



*February 8, 2011*

## The “Mega Sales Tax” is Unwise Policy

There are currently nine initiative petitions and two legislative proposals to place a constitutional amendment before voters in November 2012 that would eliminate personal and corporate incomes taxes and replace them with a greatly expanded sales tax. The proposals have significant costs for the state and its residents, and are fraught with uncertainty.

### What Would the Mega Sales Tax Proposal Do?

- Eliminate state personal and corporate income taxes;
- Eliminate earnings taxes in St. Louis and Kansas City (even if the cities vote to continue the tax in April);
- Eliminate current dedicated state sales taxes that fund conservation and other services;
- Eliminate current state sales tax exemptions, including the exemption for food;
- Eliminate all tax credits except the Senior Circuit Breaker Tax Credit<sup>1</sup>; and
- Replace the current sales taxes with a higher sales tax on purchased goods AND almost all services.

**The mega tax shifts from the diversified revenue structure that currently funds the state services that benefit Missouri’s local communities and economy to one that relies entirely on the consumption of individuals.**

### The Proposal Taxes Essential, Basic Products and Services

This is not the current sales tax, but a **greatly expanded sales tax** that would apply to **nearly every product and service that Missourians need** – including basic necessities and services required by working families. **It is unlike anything ever seen before in any state.**

- Basic necessities currently exempt from sales tax, like food, prescription medication, rent, and child care would be taxed.
- SJR 1 & HJR 8 tax health-related services including family counseling, mental health treatment, co-payments for doctors’ office visits, and even nursing home care.
- Nearly every service industry becomes taxable. Transportation, realtor services, legal and financial services and even funeral services would be subject to the tax.

### These Essential Products and Services Would Be Taxed at a Much Higher Rate

Estimates of the tax rate needed to pay for the cost of the proposal range from 10 to 15 percent, depending on which version of the proposal is evaluated. Jim Moody, former budget director under Governor Ashcroft, recently reported that the initiative petitions would require **a rate of 15 percent (12.25 percent state rate plus an additional average local tax rate of 2.75 percent)**. Every time an exemption is added, the rate would need to be adjusted even higher.

---

<sup>1</sup> The senior citizen circuit breaker is a property tax credit for seniors, disabled veterans, those who are 100% disabled, and certain widow(er)s.

## **The Vast Majority of Missourians Will Pay More in Taxes under the Proposal**

A 2010 analysis by the Missouri Budget Project and Institute on Taxation & Economic Policy found that even with a prebate to every household, **95 percent of Missourians actually pay considerably more tax** under this plan than they currently do.

## **The Mega Sales Tax Proposals are Constitutional Amendments**

By locking in the policy as a constitutional amendment, any future changes would be extremely difficult and would require another vote of the people.

## **The Mega Sales Tax Will Likely Have a Negative Impact on Missouri's Economy**

Seventy percent of Missourians live near the borders of other states. The state's 12.25 percent mega sales tax will likely provide an incentive for them to shop for goods and services in other states.

## **The Mega Sales Tax Creates Potential Financial Insecurities**

- It is not clear who may get a prebate (a payment made to taxpayers to offset the cost of higher sales taxes), how the prebate would be funded, and how to assure that it holds its value over time without decreasing state revenue.
- Legislators will be pressed to exempt additional products/services from the mega sales tax, which means the rate will have to be higher than the estimated 15 percent (12.25 percent state, 2.75 percent local).
- The tax rates called for in the proposals are insufficient to replace current revenue. If the tax rate is capped at 7 percent (as called for in the petitions), instead of the 12.25 percent needed to replace revenue, the Missouri Budget Project roughly estimates the state will have a general revenue shortfall of more than \$3 billion. (Missouri's general fund budget is currently \$7.9 billion.) This shortfall would have tremendous negative impact on education, health care, transportation, services for seniors, and the infrastructure that makes Missouri a desirable place to live and work.
- There will be considerable administrative cost to administer the prebates, particularly if monthly checks are sent to taxpayers to offset the cost of the mega sales tax.
- By taxing new goods, but not used goods, there is a potential disincentive to purchase things like new cars and houses. This could have a dramatic negative effect on manufacturing and building industries.

*For more information, contact the Missouri Budget Project.  
[www.mobudget.org](http://www.mobudget.org)*