GOVERNOR OF MISSOURI

JEFFERSON CITY
65102

JEREMIAH W. (JAY) NIXON
GOVERNOR

P.O. Box 720
(573) 751-3222

July 10, 2015

TO THE SECRETARY OF STATE OF THE STATE OF MISSOURI

Herewith I return to you Senate Bill No. 20 entitled:

AN ACT

To repeal section 144.054, RSMo, and to enact in lieu thereof one new section relating to a sales tax exemption for commercial laundries.

I disapprove of Senate Bill No. 20. My reasons for disapproval are as follows:

Senate Bill No. 20 would exempt commercial laundries and dry cleaners from paying state and local sales and use tax on their purchases of materials, goods, machinery, electrical energy and gas, chemicals, soaps, detergents, cleaning and sanitizing agents, and other ingredients used to treat, clean and sanitize textiles. The new tax exemptions would be available for large commercial and industrial laundries and dry cleaners – approximately 48 facilities owned by 29 different companies that process at least 500 pounds per hour and 60,000 pounds per week. There is no requirement that a benefitting business create any new jobs to take advantage of these broad new exemptions. This provision would result in a projected $2 million annual reduction in state revenue as well as an additional $2 million reduction projected for local jurisdictions.

The special tax break for commercial laundries contained in Senate Bill No. 20 is not the mere clarification of existing sales and use tax law that supporters claim. Instead, this provision would seek to overrule 25 years of legal precedent holding that cleaning dirty clothes is not the same as manufacturing. In 1989, the Missouri Supreme Court first "plumbed the sudsy depths of various sales and use tax exemptions and found no application to commercial laundry operations." *AAA Laundry & Linen Supply Co. v. Director of Revenue,* 425 S.W.3d 126, 127 (Mo. Banc 2014) (discussing *Unitog Rental Services, Inc. v. Director of Revenue,* 799 S.W.2d 568 (Mo. Banc1989)). As recently as last year, the court similarly rejected a commercial laundry's attempt to avoid paying its taxes, reiterating that, as in 1989, the laws enacted by the General Assembly did not provide a tax exemption. *Id.* at 127-29. Since that decision, these commercial laundries have spent the last two years lobbying lawmakers for tailor-made exemptions that would treat ironing out wrinkles as "processing" a shirt and getting grass stains out as "manufacturing" a pair

of pants, thereby abrogating a quarter century of law and relieving the laundries of their existing legal obligations.

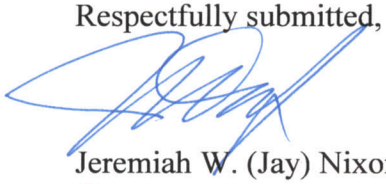
Last year, this provision was slipped into Conference Committee Substitute for House Committee Substitute for Senate Bill No. 662 (2014), which was met with my disapproval. As with Senate Bill No. 662 (2014), Senate Bill No. 20 continues an effort to promote poor tax policy by drawing a seemingly arbitrary distinction between the laundries and dry cleaners fortunate enough to gain this generous new benefit and the rest that are left out to dry. Under this provision, a laundry that processes 59,999 pounds per week would have to continue paying their taxes, but a laundry processing a single pound more would be entitled to broad new exemptions from state and local taxes. This distorts the free market and puts smaller laundries and dry cleaners (not to mention the Missouri families who are doing their own laundry) in the position of subsidizing the operations of larger ones. The commercial laundries might be getting their detergent tax-free, but the rest of Missouri taxpayers would be getting taken to the cleaners.

Senate Bill No. 20 does not simply give commercial laundries and dry cleaners the same tax exemptions enjoyed by other businesses. It gives them more lucrative ones. Although some of the tax exemptions available to manufacturers are limited solely to state taxes, these new exemptions for laundries would apply to local taxes as well. With this provision, the General Assembly would be privileging washing dirty clothes over manufacturing new products, giving commercial dry cleaners and laundries a better deal than Missouri manufacturers without any clearly-articulated economic justification for doing so and without requiring the creation of even a single new job.

The commercial laundry exemption provided by Senate Bill No. 20 represents poor tax policy and cannot receive my approval.

In accordance with the above stated reasons for disapproval, I am returning Senate Bill No. 20 without my approval.

Respectfully submitted,



Jeremiah W. (Jay) Nixon
Governor