Missouri Tax Overview

Executive Summary

Outside of federal dollars, state and local budgets are primarily funded by taxes on what a household or business earns (e.g., income tax), buys (e.g., sales tax) and owns (e.g., property tax). The features of different taxes can vary substantially, including who is levying the tax (county, state), who pays the tax (household, business/developer), how tax liability differs between individuals (e.g., income-based) and what programs/functions can be funded by the tax. The Hancock Amendment limits the amount of revenue that can be generated by taxes in Missouri. Tax liability can be reduced through various mechanisms, including tax credits, deductions, exemptions and exclusions. However, there are tradeoffs between tax burden and the availability of public services. These tradeoffs are often different based on the type of tax break, who qualifies, and where qualified taxpayers are located.

Highlights

- In 2019, Missouri revenue was more than $4 billion under the Hancock limit. State revenue has only surpassed the Hancock limit once (1995-1998), resulting in a billion-dollar refund to taxpayers (~$40/household).
- Property tax revenue accounts for a significant portion of local spending. Missouri's Property Tax Credit is intended to allow individuals living with disabilities and seniors who have fixed incomes to stay in their home by offsetting costs related to property taxes.
- Almost ¼ of state general revenue in Missouri comes from the state sales & use tax. When city and county taxes are included, the sales and use tax rate varies across Missouri between 4.3 - 11.6%.
- A majority of general revenue funds (~70%) come from income taxes. Most Missourians are not eligible for individual income tax exemptions.

This science note was prepared by Dr. Whitley, Dr. Barnas, and Dr. Bickell, by the MOST Policy Initiative, Inc. a nonprofit organization aimed to improve the health, sustainability, and economic growth of Missouri communities by providing objective, non-partisan information to Missouri's decision-makers.
For more information, contact Dr. Brittany Whitley– brittany@mostpolicyinitiative.org. This was prepared in March 2021.

General Background

The Missouri Constitution limits the amount of tax revenue that state and local governments can collect without voter approval.

In 1980, Article X of the Missouri Constitution was amended to limit the extent to which the state government can raise taxes. These provisions, known as the **Hancock Amendment**, prohibit state tax revenue from exceeding 5.6% of the "personal income of Missouri"- or the total income received by persons in Missouri from all sources. After surpassing the Hancock limit in the 1990s, Missouri issued a billion-dollar refund in 1998 to taxpayers (approximately $40 to each household). In response, 20 different tax cuts were passed between 1993-2013; tax cuts over the past 25 years are estimated to cost approximately $1.5 billion each year. Since 2000, Missouri has consistently operated well under Hancock limits (more than $4 billion under limit in 2019).[1-3] Local tax increases (and state increases above the Hancock limit) are subject to voter approval.

Property Taxes

Real (e.g., land, house/building) and personal (e.g., cars, equipment) property are primarily subject to local taxation.

Taxable property is typically categorized as personal property or real property**.** Real property includes both land and all crops, buildings, structures, improvements and fixtures on the land; personal property refers to tangible property (e.g., cars, boats, machinery and equipment) which are not permanently attached to land.[4] Property taxes apply to both residential (e.g., homestead) and commercial (e.g., office buildings) properties.

The state treasury collects three cents on each $100 valuation of taxable property in Missouri to be paid into the Blind Pension Fund (RSMo. 209.130), which currently accounts for no more than 0.2% of total tax revenue collected by the state.[5,6] Most property taxes, however, are assessed, levied and collected by counties (RSMo. 137.035) in order to fund a range of public goods and services (e.g., schools, infrastructure, public safety).[7] In Missouri, for example, the majority of public education funding comes from local tax revenue.[8]

Existing property tax credits & exemptions reduce the tax burden on specific populations (e.g., seniors), but impact local budgets by reducing overall tax revenue.

Missouri Property Tax Credit: Senior citizens and 100% disabled individuals in Missouri are eligible to apply for the Missouri Property Tax Credit. The tax credit value is calculated based on income and the amount of taxes owed or rent paid, but cannot exceed $750 for renters and $1,100 for homeowners. In FY20, total redemptions of this credit were valued at $88.7 million.[9]

Homestead Exemption for Prisoners of War (POW): Article X, Section 3 of the Missouri Constitution exempts former POWs who are 100% disabled from taxes on all real property used as a homestead. However, no one has been eligible to qualify for this exemption to date.

2021 Legislation: Several bills have been introduced during the 2021 legislative session that would expand the POW homestead exemption to other groups (e.g., veterans with a service-related, 100% disability rating- HJR 3, HJR 32, HJR 63; senior citizens- HJR 17). Other proposed constitutional amendments relating to property taxes would change how property taxes are assessed (e.g., HJR 4, HJR 13) and how much property tax rates can increase each year (HJR 31, HJR 33); HJR 57 would exempt all personal property from taxation.

