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 Committee Substitute for House Committee Substitute for House Bill No. 2030 entitled:

AN ACT

To amend chapter 135, RSMo, by adding thereto one new section relating to tax deductions for employee stock ownership plans.

I disapprove of Senate Committee Substitute for House Committee Substitute for House Bill No. 2030. My reasons for disapproval are as follows:

Senate Committee Substitute for House Committee Substitute for House Bill No. 2030 would create new income tax deductions for capital gains realized from the sale or exchange of employer securities in an employee stock ownership plan (ESOP) that are estimated to reduce general revenue collections by as much as $10.3 million annually. Senate Committee Substitute for House Committee Substitute for House Bill No. 2030 is a costly solution in search of a problem.

More and more businesses are choosing to become ESOP companies for a variety of different business reasons. Proponents indicate that businesses with ESOPs are more profitable, grow faster, and are better in recessions. In Missouri, there are over 8,000 employee owners currently. Between 2002 and 2012, the number of participants in S-Corp ESOPs increased by 165%, reaching a historic high of over 600,000 nationwide.

A myriad of tax benefits are already afforded to ESOP companies and their participants. Under current federal law, contributions of cash and stock to the ESOP are tax deductible; contributions used to repay loans taken out by the ESOP to buy company stock are tax deductible; dividends are tax deductible; employees pay no tax on the contributions to the ESOP; for an S-Corporation, the percentage of ownership held by the ESOP in not subject to income tax; and sellers in a C-Corporation can receive a tax deferral.

Which begs the question, why create yet another preferential tax treatment for an activity that is already growing in its frequency? In a fiscal environment in which necessary state services such as education, mental health, transportation and public safety continue to compete for limited resources, it is irresponsible to forgo millions of dollars in revenue to provide special tax treatment for something that Missouri businesses are already opting to do.

In accordance with the above stated reasons for disapproval, I am returning Senate Committee Substitute for House Committee Substitute for House Bill No. 2030 without my approval.

Respectfully submitted,

Jeremiah W. (Jay) Nixon
Governor