



Taxes Are Still Too High for Missouri

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In his 2014 state of the state address, Governor Jay Nixon bragged that “Missouri’s a low-tax state—sixth lowest in the nation—and we like it that way.” In his letter vetoing tax cuts in 2013, the Governor reiterated this point. This claim about Missouri being a low-tax state is repeated as an article of faith by newspapers, legislators, lobbyists, and activists.

Despite the Governor’s claims, Missouri is not a low-tax state. We may have low taxes on gasoline and cigarettes, but when it comes to something important like your income, there are many other states with lower taxes.

Why focus on income taxes? Economic theory—and everyday experience—tells us that if you want less of something, you should tax it. That is the thinking behind carbon taxes. But while taxing carbon emissions may reduce the levels of CO₂, taxing labor income will reduce the desire to work. That is, raise income taxes and people will work fewer hours, which will result in less output.

In the end, higher income taxes stifle economic growth—and the creation of wealth. That is why tax rates matter. There is hard evidence indicating that states (and counties) with lower income tax burdens perform better economically than states with higher tax burdens.

With that in mind, the important question becomes: How do Missouri's income taxes stack up against those of other states?

To answer this question, Rik Hafer and I used standard tax preparation software to calculate how much a family of four earning the U.S. median income had to pay in income taxes across all 50 states. This allowed us to compare the tax burden in Missouri to that in other states. (The full report is available at ShowMeInstitute.org)

Contrary to the claim that Missouri is a low-tax state, we found that this average family of four would have to pay more in income taxes in Missouri than in 27 other states. Closer to home, that family also would pay more in Missouri than in Oklahoma, Nebraska, Kansas, and Tennessee. Our results are just one indicator that Missouri's income taxes are not among the lowest in the country.

The Tax Foundation has compiled information regarding the top marginal income rates for every state. According to their calculations, Missouri has the 22nd-highest marginal income tax rate in the country. While this does not mean Missouri has the highest tax rate, it does mean that Missouri is not one of the lower-rate states, either. This ranking can understate how Missouri's rates compare for most people. For example, California's top tax rate is much higher than Missouri's. However, Missouri's top rate kicks in after \$9,000 of income, and California's kicks in after \$1 million. In fact, many Californians face lower tax rates than Missourians of similar incomes.

Taken together, these rankings suggest that there is room for Missouri to cut taxes in order to remain competitive with other states. Nine states, including Tennessee—which borders Missouri—do not tax labor income at all. Kansas, Oklahoma, and Illinois all have top marginal rates that are lower than Missouri's. There are ways to help lower income taxes for Missourians without causing large revenue shortfalls. This includes broadening the sales tax base and cutting down on issuing economic development tax credits. If Missouri wants to remain competitive with its neighbors, it needs to build on the tax cuts it has already enacted and pass more tax cuts.

People who claim Missouri is a low-tax state are ignoring the taxes that really matter, like income taxes. For Missouri to be a low-tax state, there is more work to be done.

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Michael Rathbone was a policy researcher at the Show-Me Institute. He is a native of Saint Louis and a 2008 graduate of Saint Louis University, where he earned a bachelor of science degree in biomedical engineering.

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