MBP
MISSOURI BUDGET PROJECT

Senate Tax Bills Provide Unfair Giveaways, Leave Communities Reeling

The Missouri Senate Ways & Means Committee is considering two bills that would dramatically alter Missouri's tax code, beginning in 2019. While the bills contain a few good provisions that the Missouri Budget Project supports, those features pale in comparison to the severe consequences of tax changes that will leave our communities reeling and shift costs to lower income taxpayers.

Giveaways to Wealthy Missourians

- **Both bills would provide large giveaways to wealthy Missourians, at the expense of everyone else.** In 2019, Missourians with average incomes of $1.387 million would get around $11,000 under SB 617, while most working Missourians would see little impact or even tax increases. In fact, an analysis by the Institute on Taxation & Economic Policy found that **91% of the tax cut would flow to the wealthiest 20% of Missourians.**
- Like in Kansas, **Missouri would have little alternative but to move toward regressive sales taxes, making our tax system even more unfair for lower income earners.**

Starving Our Communities

- The tax provisions included in the bills that would increase revenue are not enough to make up for the size of the new giveaways for top wealth holders. In fact, **the net effect of SB 617 would cut $464 million from state general revenue in 2019, while SB 611 would reduce state revenue by more than $1 billion.**[1] These cuts would come at a time when Missouri is struggling to meet its budget needs due to numerous loopholes and corporate giveaways, and would require additional and steep cuts to community agencies.
- In addition, **SB 617 would eliminate the individual income tax over time, increasing its cost each year and eventually resulting in an annual cut of $6.6 billion.** Individual income tax currently provides $6.6 billion to support the FY 2018 budget, or 36% of all state-source funding (not including federal funds).[2] There would simply be no way for Missouri to compensate for the loss of revenue.
- Both bills would place Missouri on a fiscal path that **would make Kansas' recent experience with tax cuts look like a cake walk.**

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Main Provisions of Senate BIll 617	Main Provisions of Senate Bill 611
Personal Income Tax: Cuts the top rate of income tax from the current 6% to 4.8% for all income over $7,000 in 2019. In each subsequent year that state revenue increases more than the previous year, the income tax would be further reduced by 0.1% **Standard Deduction:** Maintains Missouri's standard deduction at 2016 levels, decoupling the standard deduction from recent federal changes	**Personal Income Tax:** Cuts the top rate of income tax from the current 6% to 4.3% beginning in 2019, with full implementation by 2020. The bill also contains a provision to further reduce the top rate of income tax by 0.2% if the Congress enacts the Marketplace Fairness Act – the companion to the state streamlined bill which would make collection of sales tax for online purposes required. **Earned Income Tax Credit:** Creates a nonrefundable state earned income tax credit equal to 20% of the federal credit
	Corporate Income Tax: Cuts the rate of corporate income tax from 6.25% to 4.25% in 2019
Timely Filing Discount for Retailers: Eliminates the 2% timely filing discount that retailers receive for remitting sales taxes on time	**Timely Filing Discount for Employers:** Eliminates the timely filing discount that employers receive for remitting payroll taxes on time
State Deduction for Federal Taxes: Eliminates the state deduction for federal taxes for individuals	**State Deduction for Federal Taxes:** Eliminates the state deduction for federal taxes for individuals and corporations, and earmarks up to $40million of revenue from elimination of the deduction for corporations specifically into the Missouri Senior Services Protection Fund
Gas Tax: Increases the gas tax from 17 cents/gallon to 23 cents/gallon in 2019 (Missouri law requires revenue from the gas tax to be used for roads)	**Gas Tax:** Increases the gas tax from 17 cents/gallon to 18 cents/gallon in 2019 and to 21cents/gallon in 2020 (Missouri law requires revenue from the gas tax to be used for roads)
Tax Credits: Caps the low income housing tax credit at $135 million annually and places an annual aggregate cap on all tax credits at $425 million.	**Tax Credits:** Caps low income housing tax credits at $60 million annually, and the historic preservation tax credits at $30 million annually. The bill also creates a capitol complex tax credit, capped at $10 million annually, for donations to be used to rehab and maintain the state capitol.
Streamlined Sales Tax: Directs the Department of Revenue to enter into the Streamlined Sales & Use Tax Agreement, but does not contain the changes to Missouri's sales tax code that are necessary to comply with the agreement – essentially having no effect.	**Streamlined:** Enacts the full provisions of the Streamlined Sales and Use Tax Agreement, including modifications to definitions in the sales tax statute needed to enact the agreement.
	Local Sales Tax: Caps local sales tax for all taxing jurisdictions at 7.275% (taxing jurisdictions include city sales taxes, county sales taxes, and special levies for ambulance, fire or other purposes.
Fantasy Sports Operator Fees: Cuts the annual operating fee for fantasy sports operators from 11.5% to 6%	**Modifications to Sales Tax Holidays:** Repeals provisions that allow localities to opt-out of sales tax holidays and removes caps on purchases.

