

Missouri Budget and Tax Issues

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How Are Things In Missouri's Budget Right Now?

- **Improving but major problems still exist.**
- **State revenues were down -9.1% at the end of FY 2010 after falling -7.0% in FY 2009.**
- **As we grow we grow from reduced base revenues.**
- **We are still below FY 2008 revenues, even assuming the FY 2014 consensus revenue estimate.**
- **We continue to lose sales tax revenues to internet sales.**

FY 2013 General Revenue

(through December 2012)

	Net Growth
Individual Income Tax	7.1%
Sales Tax	0.7%
Corporate Income/Franchise	33.5%
Insurance Premium Tax	(9.8%)
All Other	92.1%
Total	7.9%

Comments On First 6 Month Revenues

- **Skewed by about \$50 million in lawsuit settlement receipts (all other growth)**
- **Individual income withholding up 5.0% YTD, which is good. However, December 2012 was up 15.9%, which may mean January 2013 will come in lower.**
- **Sales tax continues to be weak.**
- **Corporate income/franchise will not likely keep up the 33.5% increase pace, particularly when factoring in the franchise tax cut phase-in adopted in 2011.**
- **Net receipts on a percentage basis will drop as the fiscal year goes on.**

The FY 2014 Outlook— Consensus Revenue Forecast

- **Growth of 3.1%, or \$237 million.**
- **Actual economic growth is 4.8%, then reduced due to one-time receipts, phase-out of the corporate franchise tax, and the impact of federal payroll tax changes.**
- **With this growth, Missouri will still be \$74 million below the FY 2008 net receipts.**
- **That number assumes these revenues for the year ending June 30, 2014.**

Why Did We Think We Were Rich In The Late 1990s?

- **Passage of Senate Bill 380 in 1993 implemented a new school formula phased in over four years.**
- **Tax increases of \$400 to \$450 million annually, adopted without a vote of the people, were implemented immediately.**
- **Funds were placed in an earmarked fund, which built a large balance.**
- **No general revenue was put into the school foundation formula for five years.**
- **Significant economic growth during same timeframe (the dot.com growth era).**

Other Extraordinary Funding FY 1993 to FY 2002

Source	Funds In FY 2002
SB 380 Taxes	\$451.3M
Lottery Increase	\$50.0M
Gaming Taxes and Admission Fees	\$250.3M
Tobacco Settlement One Time	\$310.0M
Tobacco Settlement Ongoing	\$162.4M
Nursing Home IGT	\$255.8M
TOTAL	\$1,479.8M

ARTICLE X REFUNDS

(included as revenue in receipts but later refunded)

FISCAL YEAR	AMOUNT OF REFUND (IN MILLIONS)
1995	\$147.1
1996	\$229.1
1997	\$318.8
1998	\$178.8
1999	\$98.9

MAJOR TAX CUTS OF THE PAST 20 YEARS

TAX CUT	ESTIMATED FOREGONE TAX REVENUES (in millions)
SALES TAX ON FOOD (1997)	\$230.6
PERSONAL EXEMPTION (1998)	\$155.7
DEPENDENT DEDUCTION (1998)	\$ 67.9
MANUFACTURING SALES TAX	\$ 70.0
ELIMINATE INDIVIDUAL INCOME TAX ON SOCIAL SECURITY/PUBLIC PENSIONS (2007)	\$142.0
CORPORATE FRANCHISE TAX (2011)	\$126.6
CORPORATE FRANCHISE TAX (1999)	\$32.0
TOTAL TAX CUTS	\$824.8

Other Major Lost GR Revenues

- **Inheritance tax—Tied to federal inheritance tax. Phased out over four years in the early 2000s. Cumulative loss of about \$160 million annually.**
- **Motor vehicle sales tax—Formerly one-half of motor vehicle sales tax went to MODOT, the other half to General Revenue. The voters approved shifting all of it to MODOT, which at the time of adoption was estimated at \$187 million.**

