

Missouri Budget Project E-News February 1, 2013

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1. Governor Releases Executive Budget, Committees Begin Work

The Governor delivered his [State of the State address](#) on Monday night and released his [budget proposal for the next fiscal year](#). The Missouri Budget Project will issue a more detailed analysis soon, but a few important items include:

- For the first time, a state budget proposal includes new revenue from the state's implementation of the Marketplace Fairness Act. The Marketplace Fairness Act would allow Missouri to capture some sales taxes due for online retail purchases, leveling the playing field between Missouri's bricks and mortar retailers and their online competitors. The Missouri Budget Project has long highlighted this tax loophole and will continue to work with elected officials on proposals to address it.
- As expected, the Governor's budget includes the savings and revenues that would come from accepting federal funds to expand Medicaid. The more than \$900 million in matching funds would result in nearly \$50 million in savings to the current general revenue services including mental health and Medicaid for pregnant women as individuals move into the expanded Medicaid population. In addition, the Governor's budget estimates \$15.5 million in new tax revenues resulting from the increase in federal funds in FY 2014.
- Unfortunately, Governor Nixon's budget proposal also includes \$56.6 million from the elimination of the **Circuit Breaker tax credit** for the low-income seniors, veterans, and people with disabilities rent their homes, essentially raising taxes for 105,000 of Missouri's most vulnerable residents. The General Assembly had considered [elimination of the Circuit Breaker for renters two years ago](#), during a special session of the legislature, but eventually amended it out of the package.
- The Governor also proposed increased investment in Early Education and an increase in the number of days in the school year for K-12 Education, and an increase to Higher Education based on performance measures.

In the House, [Budget Committee Chair Rick Stream](#) indicated that the [committee will not include about \\$164 million in funds](#) from Medicaid expansion, Marketplace Fairness, or tax credit savings that require additional legislation to be passed.

2. Senate Ways & Means Holds Tax Policy Forum

The [Senate Ways and Means Committee](#) held a hearing this week on ways to reform the Missouri tax code. Several different groups spoke during the hearing urging a wide variety of changes.

The Missouri Budget Project proposed several changes to modernize the tax code, expand the economy of the state, and make the system fairer for low- and middle-income Missourians, including state passage of the Marketplace Fairness Act to begin to level the playing field between online retailers and bricks and mortar retailers with locations in Missouri. Congressional action would also be required to fully address this discrepancy.

The Budget Project also proposed four separate options to modernize the personal income tax system. While each proposal was designed to be revenue neutral and lower taxes for the majority of Missourians, they would also update the income brackets, which have not been significantly adjusted since the 1930s.

Finally, a Missouri Budget Project consultant presented a proposal to exempt the first \$50,000 of business income from taxation by the state and offset the loss of revenue by changing the way that multi-state corporations calculate their profits for corporate taxes. This would be a huge benefit to small businesses, and even large businesses, that are based in the state of Missouri.

The Missouri Budget Project is committed to working with the General Assembly to modernize the tax code while still protecting revenue to fund essential state services.

3. Poorest Missourians Pay Nearly Twice Effective Tax Rate as Wealthiest

According to [Who Pays?](#), a new report by the [Institute on Taxation and Economic Policy](#), Missouri takes a much larger share of income from low- and middle-income families than it does from the wealthiest.

Considering all state and local income, property, sales, and excise taxes Missourians pay, the poorest Missourians pay an effective tax rate of 9.6%, whereas those in the top 1% pay an effective tax rate of just 5.4%.

Moreover, in a [press release announcing the report](#), said Amy Blouin, Executive Director of the Missouri Budget Project, "Proposed tax cuts being debated in the legislature would further the inequity of who pays to maintain local schools and other services, and undermine our state's ability to invest in long-term economic growth.

To see a summary of Missouri's standing, click [here](#). For the full report, click [here](#).

4. Committee Votes to Restore Benevolent Tax Credits

The [House Children, Families, and Persons with Disabilities](#) Committee passed [HB 87](#), which would restore several benevolent tax credits. The bill has also passed the Rules Committee and is ready for consideration by the full House of Representatives.

5. Upcoming Hearings

Below are hearings as scheduled at press time. Check the [Missouri Budget Project Facebook page](#) for additional hearing announcements throughout the week.

The [Senate Appropriations Committee](#) will meet on Monday, February 4 at 12 p.m. in Senate Committee Room 2 to consider tax credits.

The [House Appropriations Education Committee](#) will hear DHE and DESE budget presentations at 2 p.m. on Tuesday, February 5 in House Hearing Room 1. It will reconvene on Wednesday at 2 p.m. to continue the DESE presentation.