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## Op-Ed Release

Hammond Institute for Free Enterprise

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FOR IMMEDIATE RELEASE

### Missouri's Tax Code Needs Reform

*Missouri's tax code puts most businesses at a competitive disadvantage compared to other states*

Dec. 8, 2017 -- Simply comparing corporate tax rates between states is misleading. While Missouri's corporate income tax rate is a maximum of 6.5 percent, Iowa's is 12 percent and some states have a zero tax rate, tax rates apply to different levels of income and in Missouri, different industries get different tax breaks.

Let me sort this out.

The Tax Foundation, together with KPMG LLP, developed an approach with a more accurate comparison of overall business tax costs across states. They created representative firms in seven different industries: a corporate headquarters, a research and development facility, a retail store, a capital intensive manufacturer, a labor intensive manufacturer, a call center and a distribution center. By holding firm characteristics constant (revenue, number of employees, size of facility etc...) it is easier to compare tax liabilities across states.

Since a firm's tax bill includes more than just income taxes, The Tax Foundation's approach considers a firm's total state and local tax bill. This approach is a comprehensive look at not only income taxes, but also property taxes, sales taxes and unemployment insurance taxes. This total or "effective tax burden" represents the tax liability a firm considers when deciding if they want to locate or expand in our state.

Using this information, my colleague, Howard Wall, and I sought to reveal what the total effective tax burden is for the seven representative firms in Missouri. We compared Missouri results with all states and our surrounding states.

The results will surprise you.

The effective tax rate in Missouri differs greatly depending on the type of firm. A distribution center has the highest tax rate at 28.6 percent, with 19.4 percent of this being property taxes, which is the highest across all seven firm types. This firm type has a 5 percent income tax.

At the other extreme, the lowest effective tax rate is paid by manufacturing firms; 7.8 percent for firms relying on machinery and 5.9 percent for the manufacturer relying more on labor. Why comparatively lower? Corporate income tax rates for these manufacturing firm types are effectively zero. Their overall tax rate is low because Missouri tax laws exempt manufacturing from sales tax. A perk not enjoyed by other types of businesses.

Across all 50 states, Missouri's effective tax rates place it 31<sup>st</sup> or worse in five out of seven business categories. This poor ranking holds true when we compared Missouri taxes to those in our surrounding states. The two representative manufacturing firm types were the exception to these findings.

Have these differing tax policies made Missouri more attractive to business?

Apparently not, as Missouri's economic growth over the past decade has ranked near the bottom in the nation.

Missouri's tax code places most businesses at a competitive disadvantage compared to other states.

Revising Missouri's tax code to be less complicated, more broad based and with lower rates, seems to be the reform needed for a stronger economy.

**Rik W. Hafer, Ph.D.**

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