Mercatus Study Affirms SMI Tax Credit Suggestion from 2012

Published on *Show-Me Institute* (https://showmeinstitute.org)

By: Patrick Ishmael

Six years ago, Michael Rathbone and I coauthored a paper that looked at Missouri's corporate income tax, assessed its problems and posited a way of eliminating it through tax credit reform . As we said at the time,

> Missouri issued more than $400 million in development tax credits in 2012 alone. That is a lot of wealth transference.
>
> Yet the magnitude of Missouri's tax credit problem brings with it a great opportunity. Missouri's CIT recently has generated slightly more than $300 million per year for the state—nearly equivalent to what development tax credits cost Missouri each year. In a sense, the CIT could be seen as underwriting the state's tax credit largesse, but as has been described before, both the CIT and these tax credits tend to hurt economic prosperity. It is a growth-busting double whammy.

Observing that tax credit spending exceeded corporate income tax revenue, we noted that "the CIT can likely be extinguished without raising other taxes or forcing any cuts to services."

Enter our colleagues from Mercatus , who released a report this week on tax incentives nationally and their impact on state tax policies (emphasis mine):

> **Several states, including Missouri and New York, could reduce their corporate tax rates by more than 90 percent if policymakers eliminated corporate incentives**. Michigan, Nebraska, and Oklahoma could completely eliminate corporate taxation and still have room for cuts in other taxes if they eliminated all corporate incentives.

Tax credit spending and corporate income tax revenues vary year-to-year, but the picture is the same; if legislators abandoned corporate tax incentives, they could effectively eliminate the corporate income tax. Mercatus's verification of this circumstance in Missouri is gratifying. You can find some of the underlying data used in their analysis here .

Missouri's decision this year to reform its corporate income tax and reduce it to 4% is certainly welcome. That said, the ultimate target should be the elimination of the tax entirely. It hurts growth. It hurts the state. But ultimately, it hurts people. It's time to move past it.

About the Author

Patrick Ishmael
Director of Government Accountability

Patrick Ishmael is the director of government accountability at the Show-Me Institute.

Read Online

https://showmeinstitute.org/blog/taxes-income-earnings/mercatus-study-affirms-smi-tax-credit-suggestion-2012

Links

[1] https://showmeinstitute.org/blog/taxes-income-earnings/mercatus-study-affirms-smi-tax-credit-suggestion-2012
[2] https://showmeinstitute.org/publication/taxes-income-earnings/cutting-ties-bind-end-missouri%E2%80%99s-corporate-income-tax
[3] https://www.mercatus.org/publications/opportunity-cost-corporate-welfare
[4] https://www.goodjobsfirst.org/subsidy-tracker-2#/data?states=381&level=state_summary&year=2017

Mission Statement

Advancing liberty with responsibility by promoting market solutions for Missouri public policy.

Show-Me Institute

5297 Washington Place
Saint Louis, MO 63108
Phone: (314) 454-0647
Fax: (314) 454-0667

3645 Troost Avenue
Kansas City, MO 64109
Phone: (816) 287-0370

Email: info@showmeinstitute.org

Support Our Work

The Show-Me Institute is a tax-exempt 501(c)(3) nonprofit organization. Make your tax deductible contribution today: http://ShowMeInstitute.org/donate