

## *21<sup>st</sup> Century Tax Rate Reduction and Modernization Plan*

- Broadens the tax bases, lowers every major tax rate
  - Stabilizes State's tax base
  - Provides a reliable revenue stream for the future
  - Adopts the comprehensive tax reform recommendations of numerous study committees charged with developing a 21<sup>st</sup> Century tax policy for the State. The last study committees to recommend tax policy changes include the Governor's Commission to Modernize State Finances, the Institute for Emerging Issues, the State and Local Fiscal Modernization Committee, and the Joint Select Committee on Economic Development Incentives. Their recommendations include:
    - ❖ Expand sales tax base by including more services.
    - ❖ Expand the personal income tax base to federal adjusted gross income.
    - ❖ Reduce the individual income tax burden of low-income taxpayers.
    - ❖ Eliminate tax exemptions, deductions, and credits in the individual income, corporate and franchise, and sales tax bases.
    - ❖ Expand franchise tax base to include all types of business organizations with limited liability protection.
  - Provides tax adjustments necessary to balance the Senate's 2009-2011 budget.
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### • **Personal Income Tax Changes**

- Expands tax base to federal adjusted gross income
  - 27 states begin their tax calculation with AGI
  - Applies a means test to social security income, same as federal law
- Reduces every rate for each tax bracket
  - Establishes a zero tax rate bracket that would eliminate many low income taxpayers from filing requirements. (\$10,000 for MFJ)
  - Eliminates the marriage penalty in the tax brackets.
- Limits tax credits to family expenses
  - Credit for mortgage interest expense (limited to primary residence)
  - Credit for children
    - Increases the credit for children from \$100 to \$125 and increases the AGI limitation from \$100,000 to \$125,000 (MFJ)
    - Retains the current dependent care credit
  - Credit for charitable giving
  - Credit for medical expenses
- Temporarily suspends, for taxable years 2009 and 2010, State income tax on the first \$4,800 of unemployment benefits received

### • **Sales Tax Changes**

- Expands base to include more services with varying effective dates
- Reduces State sales tax rate effective May 1, 2010, for a combined rate of 6% rather than 6.75%
- Caps sales tax refund for nonprofits

- **Business Tax Changes**
  - Simplifies business tax structure and puts the State in a better competitive position
  - **Franchise and Privilege License Tax Changes**
    - Applies franchise tax to all types of business organizations with limited liability protection
    - Repeals State and local privilege license taxes
    - Repeals annual report fees and report fee credit
    - Simplifies franchise tax base to owners' equity
  - **Corporate Income Tax Changes**
    - Adopts throwout requirement
    - Reduces tax rate over 2 years: 5.8% and 4.5%
  - **Tax Credit Changes**
    - Repeals Article 3J credits
    - Repeals credit for payment to Insurance Guaranty Association
    - Repeals other credits EXCEPT
      - Research & Development
      - Refundable financing credits (low-income housing and film)
      - Credits granted as part of an incentive package, such as the major recycling facility credit
  - **Sales tax changes**
    - Limits equipment exemptions to depreciable property
      - Manufacturing equipment (repeals 1%/\$80 category and exempts depreciable equipment)
      - Farming equipment
      - Telephone, cable, broadcasting, laundry equipment
    - Limits farm exemptions to small farmers (100% exemption for gross receipts < \$1 million; 50% exemption for gross receipts < \$2.5 million)
    - Repeals railroad diesel fuel exemption
- **Excise Tax Changes**
  - Increases cigarette tax 15-cents a pack
  - Increases tax on other tobacco products by 3%
  - Increases excise tax on alcohol
- **Revenue Balance between State and Local Governments**
  - Sales tax base expansion improves the stability and revenue of local governments
  - Transfers 0.1% of the local sales tax rate to the State
  - Repeals local sales tax refunds
  - State retains local beer & wine distributions
  - Eliminates corporate income tax earmark for Public School Capital Building Fund
  - Adjusts hold harmless distributions based upon sales tax revenue