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Apples to Oranges: Making Comparisons Between Missouri's Expanded Sales Tax Proposal and Other States is Unsound

Tom Kruckemeyer, Chief Economist and Amy Blouin, Executive Director

Proponents of the proposal to eliminate Missouri's current state general revenue structure and replace it with a greatly expanded sales tax often compare their plan to states that do not have an individual income tax. However, this comparison is inherently flawed for two main reasons:

1. No state currently relies entirely on sales tax to fund its entire state budget; and
2. No state currently taxes services as broadly as Missouri would under the proposal.

The following describes these two critical distinctions.

Tax Systems of Other States

Proponents of Senate Joint Resolution 29 (SJR 29) and House Joint Resolution 56 (HJR 56) often compare their proposed expanded sales tax with states that do not have a personal income tax. However, all of the states that are used as comparisons rely on several taxes that would not be available to Missouri under either SJR29 or HJR 56. These taxes are critical to funding the state infrastructure and services within these states in absence of a personal income tax and would not be possible for Missouri.

Eight states currently do not levy an individual income tax including Alaska, Florida, Nevada, South Dakota, Texas, Washington and Wyoming. Many of these states still collect corporate incomes taxes, which would be eliminated under Missouri's proposal. Several of the states have natural resources and tourism infrastructures not in place in Missouri that generate significant tax revenues, and at least one state has a state property tax. The table below summarizes the tax revenues available in those states that would not be available in Missouri under SJR29/HJR56.

Table 1: Tax Systems of Other States[i]

State	Tax	As a Percent of State Tax Revenue
Alaska	Corporate Income Tax Oil Severance Fees	12 percent 64.4 percent[ii]
Florida	Corporate Income Tax	8 percent[iii]
Nevada	Business License Fees Gaming Tax Revenue	7.4 percent 15 percent[iv]
South Dakota	Bank Franchise Tax, Contractors Excise Tax, and Taxes on Insurance Companies	15.73 percent combined[v]
Texas	Oil Severance Fees	9 percent
Washington	State Property Tax Business & Occupation Tax	10.4 percent[vi] 19.5 percent[vii]
Wyoming	Coal Severance Taxes	41 percent

The Washington state business and occupation tax is the state's second largest tax source. Rather than a traditional corporate income tax, this tax is assessed on gross receipts of companies. Two other states, Alaska and Florida, continue to asses a more traditional corporate income tax. Alaska and Wyoming have the additional luxury of significant natural resources to which they can apply severance fees. What is common among these states is that none of them rely entirely upon a sales tax, as Missouri would under SJR29 & HJR56.

Two additional states which are often used for comparison to Missouri's tax proposal are **New Hampshire and Tennessee. Both of these states continue to asses corporate income taxes**, which would not be available in Missouri, should SJR29 & HJR 56 pass the legislature and be approved by voters. **The corporate income tax in Tennessee made up about 9 percent of the state's tax revenue in 2008.**[viii] **In addition, both states continue to collect personal income taxes**. While New Hampshire maintains a relatively low personal income tax rate, Tennessee taxes income from interest and dividends.

State Sales Tax on Services

Another significant distinction of the new tax structure under SJR 29/HJR 56 is that it would apply the increased sales tax rate in Missouri to nearly every service that families purchase, including those that families need to maintain healthy lives and to be able to work. Specifically, SJR 29 and HJR 56 would tax access to health care services. Everything from a doctor's visit co-payment to a prescription medication to family counseling would be subject to the new tax. In addition, services that are fundamental for families to be able to work, specifically child care, would be taxed. No other state currently taxes services this broadly.[ix]

The data presented above indicates that state tax structures are complex. No state currently operates under a tax structure like that proposed in SJR 29 & HJR 56. No other state relies solely on sales taxes and no other state taxes services as broadly as what Missouri would. Comparisons to these states should not be made.

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[i] Unless otherwise indicated, all tax data is from the 2008 Census of Governments, U.S. Census Bureau
[ii] National Conference of State Legislatures, "State Energy Revenues Update"
[iii] Florida, Annual General Revenue Report, Receipts by Source, 2010-2011, available at: http://www.thepeoplesbudget.state.fl.us/reports/Preformatted/Annual_General_Revenue_Receipts_By_Source.pdf
[iv] American Gaming Association
[v] State of South Dakota, Bureau of Finance and Management, Governor's Budget Report for Fiscal Year 2011
[vi] "A Citizens Guide to the Washington State Budget", 2009, available at: http://www.leg.wa.gov/Senate/Committees/WM/Documents/Publications/BudgetGuides/2009/CGTB09.pdf
[vii] IBID
[viii] IBID # 1
[ix] For more information on taxation of services, see the following: "Expanding Sales Taxation of Services: Options and Issues", Michael Mazerov, Center on Budget & Policy Priorities, July 2009; also suggested: the Federation of Tax Administrators: http://www.taxadmin.org/fta/pub/services/btn/0708.html#table