Disproportionate Tax Cuts for Wealthy Missourians & Corporations

Both SB 611 and SB 617 would dramatically lower taxes for very wealthy Missourians and corporations, while most Missourians would see little benefit or even face a tax increase. An analysis by the Institute on Taxation & Economic Policy found that SB 617 would give Missourians with average incomes of $1.387 million a tax cut of $11,096 in 2019, while working Missourians with incomes under $59,000 per year would face an increase, on average. Further, the analysis found that 91% of the tax cut would flow to the wealthiest 20% of Missourians.[3] While the disproportionate tax cut is targeted toward very wealthy Missourians, all Missourians would bear the consequences of reduced services – higher tuition, increased local property taxes, and huge increases in sales tax.

Bottom 60% of Missourians Would See Tax Increase to Pay for Giveaways for Very Wealthy Missourians
Impact of SB 617 Immediately Active Income Tax Components in 2019

Top rate cut to 4.8% (bottom 4 & top 2 brackets eliminated), standard deduction reverted to 2016 level; additional standard deductions for blind/elderly eliminated; federal income tax deduction eliminated

2017 Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less than $21,000	$21,000 – $38,000	$38,000 – $59,000	$59,000 – $97,000	$97,000 – $199,000	$199,000 – $460,000	$460,000 or More
Average Income in Group	$12,000	$29,000	$48,000	$75,000	$132,000	$283,000	$1,387,000
Tax Change as % of Income	+0.2%	+0.1%	+0.0%	–0.0%	–0.3%	–0.6%	–0.8%
Average Tax Change	**+20**	**+33**	**+18**	**–22**	**–336**	**–1,638**	**–11,096**
% with Income Tax Cut	0%	6%	26%	51%	87%	98%	99%

Impact on Communities Even More Dire Than in Kansas Cuts

Senate Bills 617 & 611 would place Missouri on a fiscal path that would make Kansas' recent experience with tax cuts look like a cake walk.

- Following the irresponsible tax cuts implemented in Kansas in 2012, the state was forced to enact nine rounds of state budget cuts, increase the state sales tax rate, and cut credits that help working families, like the home mortgage interest deduction and child and dependent care credit.
- Further, the state's bond debt increased by $2 billion over six years, resulting in three credit rating downgrades.[4]
- In fact, Kansas's tax cuts proved so devastating that in June of 2017, with strong bipartisan support, Kansas lawmakers repealed the bulk of the cuts, placing Kansas on the road to recovery.

But, there are two major differences between Kansas and Missouri:

- **Missouri would enact these drastic changes at a time when it already faces a depleted budget due to the expansion of loopholes and giveaways made over the last two decades.** Since 1993, Missouri has enacted 20 different corporate or special interest loopholes and giveaways, which when combined have reduced state revenue by more than $1 billion annually. In response, Missouri's budget has become increasingly tight, resulting in cuts to our local colleges and universities, school buses, mental health services and health care for many Missouri seniors.
- Missouri has already reached a point where critical priorities increasingly compete against each other for more limited resources. In terms of its investment in public services, Missouri now ranks 43rd nationally. **By comparison, even following the implementation of tax cuts in Kansas, Kansas continued to invest more in public services than Missouri.**
- **Missouri faces constitutional restrictions that would limit the ability of lawmakers to reverse course.** Missouri's constitution requires revenue increases beyond a nominal amount to go to a vote of the people. Because of this, even if lawmakers decided they made a mistake, they would not be able to repeal the cuts once they are implemented without significant public support first.

