

Impact of HB567: Comprehensive Income Tax Reform Bill

Institute on Taxation and Economic Policy
Missouri House of Representatives
Testimony Before the House Tax Reform Committee
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Testimony Overview

- Introduction to ITEP
- Tax Policy Principles
- Components of HB 567
- Impact on Missourians
- Missouri's Tax Structure After HB 567

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What is ITEP?

- Washington DC based
- "Think Tank"
- Non-Profit
- Founded in 1980

Microsimulation Tax Model

- Built in 1994-1996; still evolving
- Predicts:
 - Effect of tax changes on taxpayers at different income levels
 - Revenue loss/gain from tax changes
- Estimates impact of current state and local taxes in all 50 states

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Tax Policy Principles

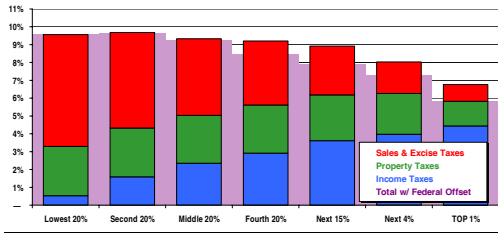
- **Adequacy**
 - Providing sustainable adequate revenue over the long and short term
- **Fairness**
 - Based on ability to pay
- **Modern**
 - Keeps pace with changes in the economy

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Fairness

Missouri State & Local Taxes in 2007

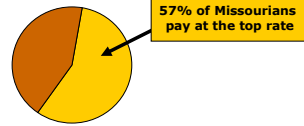
Shares of family income for all-ages taxpayers



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Rates and Brackets

- Outdated
- Graduated in Name Only



Income Tax Rates & Brackets	
—	1.5%
1,000	2.0%
2,000	2.5%
3,000	3.0%
4,000	3.5%
5,000	4.0%
6,000	4.5%
7,000	5.0%
8,000	5.5%
9,000	6.0%

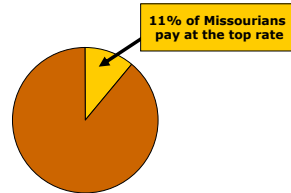
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How HB567 Works:

- #1: Broadens tax brackets, adds new top rates
- #2: Introduces \$150 refundable credit that is phased out for higher income levels
- #3: Eliminates the deduction for federal income taxes paid

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Component #1: Broadens tax brackets, adds new top rates

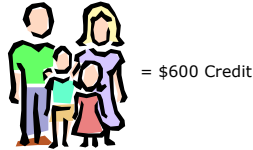


Income Tax Rates & Brackets	
—	1.50%
2,000	2.50%
4,000	3.50%
6,000	4.50%
8,000	5.50%
10,000	6.25%
12,000	6.75%
14,000	7.25%
16,000	7.50%
18,000	8.25%
20,000	8.50%
50,000	9.00%

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Component #2: \$150 Refundable Credit

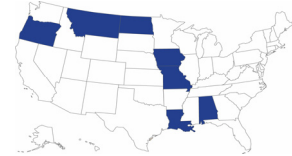
- \$150 Refundable Credit Per Person
- Credit is phased out for higher income levels
 - \$30-50,000 for single people
 - \$60-80,000 for married couples



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Component #3: Removes Deduction for Federal Income Taxes

- Missouri is 1 of 7 states that allows a deduction for federal income taxes paid
- Deduction largely benefits the wealthiest taxpayers



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The Impact HB 567 has on Missourians

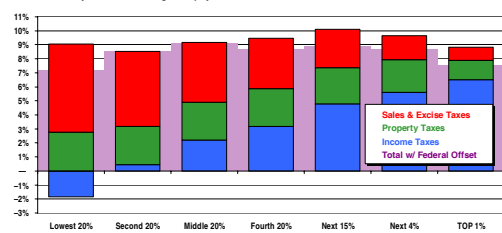


\$25,000 \$50,000 \$75,000
Tax Change = -\$619 Tax Change = -\$550 Tax Change = +\$700

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Missouri structure after HB 567

Missouri State & Local Taxes in 2007 After Implementing Reform
Shares of family income for all-ages taxpayers



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House Bill 567

- ☑ **Adequacy**
 - Increases revenue by \$1.3 billion
- ☑ **Fairness**
 - Increases fairness of Missouri's tax structure overall
- ☑ **Modernizes income tax brackets**

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