



# TESTIMONY

March 9, 2021

## HOUSE BILL 1294 AND CITY EARNINGS TAXES

*By David Stokes and Corianna Baier*

*Testimony before the Missouri House Emerging Issues 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.

If the purpose of HB 1294 is to decisively declare in state law that the city earnings taxes in St. Louis and Kansas City cannot be applied to telecommuting nonresidents who work from home, then that is an important purpose. However, we believe, as currently worded, HB 1294 will create greater confusion and potentially subject nonresidents of St. Louis and Kansas City to greater earning taxes than are required by current law.

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. While we disagree with that belief regarding earnings taxes, it would be a dramatic expansion of these cities' authority to allow them to

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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. Remote work has become much more popular, and many believe it will remain popular going forward. If remote workers are burdened by the earnings tax, this may create even more incentive for businesses to locate or relocate outside the city. We don't need another reason for businesses to locate outside of Missouri's largest cities.

We believe HB 1294 attempts to provide an important statement on the telecommuting issue as it relates to local earnings taxes in Missouri. However, the minimum-days requirements in the legislation should be removed. This language is unnecessary and could be interpreted as allowing the cities to impose the earnings tax on nonresidents who telecommuted or worked remotely for less than one hundred days. Such a tax increase on nonresidents is not warranted. Thank you for the opportunity to testify today.

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

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## ENDNOTES

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



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