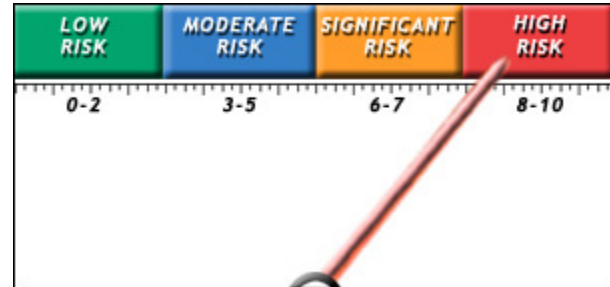


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MISSOURI

Most states have structural weaknesses in their tax systems that put them at risk of experiencing gaps between revenues and necessary expenditures in coming years. The Center evaluated each state's likelihood of facing a structural deficit by determining how many of ten "risk factors" applied to each state. Missouri is rated as having a high risk of a structural deficit based on its score of eight on the risk scale for structural deficits.



- In Missouri, the percent of sales subject to sales tax declined by 13.5 percentage points from 1990-2003, exceeding the US median decline of 8.0 percentage points. Moreover, Missouri's sales tax covers less household services than the average state.
- Missouri has significant loopholes in its corporate income tax.
- Missouri could lose an estimated \$378 to \$592 million in revenue a year due to the growth of e-commerce. This loss is greater than the national average as a share of total revenue.
- The top bracket of Missouri's income tax starts at a relatively low level making it a less progressive tax. An individual earning \$30,000 in Missouri pays income tax at the same rate as someone earning \$300,000.
- During 1994-2000, Missouri reduced taxes; the largest reductions were in the personal income tax. This is problematic since income taxes provide stronger growth over the long term than other types of taxes.
- Missouri has a constitutional revenue limit that restricts revenue to 5.64% of the prior year's personal income and a limit on the growth of local property tax revenue. It also has a supermajority requirement for all tax increases.
- Missouri remains linked to the federal phase-out of the estate tax, which eliminates a rapidly growing revenue source and costs the state an estimated \$165 million per year. Also, Missouri's income taxes are linked to the federal standard deduction, so that any increase in the federal standard deduction results in an increase in the Missouri standard deduction, which reduces Missouri tax revenue.
- Two other national studies (Hovey 1998 and Boyd 2002) found that Missouri has a structural gap.
- Lastly, although this paper did not categorize Missouri as having unusually high spending needs, it does face some spending pressure from the number of students with special needs.