Sales & Use Taxes

States, counties and cities may impose sales and use taxes on most physical goods and services.[10]

A 4.225% state sales tax is added to most tangible goods and taxable services in Missouri (RSMo 144.020). A majority of the sales and use tax (71%) funds general revenue; in FY 2021, 23.6% of the general revenue was derived from sales and use tax (Chapter 144, RSMo.).[1] The remaining sales and use tax revenue is distributed into three additional areas: education (~24%), conservation (~3%), and parks/soils (~2%). While states rely most heavily on sales taxes, cities and counties may also impose a local sales and use tax. City and county sales tax increases vary significantly across Missouri and currently range between 4.3% and 11.7%.[11] Additionally, some general revenue sale and use taxes are earmarked, or dedicated to a specific purpose; an example of an earmarked use tax is the gas tax which is used for Missouri road repairs.[1]

Sales & use tax exclusions and exemptions apply to all consumers, regardless of income, but reduce the revenue available for future expenditures.

Several goods and services are always exempted or excluded from sales tax. Missouri also has six specialty tax provisions, including a reduced tax on the retail sale of food and temporary exemption periods, or sales tax holidays, for school supplies and energy star-certified appliances. Sales tax exemptions and exclusions assist all consumers regardless of their socioeconomic status by putting more money into circulation and promoting economic growth. However, sales tax exemptions and exclusions reduce the sales tax base, and can potentially reduce revenue generated for upcoming fiscal years.

Income Taxes

Individual income taxes account for a significant portion of state-generated revenue.

Individual income taxes are a major source of state general revenue, accounting for approximately one third of state-generated revenues and over 70% of general revenue.[1,5] Income tax structures can be single-rate (one rate for all taxpayers) or graduated (increasing tax based on income/ability to pay). Missouri has a graduated income tax structure with nine rate brackets based on income levels. In Missouri, taxpayers who make more than $8,584 a year pay 5.4% in income taxes, while below that amount, tax rates vary from 5% to 1.5% for individuals who make less than $7,511 and $107 a year, respectively.[12] The standard deduction is $12,550 for singles and $25,100 for married couples filing together. Among states with income taxes, Missouri has the 6th lowest average state marginal individual income tax rates in the nation and ranks 24th for the statutory maximum individual income tax rate (Table 1; Figure 1).[12] For a full comparison on how state individual income rates and deductions vary across tax brackets in Missouri and across states, see Table 2.[12] Finally, in addition to state income taxes, Missouri has an average county- and city-level income tax of 0.22%.[12]

There are limited opportunities for individual, state-level income tax exemptions in Missouri. In general, income taxes based on income are considered less regressive than sales and property taxes.

Beginning with tax year 2020, military personnel in Missouri may deduct a portion of their income earned from the following sources from their Missouri adjusted gross income: National Guard Inactive Duty Training (IDT), National Guard Annual Training (AT), Reserve Components of the Armed Forces. As of 2021, seven states — Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming have no individual income tax. New Hampshire and Tennessee don't tax earned wages. States with no income tax often make up the lost revenue with other taxes or reduced services. The average sales tax in these states is 7%. Unlike sales taxes, income taxes- especially graduated taxes- impose a greater tax burden on affluent, rather than low- and middle-income families.

Taxes paid on a *company's* taxable income can affect their economic activity within a region.

