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For more information contact:
The Missouri Budget Project
Amy Blouin 314-518-8867 or
Lise Bernstein 314-542-2269

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**New Analysis Shows Large Revenue “Holes”
If Legislature Passes Proposed Tax Cuts**

Two advancing bills would result in severe shortfalls by Fiscal Year 2009

Two bills moving forward in the Missouri Legislature would result in a severe revenue shortfall in the state budget as early as 2009, according to an analysis by Tom Kruckemeyer, chief economist with the Missouri Budget Project.

Kruckemeyer’s analysis also shows that the state’s expected surplus of \$516 million at the end of Fiscal Year 2007 on June 30 would be depleted by Fiscal Year 2009 even if no tax cuts are enacted. “The state could easily find itself without sufficient revenue as soon as 16 months from now,” Kruckemeyer said.

Proposed tax cuts advancing in the legislature call for: eliminating the state tax on Social Security benefits and other pensions and capital gains income (HB 444); and phasing out the corporate franchise tax in Missouri (HB458). The projected revenue loss for the Social Security bill is \$285 million in Fiscal Year 2008 and for the corporate franchise tax is at least \$40 million by 2010 when it is fully phased in.

“Even a moderate tax cut of \$100 million would result in a shortfall of \$144 million in Fiscal Year 2009, and would require large budget cuts,” Kruckemeyer said.

“The moderate tax cuts that would continue into Fiscal Year 2010 would result in a full blown budget crisis.”

The Social Security bill has passed in the House of Representatives and is being considered by the Senate Ways and Means Committee. It would eliminate the state tax on Social Security benefits and would primarily benefit higher income senior citizens; low and moderate income seniors are already exempt from this tax.

The corporate franchise tax bill has received initial approval by the House of Representatives and is expected to move to the Senate. This bill would eliminate the tax on business assets in Missouri; the corporate franchise tax was substantially reduced in 1999 and Missouri already ranks second lowest of the states that collect corporate income tax.

Missouri’s expected surplus of \$516 million comes as a result of “better than expected revenue growth this year, coupled with significant cuts in state programs—most notably Medicaid,” Kruckemeyer said.

“As the Missouri economy continues to recover from the economic downturn in the early years of this decade, we have the tremendous opportunity to reinvest in vital state services such as healthcare and education,” Kruckemeyer said. “It is not good fiscal policy to base permanent tax cuts on one year of better than expected revenues.”

The Missouri Budget Project has prepared several General Revenue summaries that forecast the state’s fiscal situation for Fiscal Years 2008 -2010 (*see attached*). The summaries use the budget estimates in the Governor’s Fiscal Year 2008 Executive Budget for Fiscal Years 2006 through 2008, extending the analysis to include Fiscal Years 2009 and 2010.

The MBP revenue projections are based on reasonably good net General Revenue growth of four percent and continued spending at levels recommended by the Governor in Fiscal Year 2008 with only modest increases beyond these amounts in FY 2009 and FY 2010.

The Missouri Budget Project is a statewide, nonprofit, nonpartisan organization that informs the public about the state's budgetary and tax policy options and their impact on low-income Missourians.