

Title: **Are Missouri businesses taxed too much?**
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Are Missouri businesses taxed too much?

Effective tax rate in state differs greatly depending on type of business.

BY R.W. HAFER

How would you respond to the question posed in the headline? Looking at Missouri's corporate income tax rate, you might say no. At a maximum of 6.5 percent, Missouri's corporate income tax is much lower than, say, Iowa, where it is 12 percent. But several states have a zero corporate tax rate.

It also is true that tax rates in different states apply to different levels of income. And different industries get different tax breaks, so the maximum rate doesn't even apply equally to all firms. So the answer involves more than just comparing top tax rates.

To help sort all of this out, the Tax Foundation, together with KPMG LLP, developed an approach that allows for a more accurate comparison of business taxes across states. To do this they first created a representative firm in seven different industries: a corporate headquarters, an R&D 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 the "same" firm's tax liability across states.

They also recognized the fact that a firm's total tax bill includes more than just income taxes. The Tax Foundation's approach took into account not only what the firm pays in state corporate income taxes, but also its tax bill for property taxes, sales taxes and unemployment insurance taxes. This

total or effective tax burden represents a firm's real tax burden. More than just the corporate income tax, it is the effective tax that explains why firms might or might not choose to locate in one state or the other.

Using the information provided by the Tax Foundation, my colleague Howard Wall and I answered the title of this essay by comparing the total effective tax bill of the representative firms in Missouri to all other states, and to our neighboring states. The results (available in more detail at <https://showmeinstitute.org/publication/taxes-income-earnings/taxing-business-missouri>) might surprise you.

What we found is that the effective tax rate in Missouri differs greatly depending on the type of firm. A distribution center, for example, has the highest effective tax rate at 28.6 percent. Most of this comes from the 19.4 percent property tax rate it pays, which is the highest across all seven firm types. With an income tax rate of slightly below 5 percent, it is clear that analyzing the effects of taxes on location decision must account for local as well as state-level taxes.

At the other extreme, the lowest effective tax rate is paid by manufacturing firms: 7.8 percent for firms that rely on machinery; 5.9 percent for manufacturers that rely more on labor. Why the comparatively low tax rates? The answer is that corporate income tax rates for these representative manufacturing firms are effectively zero. Their overall tax rate is low, not only

but also because Missouri tax law exempts manufacturing machinery from the sales tax, a perk not enjoyed by other types of businesses.

Looking at how we compare to the other 49 states, Missouri's effective tax rates place it 31st or worse in five out of the seven business categories. This relative poor ranking also holds true when we compare Missouri's taxes to those in our neighboring states. And which two industries do not fall into this region? At both the national and regional level, only manufacturing in Missouri is not taxed at a comparatively high overall rate.

If Missouri's taxes have been structured to economically support manufacturing firms in order to make Missouri a relatively more attractive place to locate these production facilities, has doing so helped improve the overall performance of the economy? Apparently not: Over the past decade, the growth of Missouri's economy ranks near the bottom in the nation.

Missouri's tax code places most of its businesses at a competitive disadvantage compared with other states. If Missouri wants to attract new business and keep existing ones from departing for other states, any revision of taxes should follow the dictum that they be broad-based, should be low, and should not be complicated.

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