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Economic Myths and Truths about HJR 56, HJR 71 and SJR 29: The Proposals to Drastically Shift Missouri's Tax Base

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Proponents of the proposals to eliminate Missouri's income tax and replace it with a greatly expanded sales tax claim that the state would receive a significant economic benefit from this change.[1] The proponents claim that Missouri would have significant growth in the gross state product (GSP) and often compare Missouri to Tennessee. However, their assumptions are limited and not supported by economic data. Further, the proposal Missouri is considering is unlike any other state tax structure. Not only would Missouri's rate of state sales tax need to increase to as much as 11 percent, it would be applied to nearly all services. No other state taxes services as broadly or to that degree.[2]

As verified by the data in the following table, there is simply no correlation between state individual or corporate income taxes and economic growth. Some of the highest income tax states have had better economic growth in the last decade than those states with no income tax. For instance, New York, with a per capita individual income tax of $1,780 saw its real gross state product (GSP) increase by 37.63 percent over the last decade. Texas, a state without income tax, had real GSP increase by 19.68 percent, or half New York's rate of growth, during the same period.

Proponents of the proposal often compare Missouri to Tennessee as an example of a state without income tax that borders Missouri. Although the data do indicate that Tennessee's GSP growth outpaced Missouri, the two states had very similar increases in personal income growth and Missouri's unemployment rate during the economic recession is significantly lower than this neighbor's.

In addition, Missouri's neighbors of Iowa and Kansas are examples of two Midwest states that have considerably higher individual and corporate income taxes per capita than both Missouri and Tennessee. However, these states had stronger economic growth over the last decade and both are faring much better in the current economic recession than either Tennessee or Missouri. Iowa's GSP grew by more than 24 percent in the last decade and Kansas' GSP grew by 21 percent, far outpacing Tennessee's growth of slightly more than 14 percent. Both Iowa and Kansas have unemployment rates under 7 percent, while Tennessee tops 10 percent.

What the data do indicate is that there is no correlation between state individual and corporate income taxes and economic growth. State rates of economic growth and taxes vary considerably and there is no common pattern to make assumptions from. Many recent national studies back this up. A recent book by economist Robert Lynch asserts that state and local taxes have become irrelevant to business location and investment decisions.[3]

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[1] "Why a Sales Tax is Better for Missouri than an Income Tax", Rex Sinquefield and Jack Naudi, Show-Me Institute, December 2009. http://www.showmeinstitute.org/publication/id.226/pub_detail.asp

[2] For more information see "Proposal to Drastically Change Missouri's Tax Structure Would Burden Missouri Families and Economy: Consequences of HJR 56, HJR 71 and SJR 29", Missouri Budget Project

[3] "Rethinking Growth Strategies" Robert Lynch , 2004, Economic Policy Institute

Missouri policymakers should not allow myths or misuse of economic data to misguide their critical debate of these dramatic proposals to alter Missouri's tax structure. In the end, Missouri is faced with proposals that are not comparable to other states. Not only does the economic data not support the assumptions of growth that have been made by proponents, no other state has ever enacted a sales tax of this combined rate and breadth. The proposal is an untested and unproven gamble.

Comparing Economic Indicators and Income Tax in the States					
State	**Per Capita Individual Income Tax 2007**[4]	**Per Capita Corporate Income Tax 2007**[5]	**Personal Income Growth Per Capita (1998 – 2008)**[6]	**Real Gross State Product Growth Per Capita (1997 – 2008)**[7]	**Unemployment Rate November 2009**[8]
Missouri	$822	$66	44%	6.81%	9.5
Tennessee	$36	$182	43%	14.09%	10.3
National Average			47%	18.80%	10
Highest Per Capita Individual Income Tax States					
Connecticut	$1,815	$236	51.2%	17.31%	8.2
New York	$1,780	$279	55.1%	37.63%	8.6
Massachusetts	$1,762	$326	55.3%	31.85%	8.8
Oregon	$1,498	$109	39.5%	34.16%	11.1
California	$1,466	$307	49.5%	30.95%	12.3
States Without An Individual Income Tax					
Alaska		$1,195	57.6%	(-4.88%)	8.7
Nevada		$0	43.8%	8.58%	12.3
Texas		$0	48.8%	19.68%	8.0
Florida		$134	48.4%	20.57%	11.5
Washington		$0	48.7%	21.66%	9.2
Wyoming		$0	90%	24.91%	7.2
Missouri's Neighboring States					
Arkansas	$766	$128	55.7%	15.55%	7.4
Illinois	$734	$229	42.3%	14.7%	10.9
Iowa	$894	$109	50.2%	24.07%	6.7
Kansas	$988	$190	49.1%	21.26%	6.3
Kentucky	$718	$233	44.2%	5.36%	10.6
Nebraska	$933	$120	51.4%	19.26%	4.5
Oklahoma	$946	$156	64%	19.51%	7

[4] CQ Press using data from the U.S. Bureau of the Census
[5] IBID
[6] U.S. Department of Labor, Bureau of Economic Analysis
[7] IBID
[8] IBID