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## **The Impact of the 2007 Tax Cuts on Services for Missouri Children, Seniors and Working Families**

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Missouri began the new fiscal year on July 1, 2007 with a “carry-forward” of about \$500 million. Because of this “surplus”, there is a common misperception that the state has effectively rebounded from the budget crisis of the last six years. However, a new analysis by the Missouri Budget Project reveals that the state is likely to face severe revenue shortfalls by fiscal year 2010 (FY 2010). The package of tax cuts passed by the General Assembly during the 2007 legislative session will compound the crisis.

### **Analysis of Tax Reduction Bills from the 2007 Session**

The Missouri Legislature passed a series of tax cut bills in 2007 including Senate Bill 30 and House Bills 444, 327 & 818. The Governor has signed HB 818, HB444 and SB 30 and has vetoed HB327. The bills create a variety of tax cuts and new or expanded tax credits ranging from corporate tax incentives to income tax reductions for seniors. The combined impact will cost the state an estimated \$200 million per year when fully phased in. Due to the requirements of Missouri’s Hancock Amendment, the tax cuts are likely to be fairly permanent reductions.

### **Impact of the Tax Cuts on the State Budget & Services**

New analysis by the Missouri Budget Project indicates that due to increased revenue needs in Missouri, the state had faced a \$200 million shortfall by FY 2010 even without the recent changes to the tax structure. The shortfall largely results from general revenue growth not keeping pace with increased inflationary demands and long term obligations including:

- Payment on the telecomm settlement of \$40 - \$60 million per year,
- Increase for the School Funding Formula of \$108 - \$112 million per year,
- Inflation for all other budgetary items: \$149 - \$155 million per year, and
- Capital improvements payments of \$78 - \$83 million per year.

The combined consequence of the tax cuts and the growing pressure on the budget resulting from inflationary demands and long term obligations is expected to create a \$291 million shortfall by FY 2010. A smaller version of HB327 is expected to pass in a special session and could cost the state approximately \$60-\$100 million annually.

The shortfall, reaching \$300 million - \$500 million by FY 2010 depending on the outcome of HB 327, will require significant service cuts or new tax increases to offset the lost revenue. A \$500 million hole would require service cuts amounting to 7% of the state’s general revenue fund, placing an increased burden on already under-funded services.

The state is not providing the same level of education or health care services it provided just five years ago prior to the fiscal crisis. The pending revenue shortfall will further impede Missouri's ability to provide quality and sustained services that meet the array of needs of Missourians.

### **Low and Moderate Income Missourians will not Benefit from Tax Reductions**

Working families, children and seniors are also more likely to be more harshly impacted by the various service reductions resulting from potential budget cuts brought about by the shortfall. Tuition increases at Missouri universities are a greater burden for low-income families; and Medicaid and other health care cuts have directly impacted low-income working families and their children. The state will remain unable to adequately fund K-12 education and child care services as a result of the increasing shortfall.

At the same time, the tax reductions will provide little benefit for these families. The tax cut bills discussed here are largely written to benefit corporations or provide tax reductions to higher income Missourians, but would do little to reduce taxes for low-income working families in Missouri. The new cuts to income tax for seniors will only apply to a small fraction of the senior population, or about 30%, but all seniors will be negatively impacted by the reduction in services for Missouri's aging population.

### **Economic Impact of Reduced Services**

A growing body of economic literature documents that tax cuts, when funded by budget cuts and reductions in public services actually impede the economy. Particular types of state spending are especially beneficial to economic growth because they maximize federal funding that enters the state. Economists from Saint Louis University who conducted a Missouri-specific study on the economic benefits of Medicaid spending found that for every \$1 million the state spends in Medicaid health services, an additional \$3 million in business activity and 42 jobs are produced.<sup>1</sup>

A 2004 study of the link between economic development and state and local taxes by economist Robert Lynch found that the business climate is not impeded by higher taxes. In fact, the study reviewed economic literature throughout the nation and determined that state and local tax rates have little impact on businesses when the selecting states in which to locate.<sup>2</sup>

*"...revenues provided by taxes strengthen, not weaken, our nation's economy. They fund essential public goods and services, they contribute positively to national saving and many of the things that they fund – from highways and schools to biomedical research and national parks – indirectly create private wealth as well. As Justice Oliver Wendell Holmes put it in 1927, "Taxes are what we pay for a civilized society"."*<sup>3</sup>

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<sup>1</sup> Missouri Foundation for Health "Show Me Series Report 5: Economic and Health Benefits of Missouri Medicaid", Spring 2004, available at [www.mffh.org](http://www.mffh.org)

<sup>2</sup> Robert Lynch, "Rethinking Growth Strategies: How State and Local Taxes Affect Economic Development", Economic Policy Institute, March 2004.

<sup>3</sup> Diane Lim Rogers, Research Director, Brookings Institution, printed in the Boston Globe on April 16, 2006.