The MISSOURI BUDGET PROJECT

Shaping Policy... Creating Opportunities

ITEP

So Called "Fair Tax" Would Dramatically Alter Missouri's Tax Structure, Burden Missouri Families and Economy

During this year's legislative session, Missouri lawmakers considered a proposal which would have made dramatic changes to the state's revenue structure by eliminating individual and corporate income taxes and replacing them with a greatly expanded sales tax. This shift would have created a significant tax increase for low and middle income Missourians and would burden Missouri's economy. A small rebate for taxpayers was included in the proposal, but would not offset the increased cost.

This year's bill, HJR 36, was passed by the Missouri House of Representatives, but was not brought up for consideration in the State Senate. However, as there are many indications that this idea will be introduced again during future legislative sessions, here are some important facts to know about the proposal:

- ✓ Eliminating the individual and corporate income taxes in the state would reduce state general revenue by 73 percent, or approximately $5.8 billion.

- ✓ To make up for this lost revenue, the proposal would need to increase both the sales tax rate (how much we pay) and the sales tax base (what we pay tax on).

- ✓ Many goods and services not currently taxed would become eligible for the newly increased sales tax, including:
  - Nursing home services
  - In-home medical care
  - Doctor's visits
  - Child care
  - Rent, housing, and home repairs
  - Utilities and telephone services
  - Health and auto insurance
  - Auto repair
  - Funerals
  - Legal counseling
  - Transportation
  - College and private K-12 school tuition
  - Movie/theatre/sports tickets
  - Club dues and religious activities

- ✓ Taxing these services would place a particular burden on young families and Missouri's seniors.
  - The average family of four, with two working parents and two children (one school age and one infant) would pay at least $371 per year in additional tax just for child care.
  - Missouri seniors who require nursing home services would pay, at minimum, $1,226 - $3,270 in new taxes.

- ✓ As the increased sales tax rate would apply to all purchases, including items that are currently not taxed such as food and prescription drugs, the cost of living in Missouri will increase dramatically.

- ✓ The proposed rebates for taxpayers, intended to alleviate some of the new burden, will do little to defer a family's cost, but require the state to collect more to meet its needs.

- ✓ The only Missourians who wouldn't pay higher taxes under HRJ 36 are the wealthiest 5 percent of Missourians. The top 1 percent of Missourians, those with an average income of over $1 million would experience an average tax cut of $22,864.

- ✓ The middle twenty percent of Missouri's income distribution, those with an average income of $37,000, would see an average tax hike of $2,036, the equivalent of 5.5 percent of their income. Because the sales tax rebate offered is based on federal poverty levels ($10,210 for singles and $13,690 for married couples in 2007), the credit doesn't do enough to help middle-income Missourians.

- ✓ Proponents of HJR 36 have claimed that the state's new sales tax rate would be 5.11 percent to ensure revenue neutrality, but the Missouri Budget Project found that the new state sales tax would need to be 9 percent alone. The Institute on Taxation and Economic Policy found the new average state and local sales tax rate combined would actually need to be 12.5 percent to ensure Missouri still collected the same amount of tax revenue.

- ✓ If the proposal were to pass with the proposed tax rate of 5.11 percent, Missouri general revenue would fall by an estimated $1.5 billion, according to a Missouri Budget Project analysis, and the state would be required to cut services by approximately 18.75 percent.

- ✓ The increased tax would make Missouri retailers less competitive than surrounding states. In some border areas of the state, Missourians may cross state lines to make purchases in a state with a lower tax rate.

- ✓ Unlike the other states currently operating without an income tax, Missouri does not collect significant revenue from tourism or oil and coal severance fees.

During these difficult economic times, it is especially risky for Missouri to rely solely on sales tax revenue to meet our budgetary needs. A recent study released by the Rockefeller Institute found that state sales tax collections experienced their worst decline in 50 years during the fourth quarter of 2008. Missouri's sales tax collections are down a significant 6.5 percent through May for Fiscal Year 2009.

When economic times are uncertain, people spend less and this leads to less revenue for states. It is also the time when states should work to help families recover, rather than cutting vital state services. Our state's current diversified revenue base is the strongest model for weathering the changing economic climate.

The Mission of the Missouri Budget Project is: To advance public policies that improve economic opportunities for all Missourians – particularly low and middle-income families – by providing reliable and objective research, public education and advocacy. More information is available at www.mobudget.org.

Founded in 1980, the Institute on Taxation and Economic Policy (ITEP) is a non-profit, non-partisan research organization, based in Washington, DC, that focuses on federal and state tax policy. ITEP's mission is to inform policymakers and the public of the effects of current and proposed tax policies on tax fairness, government budgets, and sound economic policy. ITEP's full body of research is available at www.itepnet.org.