APPENDIX 4
TAX EXPENDITURES GIVEN *FIRST ROUND* REVIEW

	Revenue Issue 1/03	Annual Amount (Millions)	Tax or Fee Increase	Explanation	Arguments for Possible /Inclusion	Initial Criteria Review
	Refunds to Purchasers	$10	No	Vendors collect sales tax from their customers and pay it to the state. If they over collect the tax, they may apply for a refund in their own name and keep any refund they receive.	** a windfall to the vendor. **encourages companies to hire consultants who handle refund claims on a contingency basis. **provides an incentive for over collection	No clear rationale for continuation
	Eliminate Timely Filing Discount for Sales Tax	$30.7	No	Eliminates the 2 percent compensation deduction for those taxpayers filing timely sales tax returns.		Filing is part of normal business
	Eliminate Timely Filing Discount for Withholding Tax	$18.4	No	Section 143.261 provides compensation to employers who remit withholding tax.	Because employers must issue paychecks and do federal withholding, there is little if any additional cost associated with complying with the Missouri withholding tax law.	Work has already been done
	Disallow Non-Missouri Source Income	$24.8*	No, this would simply clarify the law. However,	Corporations that use single factor apportionment subtract income such as interest, dividends, and royalties from their Missouri taxable income when these payments come from out-of-state sources. Other states do not	This is clearly an unintended tax “loophole” in the single factor apportionment statute. It is being “marketed” by tax planners/consultants,	Missouri income goes untaxed. Encourages out-of-state business activity.

			there would be an argument that this measure is a tax increase because it broadens the scope of corporate income tax	pick up this income, so the result is that no state income tax is paid on these amounts.	resulting in numerous refund claims. It encourages Missouri companies to make investments and do their banking outside this state.	
	Disallow Deduction for Royalty Payments to Related Corporations (Close the <u>Geoffrey</u> Loophole in Missouri)	$5*	Yes	A popular tax minimization strategy used by many large corporations involves setting up a new subsidiary corporation in Delaware or Nevada (where the subsidiary will pay no corporate income tax) and then transfer trademarks, trade names, patents, and other intangible assets from the parent company to the new company. The parent company will then enter into a licensing agreement with the new company, under which the parent will receive the right to use the new company's assets (all of which used to belong to the parent) in return for a royalty payment. The royalty is usually a percentage of the parent's sales. The result is that the parent will claim a deduction for the royalty payments, which means it will pay no tax on that portion of its income. The income is effectively "siphoned off" to the new company. The new company will assert that because it owns nothing tangible, it has no presence anywhere but its home state (Delaware or Nevada), so	This is another obvious loophole in the tax law that corporations are taking advantage of. Although corporations will argue otherwise, state tax minimization is really the only business reason for using this structure.	An obvious tax avoidance, minimization, The strategy. Encourages out of state activity

				it will not pay tax in the states where the parent "uses" its intangible assets. The result is income that is not taxed by any state.		
	Disallow Dividend Deduction	$30.6		Current law allows corporations to deduct dividends received from Missouri sources in computing corporate income tax.		Dividend income is normally taxed
	Disallow Single Factor	$77.2	Yes	Most corporations earn their income through business activities in a number of different states. Single factor apportionment is a way of calculating the portion of a corporation's income that is attributable to Missouri. It determines what portion of a corporation's income is from "Missouri sources" and therefore subject to Missouri income tax.	Giving corporate taxpayers a choice between single and three factor apportionment gives them many opportunities to use tax planning to minimize their Missouri income tax. Single factor apportionment is extremely generous to taxpayers who make most of their sales to out-of-state customers, but rely heavily on Missouri infrastructure because they have facilities and employees here.	Overly generous provision for corporate tax liability determination.
	Increase Collection Fee to Collect Local Sales Tax	$15.5	Yes	Increase local sales tax fee to collect local sales tax from 1% to 2%.	Not a tax increase, therefore, not subject to Hancock.	Covers the cost to the state for collection.
	Gambling Winnings	$7		Currently, there is no Missouri law explicitly pertaining to a nonresident individual taxed on winnings from multi-jurisdiction lottery (including power ball), lotto, gaming, gambling, or wagers. Nonresidents can engage in multi-jurisdiction lottery, lotto, gaming, gambling, or wagers, and collect their winnings without legal obligation of filing a Missouri individual income tax return and paying Missouri income tax on all	Currently, we penalize Missouri citizens by requiring them to file and pay taxes on gambling and lottery winnings when nonresidents are not obligated to file and pay taxes on the same type of income. This legislation equalizes the treatment of taxation among residents and	There is no reason why all gaming winnings derived in Missouri should not be taxed by Missouri.

				their winnings.	nonresidents of this state.	
	Tax Clearances	$10		This proposal requires tax compliance in order to obtain and continue state employment, obtain or renew a professional license, obtain or renew a local business permit or license and to be considered an eligible vendor in order to contract with the state.		This encourages compliance with state tax law.
	Decouple from Federal Accelerated Cost Recovery	$60	No	Returns the current income tax law regarding tangible property depreciation to pre-March 2002 law in reference to the September 11, 2001, terrorist attacks; this section only affects items purchased between July 1, 2002 and June 30, 2003.		Mitigates the state from being adversely affected by unforeseen changes in federal tax law and the resulting loss in revenues.
	Railroad retirement double deduction	$2		Currently, a taxpayer receiving railroad retirement benefits is not taxed on those benefits at the state level and also may deduct up to $6,000 again from their Missouri taxable income. In effect, this proposal would eliminate the double dipping.		There is no apparent reason for double deduction of income.
	Watercraft taxes in lieu-big boat exemption	$4.2		A boat or vessel documented by the US Coast Guard is not subject to sales or use tax but is instead subject to an in lieu watercraft tax in the amount of $650 (purchase price $50,000 or less) to a maximum of $3,050 (purchase price $200,001 and above), depending on the purchase price. Because the in lieu tax has a maximum of $3,050, the documented boat owner can typically save thousands of dollars. This is a fairness issue as the “small guy” must pay the full sales tax and the “big guy” pays the much lesser in lieu tax.		An unequal burden on certain purchasers with no apparent purpose for the provision.
	Interstate Telephone Calls	$31.2		Interstate phone calls are not taxed. The reason appears to be that the call		This is economic activity resulting from the presence of a company

				is “delivered” outside the state and would be exempt as being in interstate commerce. However, the telephone company providing service has a presence in the state and the customer using the telephone service is in the state. It appears that the call could be taxed as the statute now stands but that has not been the department’s interpretation. Clarification through legislation may be required.		and a consumer in the state of Missouri.
	Common Carriers	$9.75		The legislature enacted a number of exemptions available to “common carriers.” When these exemptions were passed, every common carrier had to register with the federal Interstate Commerce Commission and only true common carriers, i.e., trucking companies for hire by the general public, could qualify. Now, anyone can register as a common carrier by paying a relatively modest fee and such registration is no longer required in most cases. As a result, we have seen a substantial number of companies form trucking subsidiaries that carry essentially only the goods of the parent, call the subsidiary a common carrier and claim these exemptions.		An illogical extension of "common carrier" to an unintended group.

*Because corporate taxpayers may use tax credits to satisfy this additional tax liability these amounts may not result in increased cash collections.