The Paradox of the Missouri Tax System

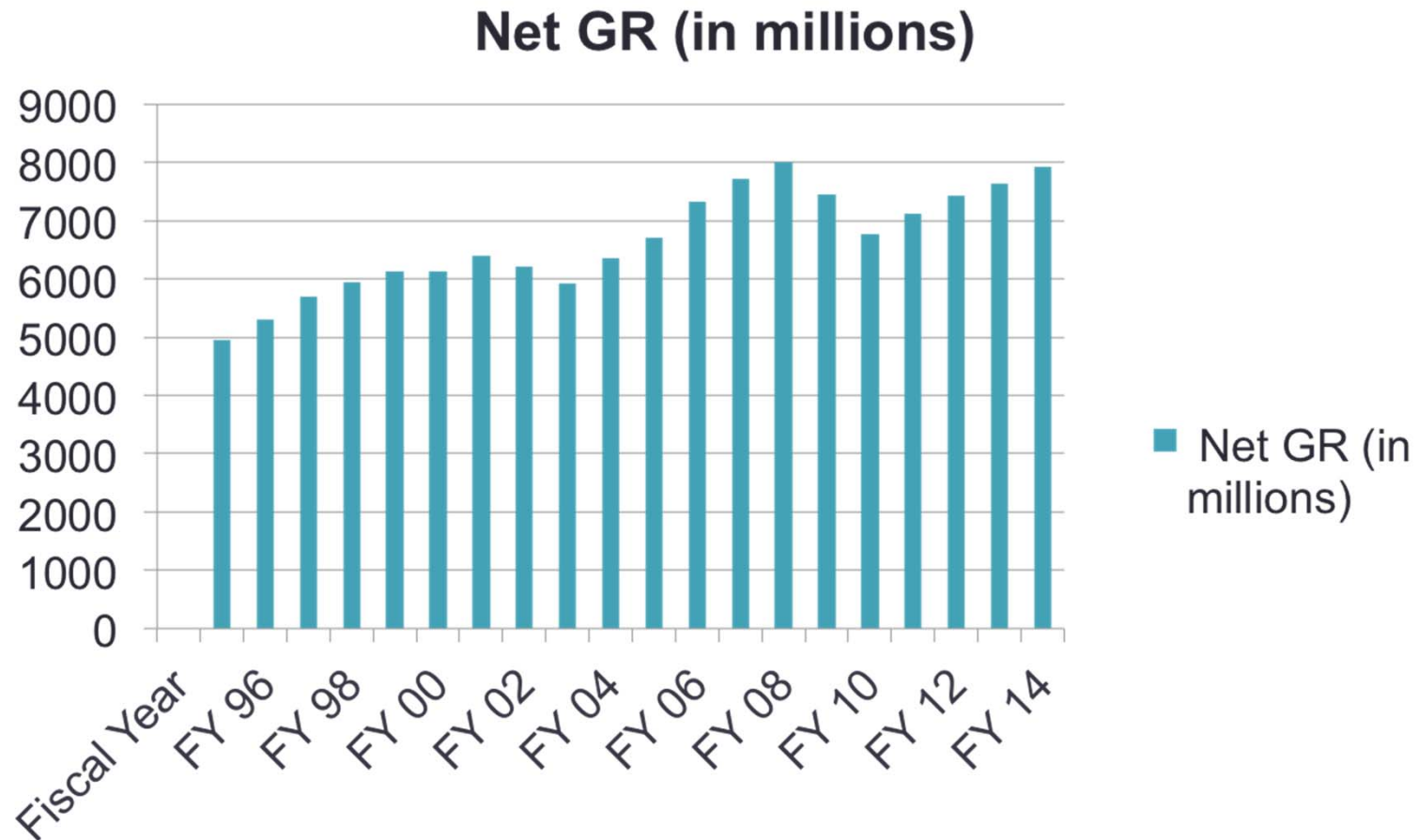
Reducing Revenues

- **No vote of the people required. Revenues can be reduced by passage of a bill by the Missouri General Assembly and signature by the Governor.**

