# House Version of Senate Bill 26 Would Cut State Revenue by $985 million per year – Top Ten Reasons to Oppose

**Summary:** The House has approved a substitute for SB 26. The measure was altered significantly in the House but has not been improved. Rather, it has become even more devastating to state services and will burden at least 40 percent of Missourians with a significant tax increase. In addition, several provisions will likely result in ongoing litigation.

Overall, the major provisions of the bill will decrease the state individual income tax rate from 6 percent to 5 1/3 percent; decrease the corporate income tax rate from 6.25 percent to 5.5 percent after exempting the first $25,000 of corporate income from tax; increase the state sales tax from 4 percent to 4.6 percent (and dedicates the increased sales tax to roads and K-12 education); and create a new business income deduction of 50 percent. In addition, a House amendment added a new option for determining a company's tax base. This is likely to have a cost, but no estimate is currently available. While the bill also created an additional tax deduction for low-income Missourians, it would have little impact due to its design.

1. **The extreme tax changes will require dramatic cuts to state services.** Although phased in over a period of time, the tax changes will reduce state revenue by **$985 million per year when fully phased in.** The proposed tax cuts required by the bill will severely undermine Missouri's ability to invest in core public services like education, health, public safety, and infrastructure that promote our quality of life and make the state attractive for business investment.


2. **When fully implemented, the tax cuts will be the equivalent of 32 percent of state funding for K-12 school districts** and more than $100 million more than the amount of funding Missouri provided to all of its four and two year public colleges in the current fiscal year. Missouri could close all of its 21 correctional facilities, release 30,000 prisoners and lay-off 7,000 corrections officers and still not have enough money to make up for the size of the tax cut.

3. Missouri still hasn't recovered from the recent economic recession. After multiple years of budget reductions, state funding for local school districts is already $620 million below the required funding level as determined by the foundation formula. **The tax cuts will ensure that Missouri can never fully fund its schools and will likely result in further cuts to state support for local schools.** Although a portion of the increased sales tax (rate of 0.4 percent is dedicated to K-12 school funding), **as general revenue is decreased the cuts required to the general revenue budget will more than cancel out the increase in the sales tax dedicated to education.**

4. Missouri's public four year colleges and universities and community colleges are already $292 million below the level of funding received in FY 2001 when adjusted for inflation. As a result, tuition for Missouri's four-year institutions has nearly doubled in the last decade. **The tax cut will require additional steep tuition increases** to make up for likely further reductions in funding for higher education, making a college education less affordable for families and compromising access to quality higher education for Missourians.

5. Further erosion of our revenue base will do lasting damage to Missouri. Because the Missouri Legislature is largely restricted from increasing taxes under the Hancock Amendment in the State Constitution, **the tax changes can't be overturned by lawmakers once implemented. In other words, even if lawmakers realize they made a mistake, they will not be able to fix it.** As a result, a tax cut of this magnitude will mean that Missouri is never able to adequately fund education, staffing for state prisons and juvenile facilities, and programs that ensure the safety of children at risk of abuse and neglect, among other vital functions.

6. The measure increases Missouri's sales tax from 4 percent to 4.6 percent (Missouri has an additional .25 percent designated sales tax, making the overall rate 4.85 percent). **By reducing the income tax and increasing the sales tax, the proposal will increase taxes for 60 percent of Missourians – those who can least afford it.** Missourians with incomes of $53,000 and less will pay more in tax than they currently do, while those whose average income is more than $1 million will receive an $11,000 tax cut on average. In particular, Missouri seniors who rely solely on social security for their income face a tax increase.

7. The bill added a clause that requires revenue to grow by $100 million when compared to the previous three years in order for the tax reductions to take effect. **HOWEVER, the bill doesn't clearly indicate if the $100 million clause refers to general revenue or total state revenue.** In addition, while the tax cuts are implemented by calendar year, the $100 million growth is measured by fiscal year. As a result, Missouri could be half-way through a tax year before it is clear if revenue will meet the requirement of the bill. T**hese provisions alone are likely to result in extensive litigation.**

8. **The proposal will increase the costs of doing businesses in Missouri.** Companies will likely be forced to spend more of their own money educating and training their workers, securing their workplaces, and repairing infrastructure due to cuts in state services. In addition, a large state tax cut will increase pressure to raise sales and property taxes, both increasing costs for businesses.

9. **Tax cuts will harm Missouri's creditworthiness.** Recently Moody's Investor Services downgraded Kansas' credit outlook. In their statement, Moody's said, "Although subject to appeal, this ruling is credit negative for Kansas (Aa1 negative) and underscores challenges the state faces as it tries to offset revenue losses from the income tax cuts it enacted last year."

10. Decreases in state funding for services will increase pressure on localities to make up the difference. However, an increase in the state sales tax will limit the funding options that localities have available to them, likely resulting in steep property tax increases. **Typically, states without income taxes have higher sales and property taxes than other states.** States without an income tax have property taxes that are 8 percent to 12 percent above the national average and sales taxes 18 percent to 21 percent above the national average.

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