



There is a Better Way **It's Time for Missouri to Take a Balanced Approach to its Budget Challenges**

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Missouri's budget struggles have plagued the state for nearly a decade. For too long, Missouri has relied only on cuts to critical state services to address budget pressures, harming families who are struggling and undermining our economic future. Missouri needs a more balanced approach with common sense steps to increase revenue, including closing tax loopholes and bringing administrative and tax policies into the 21st century. These steps will ensure Missouri is ready to benefit from the economic recovery and they allow Missouri to provide the foundation of services and infrastructure needed for all Missourians and our economy.

Closing Unfair Loopholes

Collecting Sales Tax on Internet Purchases. Sales taxes are not collected on purchases made over the internet or by catalog. These purchases should be taxed the same way that purchases in bricks and mortar Missouri stores are taxed. ***Called the "streamlined sales tax", if fully implemented in FY2011, this could net as much as \$187 million in state and local revenue¹. Twenty-three states have already passed this legislation, including many of Missouri's neighbors².***

The "yacht" sales tax loophole. Individuals who purchase a yacht longer than 25 feet do not pay sales tax, but pay a much smaller fee. In turn, they agree to allow the Coast Guard to commandeer the yacht in times of emergency. ***Closing this loophole would net an estimated \$6 million per year.***

Tax Evasion by Multi-State Corporations. Some multi-state corporations avoid paying corporate income tax by funneling profits made in Missouri to one of four states that do not have corporate income tax, and by taking advantage of other loopholes. In contrast, Missouri-based companies, those founded by Missourians that headquarter in our state, are doing the right thing and contributing tax revenue to support the infrastructure and services that they benefit from and which allow their companies to be successful. Missouri should insist that multi-state companies meet the same tax requirements that our Missouri 'born' companies do. ***Currently, more than half of the states have passed legislation requiring "combined reporting" measures³. These measures plug loopholes and help multi-state companies to fairly assess the amount of tax revenue due to each state that they operate within. Enacting combined reporting in Missouri could net as much as \$100 million per year.***

Outdated administrative practices

The Timely Filing Discounts. Missouri provides rewards to state retailers who remit collected sales taxes on time, and also to those who remit payroll taxes on time. While some states provide a "discount" to states that remit sales taxes on time, no other state provides a discount for remitting payroll taxes on time. Of the 26 states that allow businesses to retain a portion of collected sales taxes, Missouri is one of

¹ University of Tennessee Center for Business & Economic Research, "State and Local Government Revenue Losses from Electronic Commerce", April 13, 2009

² Streamlined Sales Tax Project

³ Center on Budget & Policy Priorities

only 13 that do not have a limit on the amount businesses retain as a “discount.” Eliminating the timely filing discount on sales tax collections would net an estimated \$92 million⁴. Eliminating the timely filing discount on payroll taxes would net an estimated \$40 million⁵.

Sensible Tax Changes

Raising Missouri’s Tobacco Tax At 17 cents per pack of cigarettes, Missouri now has the lowest tobacco tax in the United States, far behind all states including tobacco producing states. The national average is \$1.42 per pack. Missouri could double its tax and still remain far below the tobacco tax in neighboring states. Kansas’ tax is 79 cents per pack, Iowa’s is \$1.36, Illinois’ is 98 cents, Arkansas’ is \$1.14, Kentucky’s is 60 cents, Tennessee’s is 62 cents, and Oklahoma’s is \$1.03 per pack.⁶ Increasing Missouri’s tobacco tax, from 17 cents to just 34 cents per pack would raise an estimated \$94.8 million.⁷

Modifying Missouri’s 1931 income tax brackets The past 80 years have brought enormous changes, but modifying Missouri’s income tax structure is not one of them. The top tax bracket begins at \$9,000 of Missouri Adjusted Gross Income. Adjusted for inflation, this would be about \$128,900 today⁸. By not adjusting the tax brackets, the taxable income of Missourians is taxed at the same rate, whether they earn \$9,000 or \$900,000. Missouri’s outdated income tax structure contributes to the overall regressive nature of Missouri’s taxes. According to the Institute for Tax and Economic Policy, Missourians who earn less than \$17,000 per year pay an average of 9.6 percent of their income in state and local taxes. Those who earn more than \$412,000 pay an average of 5.3 percent of their income in state and local taxes⁹.

Tax reform has been proposed that would bring Missouri’s tax structure into the 21st century, make it more progressive, tax higher income individuals at a modestly higher level, and generate an estimated \$1.3 billion per year.¹⁰

Balancing Tax Credits with Other Spending Priorities

Tax credits reduce an individual or corporation’s taxes on a dollar for dollar basis. Every dollar that is rewarded as a tax credit means that Missouri’s general revenue decreases by one dollar.

Tax credits are granted for a wide variety of purposes ranging from economic development to encouraging private donations for services such as expanding access to affordable housing, food pantries and maternity homes. Tax credits have grown by 85 percent since fiscal year 2000.¹¹ In 2009, the state awarded more than half of a billion dollars in tax credits.

Because tax credits are awarded in a process that is parallel to the budget process, there is no way to weigh the awarding of these credits against other state priorities such as elementary and secondary education, higher education, mental health services or services to seniors.

Although some tax credits create positive results, we must find thoughtful ways to evaluate their effectiveness and balance them with other budget priorities.

The mission of the Missouri Budget Project is to advance public policies that improve economic opportunities for all Missourians, particularly low and middle income families, by providing reliable and objective research, analysis and advocacy. Contact the Missouri Budget Project through our website at www.mobudget.org.

⁴ Missouri State Auditor, 2010

⁵ Governor’s Budget Book, 2003

⁶ Retrieved at Tobacco Free Kids, <http://www.tobaccofreekids.org/research/factsheets/pdf/0097.pdf> on May 27, 2010

⁷ The Missouri Department of Revenue reports that the Missouri 17 cents Tobacco Tax raised \$98.4 million in 2009.

⁸ Calculated by Missouri Budget Project using CPI inflation index at <http://data.bls.gov/cgi-bin/cpicalc.pl>

⁹ Retrieved at http://www.itepnet.org/state_reports/whopays.php on May 27, 2010

¹⁰ Fiscal note for HB2034 retrieved at <http://www.moga.mo.gov/Oversight/OVER10/fishtm/3488-01N.COR.htm> on May 27, 2010.

¹¹ Data on Tax Credit Expenditures is from the Missouri Senate Appropriations Committee Annual Fiscal Reports for 2006, 2007 and 2009.