



The
MISSOURI
BUDGET
PROJECT



Missouri Tax Policy Consequences of HJR 56 Eliminating the State Individual and Corporate Income Tax

Amy Blouin, Executive Director
Missouri Budget Project
www.mobudget.org



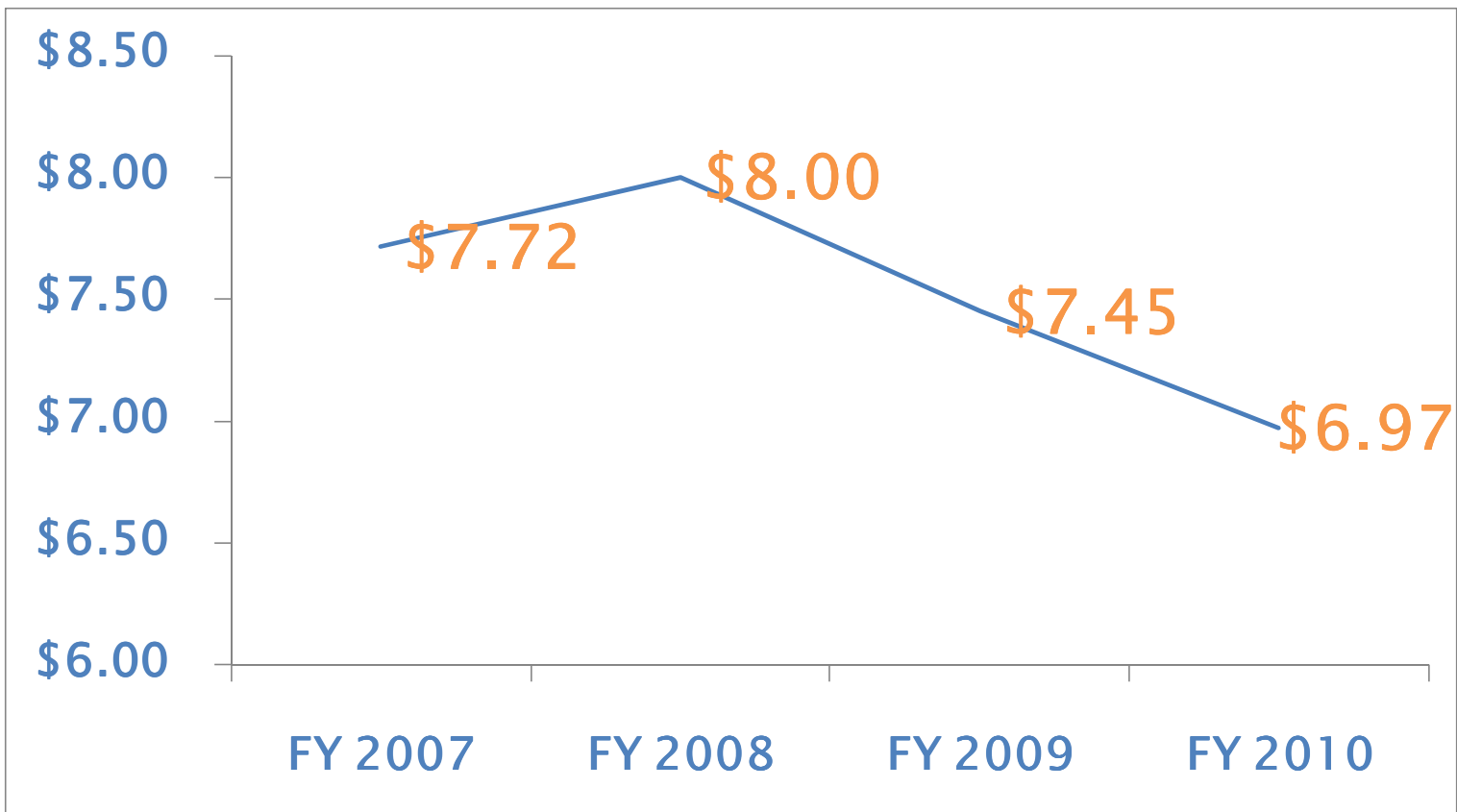
State of Missouri

- National Recession
- Record High Levels of Unemployment: **Missouri 9.5 percent (11/09, Bureau of Labor Statistics)**
- Deep Fiscal Crisis:
 - 39 States Identified Mid-year Gaps in FY 2010
 - 48 States Expect Budget Shortfalls in FY 2011



Missouri Tax Policy

Missouri General Revenue Budget





What Missouri Needs

- Tax Policy that is both **balanced and stable**
- Tax Policy that supports **renewed economic growth**
- HJR 56 would have the opposite effect



Summary of HJR 56

- Eliminates:
 - Income Taxes (Corporate and Individual)
 - Current State Sales Taxes including Dedicated Sales Taxes (Conservation & Roads)
 - St. Louis and Kansas City Earnings Taxes
- Replaces all of the above with a **greatly expanded and increased Sales Tax**
- Constitutional Amendment**



Summary of HJR 56

- Relies on expanding the Sales Tax to **include all purchases of goods and services**
- **Shifts responsibility** for funding state services and the infrastructure that support our economy away from individuals and corporations contributing to one that relies entirely on individuals



Missouri Tax Policy

Calculating New Sales Tax Rate

Estimating Cost of the Rebate (assuming 6 percent sales tax)