Increasing Revenues

- **Vote of the people required if more than approximately \$90 million. Practically speaking, vote of the people required for any significant revenue increase.**

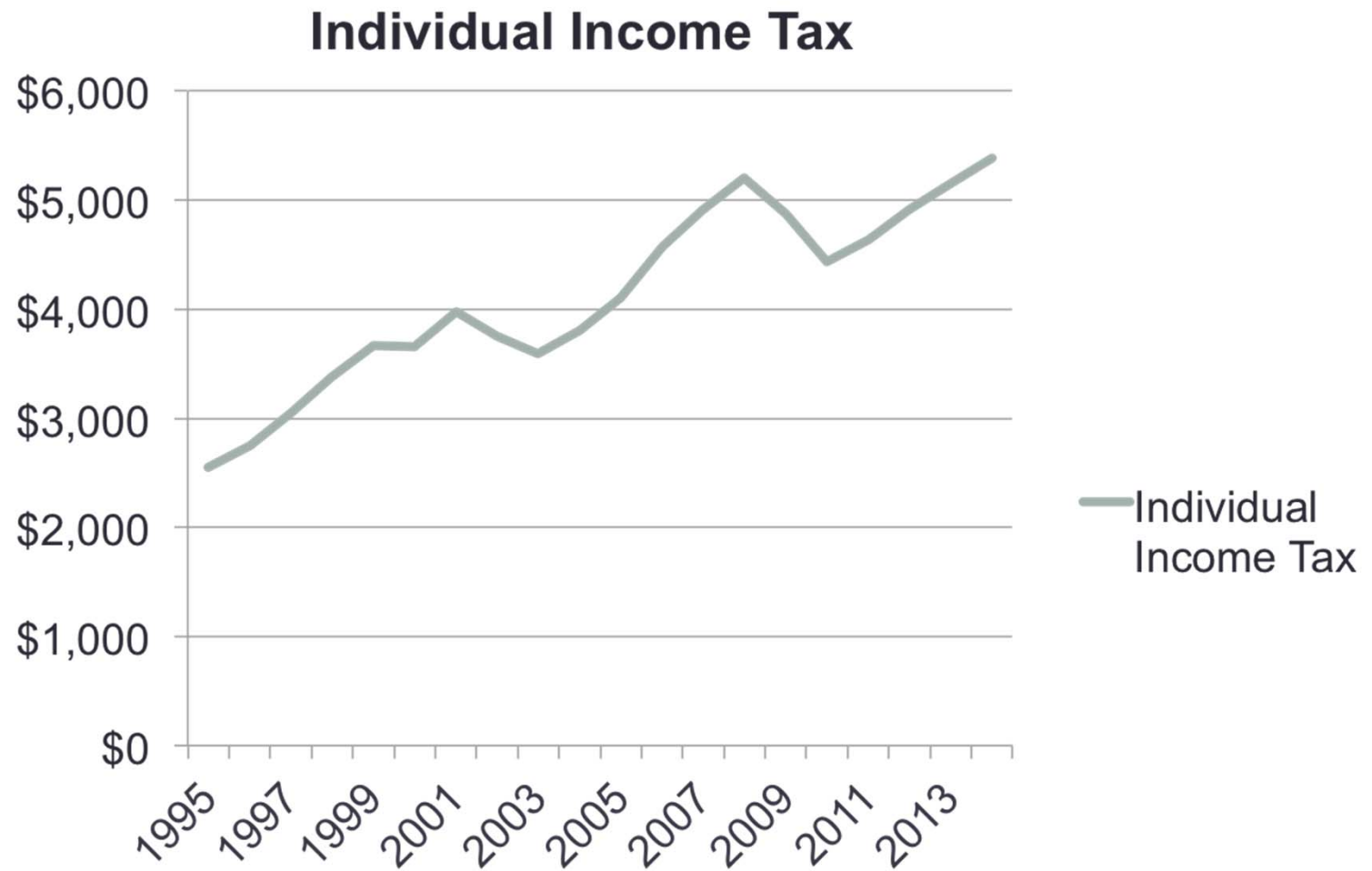
Net General Revenue Growth



AVERAGE GENERAL REVENUE GROWTH FY 1995 TO 2014

\$184 MILLION

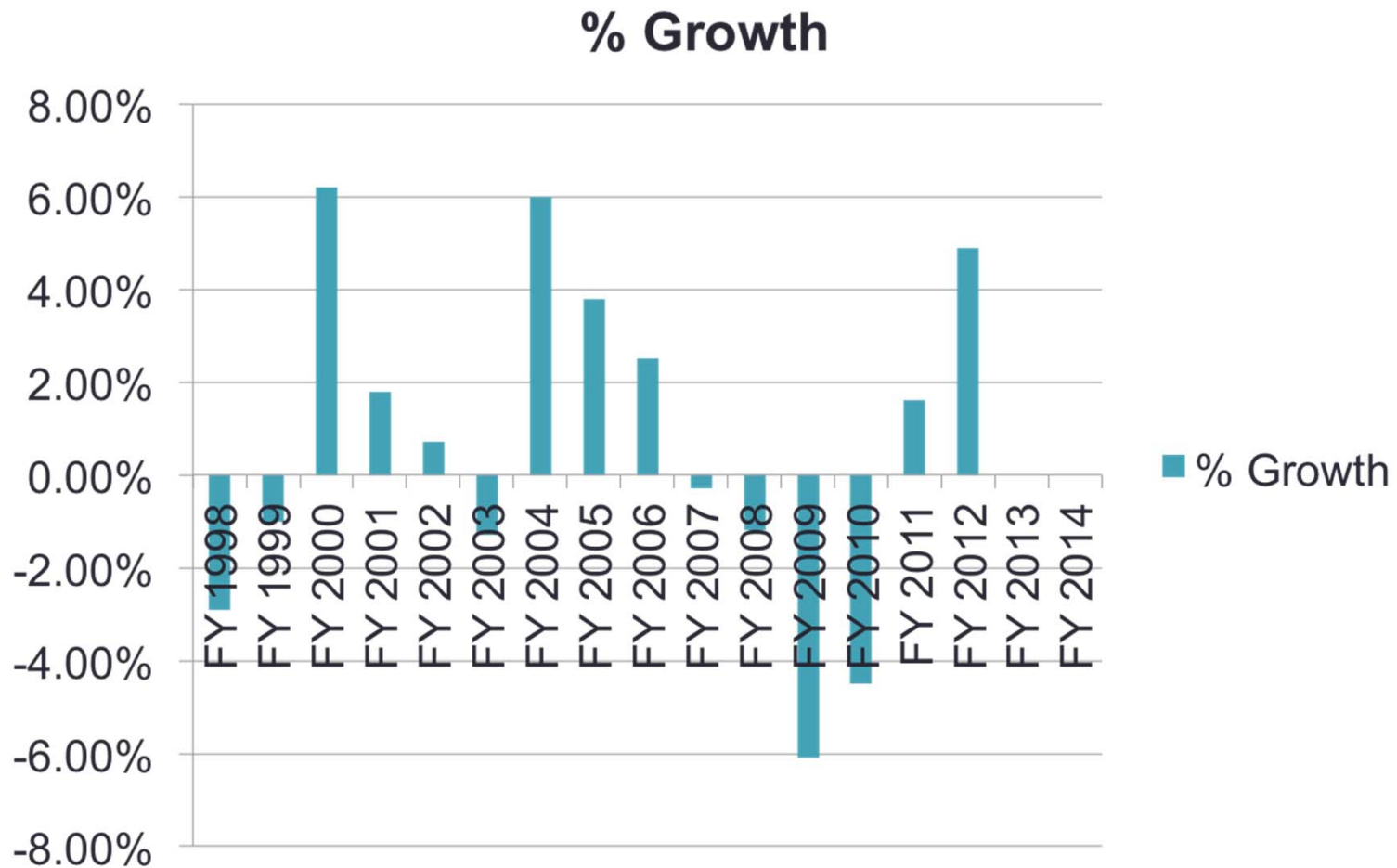
Individual Income Tax Receipts FY1995 to 2014



