



Institute on Taxation and Economic Policy

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**POLICY BRIEF:
PROPOSED MISSOURI INCOME TAX RATE REDUCTION
FUNDED THROUGH THE FEDERAL STIMULUS
(HCS/SCS/SB 71)**

This policy brief examines the impact of the principal tax change in House Committee Substitute for Senate Bill 71, which would decrease each of the state's income tax rates by 0.5 percent. Missouri's income tax rate structure currently starts at 1.5 percent for filers with taxable income below \$1,000 and increases in thousand dollar increments until the top bracket of \$9,000 with a top rate of 6 percent is reached. This legislation would decrease the rates that apply to each of these brackets by 0.5 percent. For example, the lowest income tax rate would decline from 1.5 to 1.0 percent, and the top tax rate would decline from 6 to 5.5 percent.

REVENUE IMPACT

ITEP estimates that, if fully implemented in tax year 2008, this legislation would cost \$457 million annually. The cost of the bill is expected to increase in future years as income grows. But for Missourians who itemize their federal income taxes, a substantial part of the state tax cut would never reach their pockets: Missourians who itemize on their federal tax forms would see a \$58 million increase in their federal taxes because they will have less state income taxes to deduct. In fact, 13 percent of the state tax cut would go directly to federal coffers rather than to Missourians.

FAIRNESS IMPACT

The benefits of the rate reductions would go primarily to better-off Missourians. For example, the poorest twenty percent of Missourians, with an average income of \$10,000, would see an average tax cut of \$5 from the rate cuts. The middle twenty percent, those with an average income of \$38,000 experience an average tax cut of \$81. And the wealthiest 1% of Missourians, with incomes averaging over \$1 million, would see an average tax cut of \$3,644.

Overall, 85 percent of the benefits from the rate cuts would go to the top 40 percent of earners in the state. The wealthiest 20 percent of Missourians would enjoy 67 percent of the benefit from this proposal. Nearly all Missourians in the top 1 percent of the income distribution would benefit, yet only 25 percent of Missourians in the bottom 20 percent would benefit from the legislation.

BACKGROUND ON ITEP

Founded in 1980, the Institute on Taxation and Economic Policy (ITEP) is a non-profit, non-partisan research organization, based in Washington, DC, that focuses on federal and state tax policy. ITEP's mission is to inform policymakers and the public of the effects of current and proposed tax policies on tax fairness, government budgets, and sound economic policy. Among its many publications on state and local tax policy are *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States* and *The ITEP Guide to Fair State and Local Taxes*. ITEP's full body of research is available at www.itepnet.org.