TAX RATES

Currently, the rate for state sales and use tax is 4%. This act raises the rate by 0.1% each year for five years, beginning January 1, 2014. For all calendar years beginning on or after January 1, 2018, the state sales and use tax rate will be 4.5%. (Sections 144.020, 144.021, & 144.440)

Currently, a sales tax of four percent is collected on amounts paid for admission and seating and fees paid to places of amusement, entertainment or recreation. This act specifically excludes fees paid to such places. The act also excludes places of recreation from the tax. (Section 144.020)

STREAMLINED SALES AND USE TAX AGREEMENT

This act requires the Department of Revenue to enter into the Streamlined Sales and Use Tax Agreement. Missouri will be represented by three delegates in meetings with other states regarding the Agreements. One delegate will be appointed by the Governor, one appointed by mutual agreement between the Speaker of the House of Representatives and the President Pro Tem of the Senate, and one will be the Director of the Department of Revenue. These delegates will report annually to the General Assembly regarding the agreement.

Cities imposing sales taxes must notify the Department within 10 days of changing their boundaries. Any sales tax

changes due to a boundary change will take effect on the first day of the calendar quarter 120 days after the Department receives notice of the change.

When a political subdivisions changes its local sales tax rate or taxing boundary, such change shall take effect on the first day of the calendar quarter 120 days after the Department receives notice of the change

The act requires all state and local sales taxes to have the same bases by requiring identical exemptions at the state and local level.

The act provides uniform sourcing rules to determine what tax rates will apply to certain transactions. Political subdivisions are prohibited from opting out of the sales tax holiday.

The act requires the Department to participated in an on-line registration system for sales tax collection. Registration in the system cannot be used as a factor to determine nexus with this state. The Department is required to accept electronic payments. Sellers will be allowed to deduct uncollectible bad debts attributable to taxable sales from sales tax remittances.

The Department must provide electronic databases for taxing jurisdiction boundary changes, tax rates, and a taxability matrix detailing taxable property and services. Sellers will be relieved from liability if they fail to properly collect tax based upon certain information provided by the department.

Amnesty will be available for sellers under certain circumstances following registration with the state. Monetary allowances will be provided to sellers and certified service providers for collecting and remitting state and local taxes equal to two percent of the taxes collected. Sellers and certified service providers are prohibited from simultaneously receiving the monetary allowance and the two percent timely filed discount provided under current law. The act sets out requirements for the seller and purchaser for tax exempt sales.

For products that are bundled, with one item being taxable and the other nontaxable, the entire product will be subject to taxation unless the provider can properly identify the nontaxable portion. For products that are bundled items with different tax rates, the highest tax rate will be used for the entire product unless the provider can properly identify the lower taxed item.

The provisions relating to the Streamlined Sales and Use Tax Agreement have an effective date of January 1, 2015.

Theses provisions are substantially similar to HB 500 (2013) and similar to provisions contained in HB 422 (2013), HB 521 (2013), & HB 579 (2013).

USE TAX NEXUS

This act makes agreements between the executive branch and any person that exempts them from collection of sales and use tax void unless approved by both chambers of the General Assembly.

The definition of "engages in business activities within this state" is modified. The use of media to exploit Missouri's market will no longer make a vendor meet the definition. Being controlled by the same interests which control a seller engaged in a similar line of business in this state will also no longer meet the definition.

Under the Compensating Use Tax Law, a presumption is created that a vendor engages in business activities within this state if any person with a substantial nexus to Missouri performs certain activities in relation to the vendor within this state. The presumption may be rebutted by showing that the person's activities are not significantly associated with the vendor's ability to maintain a market in Missouri.

A second presumption is created that a vendor engages in business activities within this state if the vendor enters into an agreement with a resident of Missouri to refer customers to the vendor and the sales generated by the agreement exceeds \$10,000 in the preceding twelve months. This presumption may be rebutted by showing that the Missouri resident did not engage in activity within Missouri that was significantly associated with the vendor's market in Missouri in the preceding twelve months.

The definition of "maintains a place of business in this state" is modified to remove common carriers from its provisions. Currently, there is an exemption from the definition of vendor for vendors whose gross receipts are less than certain amounts, do not maintain a place of business in Missouri, and have no selling agents in Missouri. This act removes the exception.

The use tax nexus provisions are similar to SB 174 (2013).

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