

House Bill 750 / Amendment #1

INCOME TAX AMENDMENTS

Rate Increase

For tax years ending after December 31, 2007 the income tax rate is increased to 5% (now 3%) for individuals, trusts and estates and to 8% (now 4.8%) for corporations (with replacement tax of 2.5% added, the total rate will be 10.5%).

Revenue estimate for IIT increase:
\$5.9 billion.

Revenue estimate for CIT increase:
\$950 million.

For the FY 2008 transition year, taxpayers would pay 3% for tax years ending on or before 12/31/2007 and 5% for periods after using a ratio based on number of days in each tax year. In lieu of using the ratio, taxpayer can elect specific accounting according to rules that will be prescribed by the Department of Revenue.

Education Expense Credit

For tax years ending after December 31, 2006, the existing education expense income tax credit becomes refundable if it exceeds the taxpayer's tax liability for the year. [The current credit is equal to 25% of qualified education expenses, but is capped at \$500.00.]

Family Tax Credit

A new "Family Tax Credit" is established to provide \$1 billion in tax relief to middle and low income families to "ensure that the bottom 60% of income earners will not pay more in taxes." The refundable credit applies to single taxpayers or taxpayers who are married and filing separately and have total annual income of \$26,846.00 or less; and to taxpayers who are married and filing jointly or as head of household with total annual income of \$53,694.00 or less.

Eligibility caps increase each year by an amount equal to the percentage increase, if any, in the Consumer Price Index (CPI) as published by the U.S. Bureau of Labor Statistics.

The amount of the credit is provided for single taxpayers and for those filing as head of household and also for married taxpayers filing separately and jointly. There are five levels of credit for each type of taxpayer and the credit increases as income levels increase. For example, for single filers making less than \$17,136.00, the credit is \$75.00 per dependent. For single taxpayers at the higher income level earning \$21,705.00 but less than \$26,847.00, the credit is \$400 per dependent. The maximum credit is \$400 per dependent for all filing types. The ranges increase each year according to the CPI increase.

SALES TAX AMENDMENTS

Revenue Estimate is \$2.2 billion for expansion of sales tax to consumer services.

Taxation of Selected Services

Section 1 of the Retailers' Occupation Tax Act is amended to re-define the term "sale at retail" to include the following services as enumerated in the North American Industry Classification System Manual (NAICS), 2002, prepared by the U.S. Office of Management and Budget:

1. Arts, entertainment and recreation (71)
2. Personal and laundry services (812)
3. Personal and household goods repair and maintenance (8114)
4. Travel arrangement and reservation services (5615)
5. Investigation and security services (5616)
6. Services to buildings and dwellings (5617)
7. Other support services (5619)
8. Employment services (5613)
9. Car washes (811192)
10. Landscaping and architectural services (54132)
11. Specialized design (5414)
12. Lessors of mini-warehouses and self-storage units (53113)
13. Rental and leasing (not auto) (53211-5321209)
14. Nonscheduled air transportation (4812)
15. Taxi and limo (4853)
16. Scenic and sightseeing transportation (4872)
17. Navigational services to shipping and salvage (48833)
18. Motor vehicle towing (48841)
19. Couriers (air and local) (492)
20. Warehousing (not including farm products 49313) (49311)
21. Motion and drive in picture theaters (512131-512132)

High Impact Business Enterprise Zone Exemptions Repealed

The amendment repeals sections 1d and 1f of the Retailers' Occupation Tax Act, which provide enterprise zone benefits for high impact businesses as defined by DCEO.

PROPERTY TAX CODE AMENDMENTS

Education Tax Abatement

Revenue estimate of \$2.7 billion.

The amendment provides a property tax abatement on a school district basis equal to the amount of the minimum property tax relief grant and any supplemental property tax relief grant certified to the school district by the Department of Revenue for each tax year beginning with taxes levied for 2007 (payable in 2008). The county clerk is required to determine the pro rata share of the abatement amount for each taxpayer and the taxpayer's bill must show the amount of property tax abated.

PROPOSED USE OF NEW REVENUES:

- * \$2.7 billion in property tax relief;
- * \$2.1 billion to increase the foundation level to EFAB recommended amounts;
- * \$900 million targeted tax relief to the bottom 60% of all taxpayers in the form of a refundable Family Tax Credit;
- * \$300 million for higher education;
- * Increase in the special education personnel reimbursement from current level of \$8,000 per teacher to \$19,000 (at a cost of \$498 million);
- * \$300 million to fund educational programs for schools in communities of concentrated poverty, to improve test scores and address the achievement gap;
- * Companion bill allows the state to amortize and pay its \$42 billion pension debt.