HOUSE RESEARCH
Bill Summary

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Overview

- Reduces the state general (property tax) levy by about $100 million and eliminates the annual growth in levy (which is indexed to the implicit price deflator for state and local governments)
- Provides a 10 percent deduction under the individual income tax for recipients of active income from pass-through business entities (S corporations and partnerships)
- Phases out the corporate franchise tax in 8 steps, eliminating the tax by tax year 2018
- Converts the capital equipment exemption from a refund program to an exemption at the time of sale
- Expands the eligibility for the capital equipment exemption to sellers of services subject to sales tax

1 **State property tax.** Reduces the state general tax levy amount to $695 million, effective for taxes payable in 2012, and eliminates the annual increase in the levy amount. Under present law, the payable 2011 levy is $795 million and each year the levy amount increases by the growth in the implicit price deflator for state and local government consumption expenditures. The levy for taxes payable in 2012 is estimated to be $812 million under current law. 95 percent of the levy is assessed against commercial-industrial property and 5 percent of the levy is assessed against seasonal-recreational property.

2 **Income tax subtraction for pass-through income.** Allows an individual income tax subtraction for 10 percent of nonpassive S corporation and partnership income or loss.

Effective date: Tax year 2011

3 **Corporate franchise tax rate.** Reduces the corporate franchise tax rate to zero in eight steps, starting in tax year 2011, as follows:

Tax year	Rate

2010	9.8%
2011	8.8%
2012	7.8%
2013	6.3%
2014	5.5%
2015	3.0%
2016	2.0%
2017	1.0%
2018	No tax

4 **Corporate franchise alternative minimum tax.** Reduces the AMT under the corporate franchise tax to zero in eight steps, starting in tax year 2011, as follows:

Tax year	**Rate**
2010	5.8%
2011	5.2%
2012	4.6%
2013	3.7%
2014	3.3%
2015	1.8%
2016	1.2%
2017	0.6%
2018	No tax

5 **Capital equipment.** Makes two changes in the capital equipment exemption:

- Allows the capital equipment exemption as an up-front exemption, beginning for sales and purchases made after June 30, 2011. Under current law, purchases of exempt capital equipment are subject to tax, but the manufacturer may apply for a refund of the tax from the Department of Revenue. A manufacturer may submit only two claims for such a refund during a calendar year.
- Expands the exemption to apply to machinery and equipment used in the direct production of the following taxable services:
    - Fabrication services where the customer provides the materials
    - Food preparation (e.g., by restaurants)

- o Prewritten computer software
- o Amusement, entertainment, recreational, and similar services (including admissions to events and use of amusement devices)
- o Lodging services (hotels, motels, and similar services including ancillary items, such as telephone and Internet charges)
- o Parking services
- o Club and association memberships (e.g., sports and athletic club memberships)
- o Delivery of aggregate or gravel
- o Laundry and dry cleaning services
- o Car wash services
- o Building and residential cleaning services
- o Security services (e.g., detectives and burglar alarm services)
- o Pet grooming
- o Lawn care services (including tree trimming, indoor plant services and similar services)
- o Massages
- o Pet and animal boarding
- o Installation services
- o Transportation, transmission, and distribution of petroleum, LP gas, natural gas, water, and steam

6 **Tax collected.** Eliminates the requirement that the sales tax on capital equipment be paid at the time of purchase.

7 **Refund; conforming change.** Eliminates cross references in the refund statute to the capital equipment statute consistent with allowing the exemption at the time of purchase.

8 **Applications; conforming change.** Corrects cross references to be consistent with allowing the capital equipment exemption at the time of purchase and repeals the limitation that no more than two capital equipment refunds may be filed in a year.