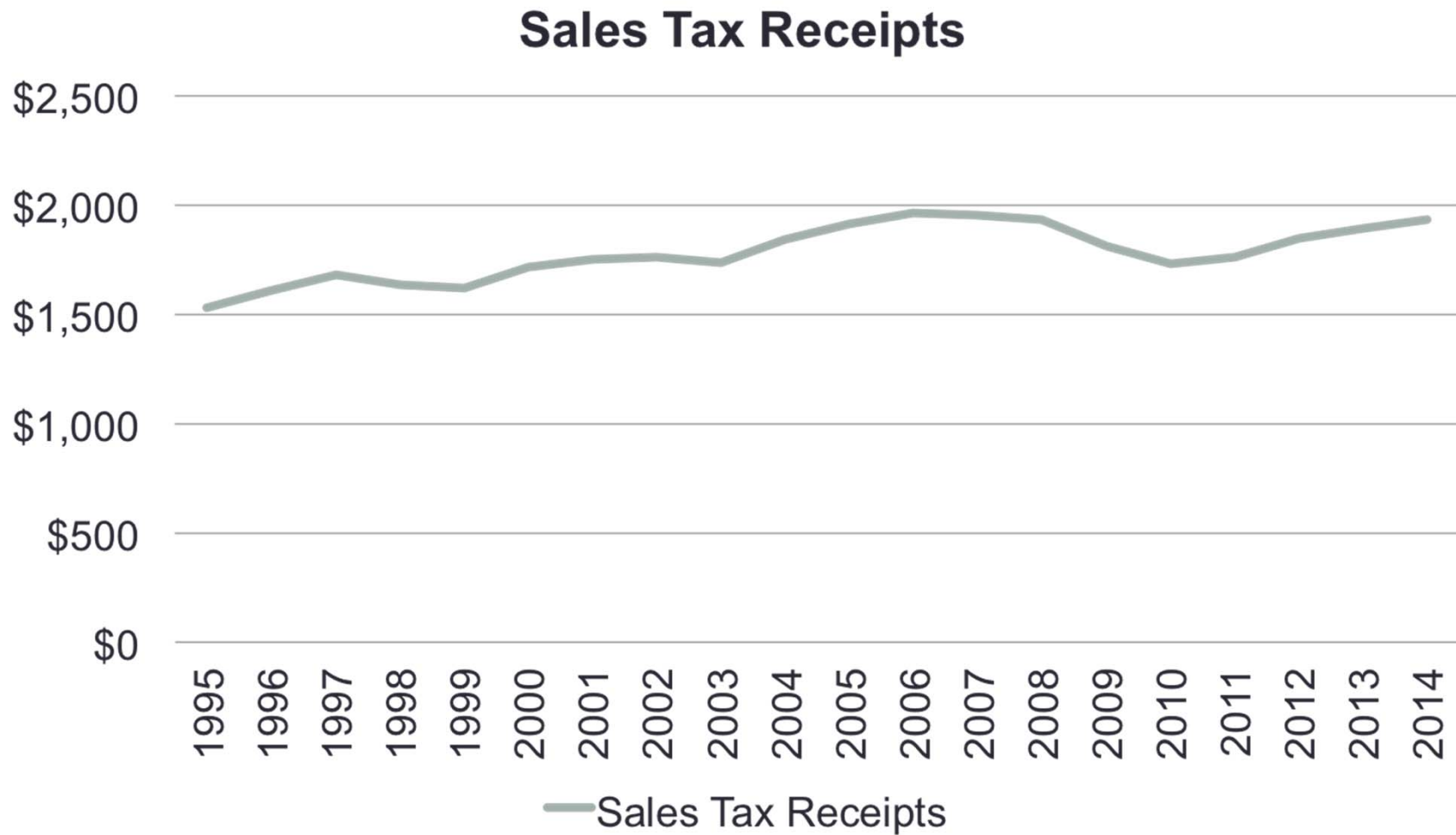
**AVERAGE ANNUAL INDIVIDUAL
INCOME TAX GROWTH FY 1995 TO
2014**

\$160.2 MILLION

Sales Tax Growth Rates Since FY 1998



Sales Tax Receipts 1995 to 2014



**Average Annual Net Sales Tax Growth
FY 1995 to FY 2014**

\$26.53 Million


Losses to State Sales Tax Last Twenty Years

- **Sales tax on food.**
- **1/2 of motor vehicle sales tax.**
- **Taxes on internet sales.**
- **No one knows the true impact of the changes to sales tax on manufacturing.**

**We Should Not Want To Be
In Kansas, Dorothy!!!**

Summary of Kansas Income Tax Changes

- **Increase in personal exemption.**
- **Increase in head of household deduction.**
- **Reduce top marginal rate for individuals from 6.5% to 4.9%.**
- **Eliminate individual income tax for S-corporations and limited liability corporations.**



KANSAS GENERAL FUND REVENUES BEFORE AND AFTER HB 2117

Before \$6.2 Billion

After \$5.4 Billion

Kansas Foregone Tax Revenue

Fiscal Year	Lost Revenue
FY 2013	(\$231.2)
FY 2014	(\$802.8)
FY 2015	(\$824.3)
FY 2016	(\$854.2)
FY 2017	(\$892.9)
FY 2018	(\$933.7)
Source: The Tax Foundation, Mark Robyn	

Kansas Tax Architects Don't Understand Limited Liability Corporations/Sole Proprietorships

- They are a legal status, not a tax filing entity.
- LLC's "fall-down" or are "passed through" to individual income tax returns.
- Exempting LLC income creates a situation where LLC income is not taxed, but W-2 (wage) income is taxed.
- You cannot tell from looking at a Missouri income tax return whether someone has income from an LLC or not.
