April 4, 2014

Senate-Approved Tax Scheme Would Cost Nearly $800 Million

SB 509 Would Require Cuts to Critical Services

Amy Blouin, Executive Director

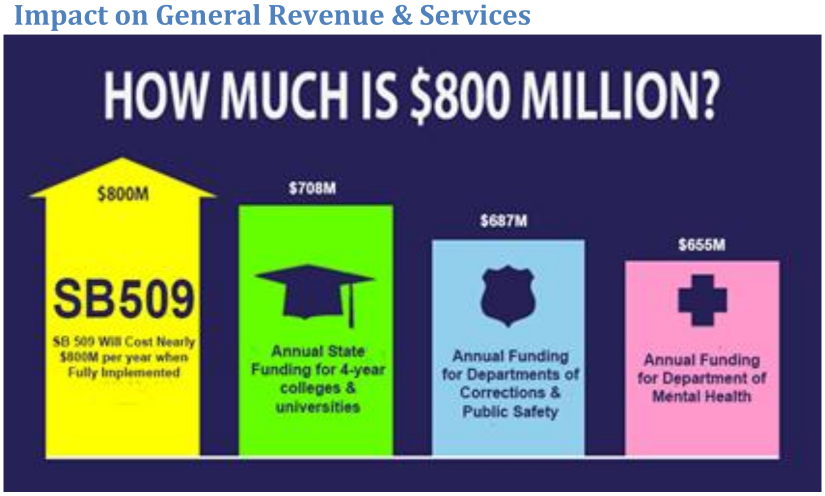
The Missouri Senate approved Senate Bill 509 this week. The measure would require sharp cuts to state services, undermining Missouri's economy by starving it of the resources it needs to offer quality education from preschool to college, a state of the art infrastructure, and safe, healthy and stable communities. Moreover, the minor tax reduction for low-income households included in the bill pales in comparison to the costs the severe reductions in state services would impose.

The bill would:

- Cut the top individual income tax rate from 6 percent to 5.5 percent;
- Create a new business income deduction of 25 percent for those business that file through the individual income tax structure; and
- Provide a modest increase of $500 to the personal exemption for Missourians with incomes under $20,000 per year.

However, even with this increased exemption, the bill is still skewed to benefit wealthy individuals at the expense of most Missourians.

Impact on General Revenue & Services



Like last year's House Bill 253**, SB 509 would reduce state revenue by nearly $800 million when fully implemented.**[1] That's more than Missouri spent in state general revenue on all mental health services in the last year, or nearly one-fourth of the K-12 funding formula.

The legislature sustained the Governor's veto of that bill due to the negative impact revenue losses would have had on Missourians.

[1] The official Fiscal Note for the Senate Floor Substitute for Senate Bill 509 indicates a cost of $620 million. However, Missouri Budget Project's (MBP) analysis estimates the fully implemented impact to $799 million when fully implemented. The main distinctions between the MBP analysis and the fiscal notes appear to be: MBP utilizes calendar year 2013 individual income tax data as a base, while the fiscal notes use calendar year 2012; and MBP utilizes IRS data to determine the impact of tax changes on business income, which begins with a larger base of what is considered business income as compared to the data sources relied on in the fiscal note.

Missouri Will Never Be Able to Catch Up with Foundation Formula or Other Needs

The cuts required by the bills would reduce state revenues at a time when Missouri's critical public services are still recovering from the economic crises of the last decade. In particular:

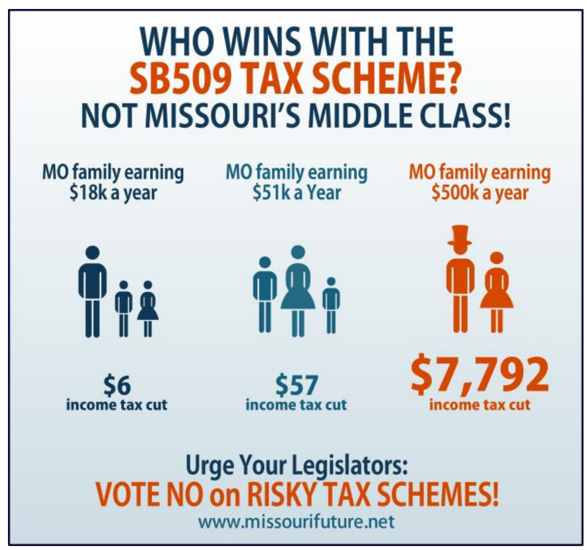
- State funding for local K-12 school districts is already more than $600 million below the state's own funding formula.[2]
- Missouri's public higher education institutions received $93 million less in state general revenue funding this year than they did in state Fiscal Year 2010 (FY 2010); and when adjusted for inflation Missouri's public colleges received $300 million less in state support than they did in FY 2001.[3]
- Mental health services for children and adults with severe mental illness and those with developmental disabilities have also recently been cut significantly. During the economic crises over the last decade, state-funded mental health safety net services were cut by $18.7 million between FY 2003 and FY 2006, and again by $17 million between FY 2010 and FY 2013.[4] In addition, a shortage of hospital beds for acute psychiatric care resulting from funding reductions is impacting local law enforcement agencies, which often have to travel great distances to transport these individuals to an open bed.[5]

Tax reductions of <u>any size</u> at this time of recovery will likely result in further spending cuts and compound the struggles Missouri already faces. Further, faced with an array of unmet needs, tax reductions will likely mean that Missouri will never be able to catch up and fully fund its schools.

Further, although the bill includes revenue "triggers," requiring state revenue to grow by $150 million compared to the highest level of the last three years before the next step in the tax cut is implemented, the triggers are essentially meaningless. The amount wouldn't even allow Missouri revenue to keep pace with inflation, let alone meet the funding needs described above.

Most Missourians Would Receive Little Benefit

A reduction in the top individual income tax rate is skewed to most benefit very wealthy families rather than average Missourians. In fact, analysis by the Institute on Taxation and Economic Policy shows that under this proposal, 80 percent of the tax reduction would fall to the wealthiest 20 percent of Missourians. **The highest income Missourians – those with average annual incomes over $1.094 million – would receive a tax cut averaging $7,792 per year. In contrast, the average Missouri family with incomes from $33,000 - $52,000 would receive just a $57 tax cut per year**, about enough to buy one hamburger each month. And the lowest income Missourians, those with incomes under $18,000, would get just $6 – even with an increase in the personal exemption amount included in the bill.



[2] Estimate from the Missouri Department of Elementary & Secondary Education

[3] FY 2014 state general revenue funding for community colleges & 4-year institutions combined is $866 million; in FY 2011 the combined funding level was $959 million; in FY 2001; the combined funding level was $914 million – the equivalent of $1.2 billion when adjusted for inflation to today's dollars

[4] Missouri Coalition of Community Mental Health Centers

[5] Ibid.

However, these so-called "tax savings" don't tell the full story. As a result of the reductions in critical public services that would be required if the bill is enacted, Missourians may actually find themselves paying considerably **more** for basic services. Cuts to higher education funding are likely to result in steep tuition increases; reductions to K-12 funding not only would impact the quality of the educational foundation for Missouri kids, but are likely to result in higher class sizes, diminished course offerings, and increased fees for basic supplies including textbooks; and further reductions in Missouri's mental health safety could result in an increased toll on Missouri's communities and stretched public safety departments.