



TESTIMONY

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HOUSE BILL 1740: MODIFIES PROVISIONS RELATING TO EARNINGS TAX

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Testimony before the Missouri House Workforce Development 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 House Bill 1740 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 recognized that the earnings tax does not apply for the portion of work done outside of the city limits by nonresidents. This practice comports with the plain language of the applicable statutes and ordinances.

Despite the clarity of existing law, the City of St. Louis, since 2020, has collected earnings-tax revenue from nonresidents who work for businesses

within the city even if they perform their work from their homes located outside the city limits. While we understand the financial challenges the pandemic poses for many entities, this decision is misguided and violates existing law. If the lawsuits filed against the city are any indication, it seems many workers and businesses agree.¹

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 the City of St. Louis' authority to allow it to collect taxes for work performed outside of the city.

Kansas City, on the other hand, is issuing earnings tax refunds to remote workers. The city set aside about \$17 million to reimburse taxpayers in 2021.² While that's a large amount of tax revenue, those tax dollars rightly belong in the pockets of hardworking

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remote workers. However the two cities chose to address the issue, it is worth noting that they each received hundreds of millions of dollars in Federal stimulus funds in 2021, and one of the primary purposes of those funds was to replace lost local tax revenues.

The earnings tax in general places a burden on workers and can contribute to business decisions to locate outside of the City of St. Louis and Kansas City.³ 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 being improperly applied to telecommuting, their employers will have even more incentive to relocate their businesses or simply open satellite offices outside the city. We do not need another reason for businesses to locate outside of Missouri's largest cities.

We believe House Bill 1740 provides an important statement about telecommuting 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.

NOTES

1. Cameron Gerber. "St. Louis remote workers challenge city's earnings tax." The Missouri Times. <https://themissouritimes.com/st-louis-remote-workers-challenge-citys-earnings-tax>; Jacob Barker. "AT&T says St. Louis collector improperly charged payroll tax on work outside city limits." St. Louis Post-Dispatch. https://www.stltoday.com/news/local/govt-and-politics/at-t-says-st-louis-collector-improperly-charged-payroll-tax-on-work-outside-city-limits/article_6e98f5c1-0479-5357-902a-b69b6427c9d3.html

2. Mike Hendricks. "Remote workers: Expect to wait months for your Kansas City earnings tax refund." Kansas City Star. <https://www.kansascity.com/article250335116.html>
3. Corianna Baier. "Local Income Taxes." Show-Me Institute. 2020. <https://showmeinstitute.org/publication/taxes/report-local-income-taxes>



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