SS#3 SCS SBs 509 & 496 -- INCOME TAXATION

SPONSOR: Kraus

COMMITTEE ACTION: Voted "Do Pass" by the Committee on Ways and Means by a vote of 7 to 4.

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

(1) Modifies the individual income tax rate table. Beginning with the 2017 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 $150 million. After the rate reduction is fully phased-in, the maximum tax rate will be 5.5%;

(2) Requires the individual income tax rate brackets to be adjusted annually for inflation as measured by the federal Consumer Price Index, beginning with the 2017 tax year;

(3) Creates an individual income tax deduction for business income, beginning January 1, 2017, and phases it in, in 5% increments, over a period of years. 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 $150 million. A taxpayer will be allowed to deduct 5% of business income for the first tax year the income growth is met and, once fully phased-in, will be allowed a 25% 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

(4) Authorizes, beginning January 1, 2017, an additional personal exemption of $500 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 say that this bill lowers taxes on small businesses to create jobs and gets people to move into the state. The implementation of the bill is delayed by two years so Missouri can focus on funding education. Missouri needs to compete with other states and do something this year. Two states have already made changes this year. Missouri's growth is slower than other states. Missouri's Gross Domestic Product (GDP) is 2% while the average GDP is 2.5%. The tax cuts in this bill will be paid for out of growth without hurting current funding. The economy is improving and this bill will allow Missouri to use some of that growth to give back to the people. Giving a break to businesses will allow reinvestment into their businesses. This year the Missouri budget had $400 million extra so the trigger would have been met. This bill will not harm state services. Ninety-four percent of taxpayers report taxes on individual returns and would receive some benefit from this bill. Missouri must grow $750 million to cut $620 million with a net gain of $130 million. The business income deduction portion of this bill is very helpful to small businesses. Most businesses in Missouri are organized as a flow-through entity and pay taxes on income, whether or not taken out of the business. Allowing a deduction for a portion of income gives a tax incentive to retain money in the business and help fund future growth. This bill provides relief for job creators.

Testifying for the bill were Senator Kraus; Associated Industries of Missouri; National Federation of Independent Businesses; Missouri Society of Certified Public Accountants; Missouri Retailers Association; and Missouri Grocers Association.

OPPONENTS: Those who oppose the bill say that this bill is a permanent tax cut that will reduce the state's ability to maintain adequate investment in public education by reducing the funding for the school foundation formula. Missouri cannot fully fund the formula by 2017 since it is now $600 million underfunded. The bill further degrades Missouri's outdated, unfair, and inadequate revenue/taxation system. Our economy's health depends on additional income coming into the bottom 60% of households. Eighty percent of the tax reductions in this bill benefit the wealthiest 20% of Missouri taxpayers. The trigger in this bill does not address keeping pace with inflation and it doesn't provide the protections it needs. Job growth in this state was more than the growth in Kansas and Oklahoma for the last year. A tax cut will not encourage a business owner to hire more employees. Missouri has had four negative budget years since 2000 and has already cut taxes with tax credits, deductions, and exemptions. The state has already damaged its revenue flows. The individual income tax makes up 68% of general revenue and would be hard to replace. The tax cuts in this bill would enrich the wealthiest Missourians and continue, even expanding, to neglect meeting the needs of the most vulnerable citizens. This bill is anti-democratic economically and encourages feudalism.

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

OTHERS: Others testifying on the bill are concerned that any reduction in state funding for services caused by reduced state revenue brought about by this bill would be shifted to municipalities.

Testifying on the bill was Missouri Municipal League.