- LLC's will be reconstituted to avoid taxes, so no one can estimate the potential lost income to this change. It is likely much higher than fiscal estimates.

Different Treatments Of Individual Income Taxed Equally By The Federal Tax Code

- **Line 7 income would be taxed (W-2)**
- **Line 12 income would not be taxed (Schedule C)**
- **C Corporations subject to corporate income tax.**

You Too Can Become A Sole Proprietorship And Avoid Taxes!!

- **The process:**
- **Register a fictitious name with the Secretary of State.**
- **Pay \$7 for the registration fee.**
- **You are in business!!!**

What Governor Brownback Says Upon Signing HB 2117

- **Eliminates the individual income tax on 191,000 businesses**
- **Create 22,900 new jobs**

What Governor Brownback Said In December 2012

- **The state is facing a “hard dip”.**
- **“I think we ought to do some of the ‘pay fors’ that I proposed last year.”**

Two Other Kansas Issues

- **Expiring sales tax in addition to lost income tax revenues.**
- **Recent court decision stating that Kansas is not adequately funding its school formula.**

Our Views On Tax Policy

- **Who said we have too much tax revenue? Look at the last twenty years growth.**
- **Kansas will really feel the pain in FY 2014. Don't race Kansas to the bottom.**
- **Sales tax cannot generate enough revenue to replace the income tax.**
- **If tax reductions spur economic growth, why have the tax reductions of the past fifteen years not spurred growth?**
- **Be cognizant that if legislative changes to reduce tax revenues are found to be wrong, they can only be corrected by a vote of the people.**