	Federal Poverty Level	Number of Recipients	The New Sales Tax Rate of 6 %	Annual Cost in 2010
Per Individual	\$10,400 for one person	5,911,605 Missourians	Rebate of \$624 per person/year	\$3.68 Billion
Per Household	\$16,440 for average Households	2,330,040 Households	Rebate of \$986 per household/Year	\$2.21 Billion



Questions

- Is the rebate based on **households or individuals**
- Is the rebate a “locked amount” or does it adjust annually with Federal Poverty Level
 - **Scenario One:** Annually adjust rebate and Sales Tax Rate
 - **Scenario Two:** Annually adjust rebate but not the Sales Tax Rate means State will lose revenue over time
 - **Scenario Three:** No annual adjustment means the value (and effect) of rebate shrinks over time



Calculating New Sales Tax Rate

Apply Sales Tax to All Goods and Services

(except Higher Education)

- Medical Care, Nursing Homes and Autism Services
- Child Care
- Educational Services including Tutoring and Private K–12 School Tuition
- Transportation, New Home Construction
- Financial and Legal Services
- Food, Prescription Drugs
- Funerals



Calculating New Sales Tax Rate

PRELIMINARY Estimate

Based on new tax on all services and purchases with
NO additional exemptions

Missouri's new Sales Tax Rate would need to adjust
from 4.225 percent to 6.78 percent – 7.65 percent
(depending on rebate cost)



Questions

- Will current and future lawmakers be pressed to exempt additional services from Sales Tax?
- If so, the rate of tax would need to be considerably higher or state revenue including revenue for dedicated funding streams like transportation would decline



Who Pays

- Revenue “neutrality” requires that someone pay
- If poorest families are “protected” with rebate and high income are unlikely to spend enough to replace all revenue = **Middle-Income Missourians Pay**
- ITEP analysis from 2009 indicated that **95 percent of Missourians would pay more tax under this proposal**



Missouri Tax Policy

Average Middle-Income Family

Two Working Parents, One Infant, One School Age Child Living in
St. Charles County (based on 7 percent rate)

Tax on Child Care: **\$843/year**

Tax on Housing: **\$585/year**

Tax on Transportation: **\$365/year (or \$1,988 for a new car *plus* gasoline)**

Tax on out-of pocket Medical Expenses/Dental Care:
\$206/year

Tax on Food : **\$440/year**



Missouri Tax Policy

Rate Compared with Neighboring States

New Missouri Sales Tax Rate	6.78 – 7.65 percent
-----------------------------	---------------------

Arkansas	6 percent
----------	-----------

Iowa	5 percent
------	-----------

Illinois	6.25 percent
----------	--------------

Kansas	5.3 percent
--------	-------------

Kentucky	6 percent
----------	-----------

Tennessee	7 percent
-----------	-----------

Oklahoma	4.5 percent
----------	-------------



Uncertainty

- Major flaw in comparing HJR 56 to other States is that **no other** state taxes services so broadly
- Impact on economy: As the cost of basic family necessities increases will consumer spending for retail and entertainment decrease?
- Impact on economy: Urban Centers with significant portion of the population are on borders (Would You buy that car in Missouri? Does rural Missouri bear the brunt of change?)



Uncertainty

- Impact on Tax Credits (Unintended Consequences?) by eliminating
 - Senior Citizen Circuit Breaker
 - Neighborhood Assistance and Youth Opportunity Tax Credits
 - Maternity Homes and Shelters for Domestic Violence Victims



Uncertainty

- Local Sales Tax Rates are also adjusted under HJR 56: What impact will this have on local revenue and Municipal Budgets
- Are the City Earnings Taxes fully replaced?
- Calculation of the rebate and rate are uncertain
- Calculation of “revenue neutral” is based on recession levels of funding
- **CONSTITUTIONAL Measure should give pause**



Additional Tax Data: Individual Income Tax

Missouri Income Tax	1.5 – 6 percent
Arkansas	1 – 7 percent
Iowa	0.36 – 8.98 percent
Illinois	3 percent
Kansas	3.5 – 6.45 percent
Kentucky	2 – 6 percent
Tennessee	Dividends & Interest Income only
Oklahoma	0.5 – 5.5 percent



Additional Individual Income Tax Data

- Missouri is one of 6 states that allow a deduction on state taxes for Federal Income Tax
- Lowest Income Tax Bracket is \$1,000 and highest is \$9,000



Additional Tax Data: Corporate Income Tax

Missouri Corporate Income Tax	6.25 percent
Arkansas	6.5 percent at \$100,000+
Iowa	6 – 12 percent
Illinois	7.3 percent
Kansas	4 percent
Kentucky	4 – 6 percent
Tennessee	6.5 percent
Oklahoma	6 percent



Additional Corporate Income Tax Data

- Missouri is one of 5 states that allow a deduction on state corporate income taxes for Federal Income Tax. In effect this lowers the corporate tax rate beneath that of the surrounding states.



Additional Data: Current Unemployment

Missouri Unemployment Rate November 2009	9.5 percent
Arkansas	7.4 percent
Iowa	6.7 percent
Illinois	10.9 percent
Kansas	6.3 percent
Kentucky	10.6 percent
Tennessee	10.3 percent
Oklahoma	7 percent