

January 21, 2009

Why Missouri Should Decouple from the Federal “Bonus Depreciation”

Andrea Plummer, Policy Intern

Tax Changes included in the federal “Economic Recovery” package currently being considered by Congress could significantly reduce state revenue in the next two years. Missouri can take steps to prevent revenue loss.

“Bonus Depreciation” is one provision in the Recovery package that could cost Missouri \$98 million over the next two years.¹

- Bonus Depreciation allows businesses to take an immediate federal tax deduction for machinery or equipment.
- Because Missouri’s corporate and personal income tax code is tied to the federal tax code allowing new federal deductions results in new state deductions by default.
- An additional state Bonus Depreciation deduction would have little economic benefit. Mark Zandi, chief economist at Moody’sEconomy.com estimates that Bonus Depreciation will result in a return to the economy of only 27 cents per dollar provided in tax reduction.²
- Given the projected state budget shortfall over the next two years, Missouri should act to avoid further revenue loss now.

States can protect themselves from revenue loss by “Decoupling”.

- States can enact statutes to separate or “decouple” their tax depreciation regulations from the federal tax code that allows Bonus Depreciation.
- Decoupling would protect Missouri revenue and allow the state to prevent harmful cuts to necessary services such as education, transportation, and healthcare.
- 30 states successfully decoupled from federal regulation between 2001 and 2004 when a similar bonus depreciation provision was in effect.³
- Missouri did successfully decouple for one year during that period.

The Mission of the Missouri Budget Project is to advance public policies that improve economic opportunities for all Missourians, particularly low and middle income families, by providing reliable and objective research, analysis and advocacy. Contact the MBP through our website at www.mobudget.org

¹ Nicholas Johnson. “New Federal Law Could Worsen State Budget Problems: States can Protect Revenue by ‘Decoupling.’” *Center on Budget and Policy Priorities*. February 28, 2008.

² “Written Testimony of Mark Zandi, Chief Economist and Co-Founder of Moody’s Economy.com Before the US Senate Budget Committee”, November 19, 2008,

<http://budget.senate.gov/democratic/testimony/2008/Zandi1119081.pdf>

³ *Ibid Footnote #1*