GOVERNOR OF MISSOURI

JEFFERSON CITY
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JEREMIAH W. (JAY) NIXON
GOVERNOR

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June 28, 2016

TO THE SECRETARY OF STATE OF THE STATE OF MISSOURI

Herewith I return to you Senate Bill No. 641 entitled:

AN ACT

To repeal section 143.121, RSMo, and to enact in lieu thereof one new section relating to a deduction for compensation payments for agricultural losses.

I disapprove of Senate Bill No. 641. My reasons for disapproval are as follows:

Senate Bill No. 641 would create a new income tax break that could eviscerate the 2017 budget by requiring the state to issue over $50 million in refunds for past payments received as part of any program that compensates agricultural producers through the United States Department of Agriculture for lost profits as a result of droughts, floods and other natural disasters.

While these payments have a beneficial purpose, I cannot support exempting them for purposes of income tax and certainly not doing so retroactively. These payments are specifically intended to replace lost income and represent profits that would otherwise be subject to taxation just like any other business profits. That is precisely why these payments are currently treated as income under federal law, current Missouri law, and the law of 39 other states. Of the states with a state income tax, only one does not treat these payments as income, and even in that state the tax break was not applied retroactively when enacted. Missouri should not join this lonely class.

The provision was specifically written to be retroactive to tax years beginning on or after January 1, 2014, in order to allow amended tax returns for the previous two years to claim a refund back to a year in which historically high payments were received. These individuals have already received these payments, paid taxes on them, and if Senate Bill No. 641 were to become law, would receive a windfall in the form of a refund for those taxes previously paid on that income. Due in large part to its retroactivity, the fiscal impact of Senate Bill No. 641 is estimated to be as high as $51.5 million in general revenue for Fiscal Year 2017. This fiscal impact is significant and, more troubling, not accounted for in the Fiscal Year 2017 budget.

Apart from being poor tax policy, Senate Bill No. 641 is poor fiscal policy. Again this year the General Assembly passed a budget and then passed tax breaks such as this to divert the very revenue upon which the budget was based. Because the Fiscal Year 2017 budget fails to account for the reduction of revenue that would result from Senate Bill No. 641, executive action will be necessary to balance the budget if this bill were to become law.

In accordance with the above stated reasons for disapproval, I am returning Senate Bill No. 641 without my approval.

Respectfully submitted,

Jeremiah W. (Jay) Nixon
Governor