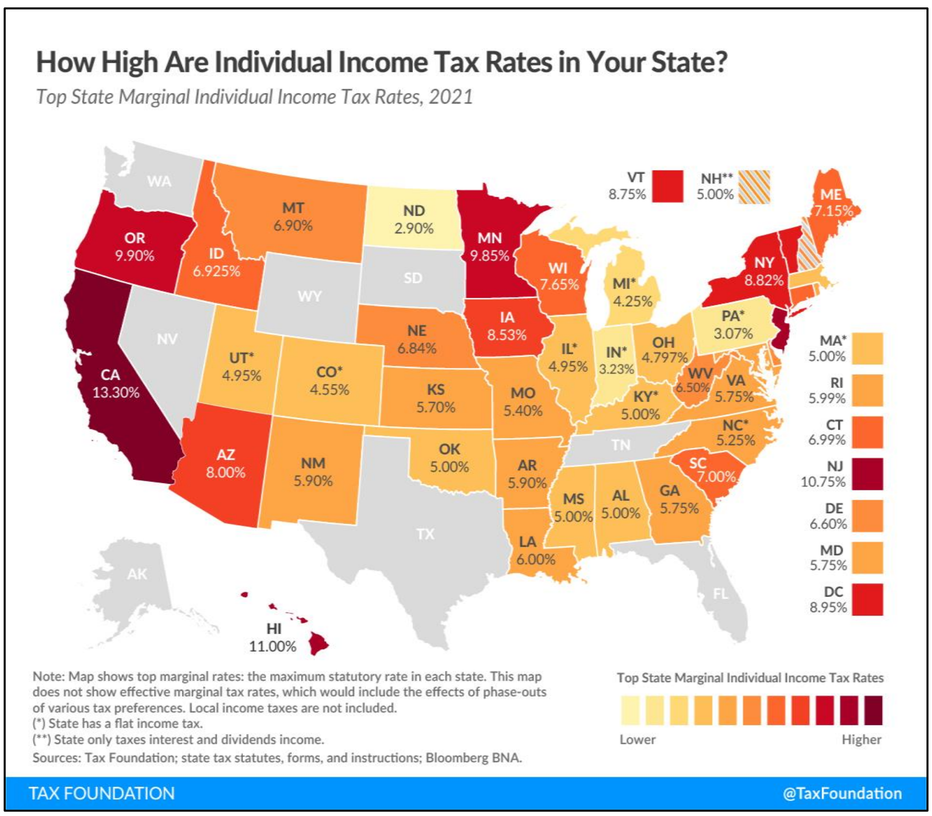

Figure 1. State Marginal Individual Income Taxes, Taxfoundation.org[12]

Corporate taxes are taxes on the profits of corporations, where the costs of goods sold (COGS), general and administrative (G&A) expenses, selling and marketing, research and development, depreciation, and other operating costs are *subtracted from the company's revenue*. Corporate tax can affect a business's level of economic activity within a state and a state's corporate tax rate is the most relevant tax in the investment decisions of foreign investors. Most states levy standard corporate income taxes on profit (gross receipts minus expenses), and some states impose taxes on the gross receipts of businesses with few or no deductions for expenses.[13]

Tax deductions and credits are available for several corporate expenses.

Just like individuals, corporations are permitted to reduce taxable income by certain necessary and ordinary business expenditures. Some of the eligible expenses that are fully-deductible are all the expenses required for the operation of the business (e.g., employee salaries, health benefits, tuition reimbursement, bonuses, insurance premiums, travel expenses, bad debts, interest payments, sales taxes, fuel taxes, excise taxes, tax preparation fees, legal services, bookkeeping, and advertising costs), but also investments and real estate purchases that are made with the intent of generating income for the business.[14]

References

1. Missouri Budget Project. (2021). Introduction to Missouri's State Budget. Retrieved from https://www.mobudget.org/intro-mo-budget/.
2. Kevin-Myers, B. & Hembree, R. (2012). The Hancock Amendment: Missouri's Tax Limitation Measure. *University of Missouri Institute of Public Policy*. Retrieved from https://truman.missouri.edu/sites/default/files/publication/17-2012-hancock-amendment.pdf.
3. Missouri State Auditor. (2020). Review of Article X, Sections 16 Through 24, Constitution of Missouri: Year Ended June 30, 2019. Retrieved from https://app.auditor.mo.gov/Repository/Press/2020035217093.pdf.
4. State Tax Commission Definitions. State of Missouri. Retrieved from https://stc.mo.gov/definitions/.
5. United States Census Bureau. Quarterly Summary of State and Local Tax Revenue. Retrieved from https://www.census.gov/programs-surveys/qtax.html
6. Missouri Department of Revenue. Financial and Statistical Report: Fiscal Year Ended June 30, 2020. Retrieved from https://dor.mo.gov/cafr/documents/financialstatreport20.pdf.
7. Missouri State Auditor. 2020 Property Tax Rates. Retrieved from https://app.auditor.mo.gov/AuditReports/ViewReport.aspx?report=2020113.
8. Missouri Budget Project. Budget Basics: K-12 Education FY2021. Retrieved from https://www.mobudget.org/wp-content/uploads/2021/02/K-12-2021-Budget-Primer.pdf.
9. Missouri Department of Revenue. (2020). Fourth Quarter: Tax Credit Report/FY20. Retrieved from https://dor.mo.gov/publicreports/Fourth_Quarter_FY20_Tax_Credit_Report.pdf.
10. Missouri Department of Revenue. Sales/Use Tax. Retrieved from https://dor.mo.gov/business/sales/.
11. Missouri Department of Revenue. (2020). Sales and use Change. Retrieved from https://dor.mo.gov/business/sales/taxcards/multiletter.pdf
12. Loughead, K. (2021). State Individual Income Tax Rates and Brackets for 2021. *Tax Foundation*. Retrieved from https://taxfoundation.org/publications/state-individual-income-tax-rates-and-brackets/.
13. Walczak, J. & Cammenga J. 2021 State Business Tax Climate Index. *Tax Foundation*. Retrieved from https://taxfoundation.org/2021-state-business-tax-climate-index/#Corporate
14. Kagan, J. & Walters, T. Corporate Tax. *Investopedia*. Retrieved from https://www.investopedia.com/terms/c/corporatetax.asp.

Other resources:

https://www.census.gov/programs-surveys/qtax.html
https://www.taxpolicycenter.org/briefing-book/how-do-state-and-local-sales-taxes-work