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Tax Proposals Before Senate Ways & Means Committee Would Dramatically Reduce State Revenue and Disproportionately Benefit Missourians with the Highest Incomes, But Not Create Jobs

Amy Blouin, Executive Director

The Missouri Senate Ways and Means Committee will hear three major tax bills this week, each of which would:

1. Severely undermine Missouri's ability to invest in critical education, public safety and infrastructure by drastically reducing state general revenue. The bills would require between \$500 million and \$1.8 billion in cuts to Missouri's budget per year when fully implemented.¹
2. Disproportionately benefit Missourians with the highest incomes, with the largest benefit reaching Missourians with incomes averaging more than \$1 million.
3. Fail to create jobs.

Summary & Impact on General Revenue

Senate Bill 509, Senate Bill 496, and Senate Bill 497 each contain a selection of the same problematic features that were part of last year's House Bill 253. The legislature sustained the Governor's veto of that bill due to the negative impact the bill would have had on Missourians.

Senate Bill 496: \$500 Million+ Cost

In what has become known as the "tax cut for lobbyists," SB 496 would create a business income deduction of 50 percent for businesses that file their state taxes through the individual income tax structure, including LLCs (effectively exempting one-half of business income from tax). **The change would reduce state revenue by more than \$500 million when fully implemented,** an amount that is nearly double what Missouri spends in general revenue dollars for community public health services *and* services for seniors including home delivered and congregate meals, funding for Area Agencies on Aging, and services related to Alzheimer's disease.²

¹ Missouri Budget Project estimates

² Based on Fiscal Year 2014 general revenue funding of the Missouri Department of Health & Senior Services, which was approved at \$277.7 million.

Senate Bill 497: \$1.5 Billion Cost

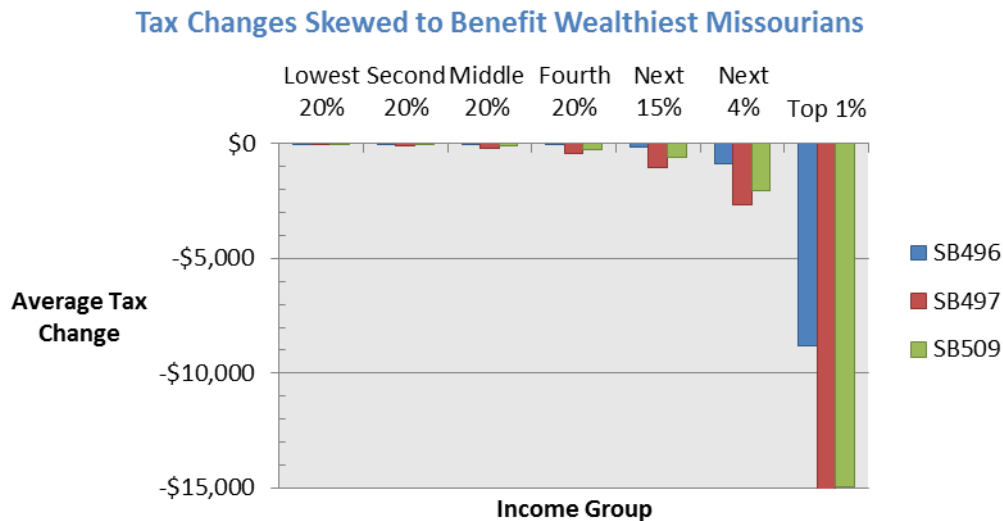
Senate Bill 497 would cut the top individual income tax rate from six percent to four percent. The reduction would cut state general revenue by approximately \$1.5 billion annually when fully implemented – **an amount equivalent to nearly one-half of Missouri’s state funding for K-12 schools.**

Senate Bill 509: \$1.8 Billion Cost

Senate Bill 509 includes the 50 percent deduction of business income for those businesses that file through the individual income tax structure (“tax cut for lobbyists”), and it would reduce the top rate for individual income tax from six percent to five percent. It also would exempt the first \$25,000 of corporate income from taxation and increase the personal exemption for Missourians with incomes below \$20,000 annually. **The measure would cost \$1.8 billion annually when fully implemented, an amount that exceeds what Missouri spends in general revenue on mental health, public safety and corrections, health & senior services, natural resources, and agriculture combined each year.**³

Measures Disproportionately Benefit Very Wealthy Missourians

As shown below, all of the bills are skewed to benefit the wealthiest Missourians. Those who have average incomes exceeding \$1 million per year would receive the largest tax cut, averaging between \$8,815 and \$15,169 per year when fully implemented, depending on the measure. While the tax cut would make up a small portion of the individual taxpayer’s income, the amount would have a significant impact on the state services that benefit all Missourians. Further, while the proposals are purported to incentivize job creation, it is highly unlikely that any business would be able to create a job with a \$15,000 tax benefit.



³ Based on FY 2014 levels of general revenue spending

Although low and middle income families would see modest tax cuts, any tax savings would quickly be spent on increased costs for basic services. For example, since its tax cuts took effect, many cities and counties in Kansas have increased local property taxes in order to avoid eliminating vital services. Moreover, despite a \$300 million state sales tax increase, Kansas' public colleges and universities have significantly increased tuition, putting a college education out of reach for many families.

Proposed Changes to Missouri Tax Structure Would Largely Benefit Wealthiest Missouri Residents, 2013 Income Levels							
Source: Institute on Taxation and Economic Policy, January 2014							
2013 Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less Than \$18,000	\$18,000–\$33,000	\$33,000–\$52,000	\$52,000–\$83,000	\$83,000–\$157,000	\$157,000–\$391,000	\$391,000 Or More
Average Income in Group	\$11,000	\$25,000	\$42,000	\$67,000	\$109,000	\$227,000	\$1,094,000
SB 496: 50% Deduction for Business Income							
Tax Change as % of Income	–0.0%	–0.0%	–0.0%	–0.1%	–0.1%	–0.4%	–0.8%
Average Tax Change	–\$1	–\$10	–\$16	–\$43	–\$127	–\$873	–\$8,815
Share of Tax Change	0%	1%	2%	5%	12%	22%	57%
SB 497: Top Rate of 4%							
Tax Change as % of Income	–0.0%	–0.3%	–0.5%	–0.7%	–0.9%	–1.2%	–1.4%
Average Tax Change	–\$1	–\$66	–\$210	–\$447	–\$1,018	–\$2,644	–\$15,169
Share of Tax Change	0%	2%	8%	16%	28%	19%	27%
SB 509: Top Rate of 5% and 50% Deduction for Business Income							
Tax Change as % of Income	–0.0%	–0.1%	–0.3%	–0.4%	–0.5%	–0.9%	–1.4%
Average Tax Change	–\$1	–\$37	–\$112	–\$248	–\$601	–\$2,042	–\$14,937
Share of Tax Change	0%	2%	6%	12%	22%	20%	37%

Measures Would Fail to Create Jobs

A review of recent employment figures from Kansas, where state lawmakers approved steep tax cuts in 2012, demonstrates that tax cuts do not create jobs. In fact, the most recent employment

data shows that Missouri’s job growth has outpaced Kansas’ job growth over the last year, as shown in the table below.

Employment Growth in Missouri Outpaced Kansas		
United States Department of Labor, Bureau of Labor Statistics		
Employment Data November 2012 - 2013		
	Kansas	Missouri
Nov-12	1,102,200	2,243,200
Nov-13	1,122,200	2,296,300
New Jobs	20,000	53,100
% Change	1.81	2.37