



TESTIMONY

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SENATE BILL 604 AND CITY EARNINGS TAXES

By David Stokes and Corianna Baier

Testimony Before the Missouri Senate Ways and Means Committee

Thank you for the opportunity to present this testimony. Our names are David Stokes and Corianna Baier, and we are policy analysts for the Show-Me Institute, a nonprofit, nonpartisan, Missouri-based think tank that supports free-market solutions for state policy. The ideas presented here are our own.

The purpose of Senate Bill 604 is to declare decisively in state law that the city earnings taxes in St. Louis and Kansas City cannot be applied to telecommuting nonresidents who work from home. For many years, both cities have credited nonresident taxpayers who work in their cities for the portion of their work done outside of city limits. This practice comports with the plain language of the applicable statutes and ordinances.

However, the City of St. Louis has announced that it will now collect earnings tax from nonresidents who work for businesses within the city even if they work from their homes

outside of the city limits. While we understand the financial challenges the pandemic poses for many entities, we think this decision is misguided and violates existing law. (Kansas City elected officials have been quoted that they are considering the same decision, but as of now we understand the city still intends to issue refunds for nonresidents who work from home.)

The argument for the earnings tax has always been that people working in the city need to contribute to city coffers. Whatever you think of that rationale, it would be a dramatic expansion of these cities' authority to allow them to collect taxes for work performed outside of the cities.

The earnings tax in general places a burden on workers and can contribute to business decisions to locate outside of St. Louis City and Kansas City.¹ Remote work has become much more popular, and many believe it will remain popular going forward.

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If remote workers are burdened by the earnings tax being improperly applied to telecommuting, this may create even more incentive for businesses to locate or relocate outside the city. We do not need another reason for businesses to locate outside of Missouri's largest cities.

We believe Senate Bill 604 provides an important statement on the telecommuting issue as it relates to local earnings taxes in Missouri. Such a tax increase on nonresidents is not warranted. Thank you for the opportunity to testify today.

David Stokes is director of municipal policy at the Show-Me Institute.

Corianna Baier is a policy analyst at the Show-Me Institute.

ENDNOTES

1. Baier, Corianna. "Local Income Taxes." Show-Me Institute. 2020. <https://showmeinstitute.org/publication/taxes/report-local-income-taxes>.



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