Kansas v. Missouri: Status of Investments in its Residents

Missouri Has No Room to Cut

Child Care Eligibility for Full Assistance	21st	42nd
State Reimbursement Rates for Foster Care	9th	44th
Medicaid Eligibility for Working Parents Income Limit, %FPL Monthly Income Limit, Family of 3	38% $646	22% $385

States Without Income Tax Rely More Heavily on Sales & Consumption Taxes - Passing on Costs to Lower Income Taxpayers

Following the draconian 2012 Kansas income tax changes, Kansans saw several sales tax changes that cost working families:

- The state increased the statewide sales tax rate multiple times, increasing it from 5.7% to 6.5% on basic necessities, including groceries.[5]
- In addition, localities throughout the state also increased local levies and property taxes in an effort to compensate for the loss of state funding.
- Increasing the sales tax to pay for income tax cuts shifted more of the responsibility for funding education, child care, and other services away from wealthy Kansans and corporations to working Kansans.
- Under the expanded sales tax structure, Kansans with incomes under $20,000 per year were paying 11.1% of their income in state and local taxes, while Kansans with incomes over $439,000 per year were paying just 3.6% of their income in state and local taxes.[6] As a result, it became much more difficult for working families to make ends meet, and made the tax system much more unfair.

This impact is not surprising. Research indicates that the nine states without an income tax have much higher rates applied to regressive sales and property taxes. An analysis by the Center on Budget & Policy Priorities found that these states have:

- **Sales taxes that are 18-21% above the national average, and**
- **Property taxes that are 8-12% above the national average.**[7]

Given the size of the proposed cuts in SB 611 & SB 617, Missouri would likely shift the state tax structure to lean more heavily on sales & consumption taxes over time.

- If the income tax were to be eliminated, as proposed in SB 617, **Missouri would need to increase its state general revenue sales tax from the current 3% to 11.9% just to compensate for the lost revenue.**[8] This amount would be on top of the statewide earmarked taxes of 1.225% for schools, conservation and parks.
- Further, localities across the state rely on sales taxes to support local services, and many have "stacked" sales taxes to support municipal and county budgets, as well as special taxing districts within municipalities for services such as emergency responders and transportation. As a result, the combined state and local sales tax rate is already quite high in some areas. For example, in St. Louis City, the special transportation development and loop trolley districts have a current combined state and local sales tax rate of 11.179%.[9] The increase of 9% in the state sales tax rate necessary to make up for the elimination of state income tax would place the state and local sales tax rate in this area at over 20%.

This shift would not only make it more difficult for families to fulfill basic needs, but it would hamper the ability of localities to fund basic services and would likely damage local economies.

APPENDIX:

MBP Analysis of the Fiscal Impact of SB 617 & SB 611 on State General Revenue

The estimates shown below are for 2019 and do not include elimination of the income tax in SB 611. The gas tax increase is also not included because the state revenue gain from the increase, of $175 million, would be earmarked for transportation - this amount nets out the amount provided to localities for transportation.

Senate Bill 617	
Income Tax provisions	-$1.191 billion
Elimination of the Timely Filing Discount for Retailers	+$116 million
Elimination of State Deduction for Federal Taxes	+$480 million
Tax Credits Caps	+$131 million
Streamlined Sales Tax	Not counted because the components that make streamlined effective are not in the bill
COMBINED IMPACT	-$464 million

Senate Bill 611	
Income Tax provisions (includes EITC)	-$1.487 billion
Corporate Income Tax Cut	-$125 million
Elimination of the Timely Filing Discount for Employers	+$24 million
Elimination of State Deduction for Federal Taxes	+$480 million
Streamlined Sales Tax	Not counted in 1st year because of the lag in implementation, will result in an estimated $20 million in state general revenue in the first full year, and larger levels following Congressional Action
COMBINED IMPACT	-$1.03 billion

ENDNOTES

1. Analysis by the Missouri Budget Project – see appendix

2. Missouri Senate Appropriations Committee, "2017 Annual Fiscal Report: Fiscal Year 2018,", available at: http://www.senate.mo.gov/17info/2017redbook.pdf

3. Institute on Taxation & Economic Policy, December 21, 2017 analysis

4. Kansas Center for Economic Growth and Rise Up Kansas

5. Kansas Center for Economic Growth

6. Institute on Taxation & Economic Policy, "Who Pays? A Distributional Analysis of the Tax Systems in All 50 States. Fifth Edition," January 2015

7. Center on Budget & Policy Priorities, "Without a State Income Tax, Other Taxes are Higher," March 22, 2012

8. Missouri Budget Project analysis

9. Missouri General Assembly, "Final Report of the Study Commission on State Tax Policy," December 2017