

HCS HB 1295 -- INCOME TAXATION

SPONSOR: Koenig

COMMITTEE ACTION: Voted "Do Pass" by the Committee on Ways and Means by a vote of 10 to 5.

This substitute changes the laws regarding income taxation. In its main provisions, the bill:

(1) Modifies the individual income tax rate table. Beginning with the 2015 tax year, the maximum tax rate on personal income will be reduced by .1% once a year if the amount of net general revenue collected in the previous fiscal year exceeds the highest amount of revenue collected in any of the three fiscal years prior to the fiscal year by at least \$100 million. After the rate reduction is fully phased-in, the maximum tax rate will be 5.3%;

(2) Creates an individual income tax deduction for business income, beginning January 1, 2015, and phases it in, in 10% increments, over a five-year period. However, the deduction can only occur if the net general revenue collected in the previous fiscal year exceeds those collected in any of the three fiscal years prior to the fiscal year by at least \$100 million. A taxpayer will be allowed to deduct 10% of business income for the first tax year the income growth is met and, once fully phased-in, will be allowed a 50% deduction. A shareholder of a S-corporation and a partner in a partnership will be allowed a proportional deduction based on his or her share of ownership; and

(3) Authorizes, beginning January 1, 2015, an additional personal exemption of \$1,000 for every individual with a Missouri adjusted gross income of less than \$20,000. Currently, the personal exemption for individual income tax is \$2,100.

PROPONENTS: Supporters of the bill say that most small businesses do not qualify for a majority of tax credits and incentives. Because the bill reduces the taxes for everyone by 50% over time, all small businesses will benefit. The performance-based evaluation aspect of this tax reduction tests the economic philosophy that lowering taxes will help the economy.

Testifying for the bill were Representative Koenig; Associated Industries of Missouri; Missouri Retailers Association; Missouri Grocers' Association; National Federation of Independent Business; Woody Cozad, Gateway Group; Americans for Prosperity; Missouri Chamber of Commerce and Industry; United for Missouri; and Missouri Society of Certified Public Accountants.

OPPONENTS: Those who oppose the bill say that they oppose revenue reductions that reduce the state's capacity to invest in public education, mental health and other vital services. Crucial state programs are already underfunded. Rather than reducing state revenue, our state should restructure our tax system to be more modern, adequate, and fair. Cuts to our state revenue threaten vulnerable populations such as seniors, veterans, and children living in poverty. Failing to invest adequately in infrastructure and an educated workforce positions Missouri badly in global competition for business.

Testifying against the bill were The Civic Council of Greater Kansas City; Missouri Coalition of Community Mental Health Centers; Missouri Budget Project; School Administrators Coalition; Missouri National Education Association; and Missouri Association for Social Welfare.