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Repeal of City Earnings Taxes Leaves No Good Options

A push to eliminate the Kansas City and St. Louis earnings taxes is occurring in Missouri. Not only is an initiative petition circulating to place the proposal on the ballot this November, but state legislators have added the proposal to larger tax policy bills. The push is driving a new theoretical debate on the value of earnings taxes, but what has not drawn as much scrutiny is the single most critical issue to consider: how the lost city revenue would be replaced.

Both St. Louis and Kansas City rely heavily on the earnings tax as a major source of general revenue to fund critical services including fire and police protection, street repair, transportation, cultural attractions and even restaurant health inspections. **On average, about 32 percent St. Louis' revenue comes from the earnings tax, while Kansas City pulls about 38 percent of its budget from this source.** Both cities would be hard pressed to replace this amount of revenue if the earnings taxes are repealed.

The options for replacing the earnings tax are limited. Cities would be forced to choose between eliminating services, instituting fees on everything from fire and police protection to charging for admission to cultural attractions like museums and the zoo or would have to significantly increase other local sales, property taxes or some combination. None of these are great options, particularly at a time of economic recession.

St. Louis, for example, would have to more than triple its current local sales tax rate, increasing the rate from 1.4 percent to 5.3 percent. But this could act to deter shopping within the city as some shoppers may seek to avoid the higher sales tax rate. St. Louis could instead enhance the property tax, but the **property tax would need to increase up to four times its current amount to raise the needed revenue.**

In Kansas City, the current local sales tax rate of 2.375 percent is dedicated to specific funding needs. To provide funding needed to replace the earnings tax, **Kansas City would need to more than double its sales tax rate to 5.4 percent, again potentially detrimental for retail in the city.** As an alternative, Kansas City could levy a city general fund property tax, but again the **property tax would have to increase by four times the current amount to replace the earnings tax**.

Not only would increased sales and property taxes place a burden on retail, but increase the burden on people who live in the cities. The earnings taxes were developed as a way to share the responsibility for funding local services and attractions among everyone who benefits from them, including those who live and those who work within the cities. These taxes fund the critical infrastructure and services that workers, businesses and residents rely on including roads and sidewalks, parks and cultural attractions, and the protection of police and fire departments while keeping sales and property taxes low. There aren't currently any good answers for replacing the revenue lost from eliminating the earnings taxes. With so many critical issues facing the state's local communities, discussion of this proposal is a waste of time.