



INCOME TAX REFORM

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THE PROBLEM: Missouri's economy has been stalled for almost two decades, as startup growth has slowed and entrepreneurs and taxpayers are leaving the state. Missouri's economy is shrinking relative to other states, ranking 48th out of 50 states in real GDP growth between 1997 and 2015, and 44th between the third quarter of 2009 and the second quarter of 2016. Individual and corporate income taxes are destructive to the state's economic growth, productivity, and wealth, encouraging taxpayers to move their work or investments out of Missouri. This not only lowers economic output for the state, but also destabilizes revenue for state and local governments.

THE SOLUTION: *Reduction or elimination of the individual income tax.*

Lowering or eliminating individual income taxes allows Missourians to increase their take-home pay, increase business investments, and encourage population growth through in-migration.

WHO ELSE DOES IT? Seven states (Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming) currently have no income tax. Two other states (New Hampshire and Tennessee) levy income tax only on dividends and income from investments.

THE OPPORTUNITY: Income tax reductions could be achieved in several ways. Reductions in tax incentives and spending can, for instance, provide the budgetary space to cut taxes. Whatever the pathway, reducing an obstacle to state and personal income growth should be a high priority if we want to jumpstart Missouri's economy.

KEY POINTS

- Missourians work hard for their money and deserve to keep what they earn.
- Income taxes penalize and discourage work.

REAL GDP GROWTH MISSOURI AND NEIGHBORING STATES Q3 2009 TO Q2 2016

AREA	GROWTH	RANKING
United States	1.9	N/A
Oklahoma	2.5	5
Nebraska	2.3	9
Iowa	2.3	11
Arkansas	2.2	13
Tennessee	1.8	18
Kansas	1.7	22
Illinois	1.3	33
Kentucky	1.2	36
Missouri	0.8	44

Source: U.S. Bureau of Economic Analysis.

- If you include the 1 percent earnings tax in our two biggest cities, Missouri has a top income tax rate of 7 percent, which is more than all but 17 states. Our top income tax rate equals or exceeds those of all but one of eight neighboring states.
- A real reduction in individual income taxes raises take-home pay and encourages more consumption of Missouri goods and services, making Missouri more competitive with other states in the nation.

SHOW-ME INSTITUTE RESOURCES

Essay: "The 49th State: Revisiting Missouri's GDP Sector by Sector"

Essay: "Taxes Matter and They're Too High for Missouri"