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Consequences of HJR 36: Proposal to Dramatically Alter Missouri's Tax Structure Would Burden Missouri Families and Economy.

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Recently, the Missouri House of Representatives passed HJR 36, a constitutional amendment which proposes dramatic changes to the state's revenue structure by eliminating the individual and corporate income taxes and replacing them with a greatly expanded sales tax. If passed by the State Senate and then approved by voters, this shift would create a significant tax increase for low and middle income Missourians and would burden Missouri's economy.

In addition, eliminating the individual and corporate income taxes in the state would reduce state general revenue by 73 percent, or approximately $5.8 billion. The proposal would need to increase both the sales tax rate and the sales tax base to make up for the lost revenue. The proposed increase in the sales tax rate, even when applied to all services, may fall short of meeting the funding requirements in the bill and require that the sales tax rate be increased from 3 percent to as high as 9 percent. Without the increase, the bill would reduce state funding by $1.5 billion, resulting in cuts to services of 18.75 percent.

Key Findings:

- The Sales Tax Rate in Missouri could Increase to close to 9 percent;
- Missouri Sales Tax would be applied to all services including medical care, nursing homes, child care and school tuition;
- Consumer purchasing would decrease, particularly in border areas of the state, impacting Missouri retailers and other businesses;
- The measure would place Missouri at risk for a significant reduction in state revenue and cut to state services.

Impact of Eliminating Income Tax by Expanding the Sales Tax to Services

HJR 36 would completely alter the Missouri tax system by eliminating the state's income tax base. To offset the loss of 73 percent of the state's general revenue, HJR 36 would expand the sales tax base to include services including medical care, nursing homes, child care and tuition, transportation, housing and utilities. Taxes of at least 5.11 percent would be instituted on the basic services that Missourians need in order to remain healthy, active participants in our communities and our economy.

Examples of the Newly Taxed Services:

- Nursing Home Services and In-Home Medical or Personal Care
- Medical Care including Doctor's Visits
- Child Care and Educational Services such as Tutoring
- Rent and Housing, and Home Repairs
- Utilities and Telephone Services
- Health Insurance, Auto Insurance
- Auto Repair
- Funerals
- Financial Services, Legal Counseling
- Transportation
- College and Private K-12 School Tuitions
- Health Clubs
- TV and other Appliance Repair
- Movie/Theatre/Sports Tickets
- Club Dues, Religious Activities

Taxing these services would place a particular burden on young families and Missouri's seniors. For example, 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.** This amount is based on the average cost of child care in Missouri as documented by MERIC (the Missouri Economic Research and Information Center). Examples of specific counties are included below.

Table 1: Additional Cost of Child Care Due to HJR 36 in Select Counties
Based on 1 Infant and 1 School-Age Child[1]

County	Child Care Cost Annual	New Sales Tax Amount
Callaway	$7,257	$371 - $653 (Range of 5.11 – 9% tax)
Camden	$7,257	$371 - $653
Cole	$7,257	$371 - $653
Howell	$7,257	$371 - $653
Jackson	$12,160	$621 - $1,094
Nodaway	$7,257	$371 - $653
St. Louis City	$12,043	$615 - $1,083
St. Louis County	$12,043	$615 - $1,083

[1] The cost of child care per county is based on data from MERIC (The Missouri Economic Research & Information Center) available at: http://apps.oseda.missouri.edu/familywagecalc/Default.aspx. The range in new taxes on child care will vary depending on the actual rate of tax on services that is established as a result of HJR 36. The official Fiscal Note for the bill indicates that sales tax may be increased to 9 percent.

As a result, HJR 36 would make it even more difficult for young families to afford the basic costs of participating in the workforce. Employers may be forced to make up the difference in order to recruit quality employees.

Another example is the impact of taxing Nursing Home Care for seniors. According to the Missouri Department of Health & Senior Services, the average cost for a nursing homes range from $24,000 per year for a Residential Care to $64,000 per year for a Skilled Nursing Facility.[2] **Under HJR 36, Missouri seniors who require nursing home services would need to pay at *minimum* $1,226 - $3,270 in new taxes.**

In addition, the increased sales tax rate in HJR 36 would apply to all purchases, including items that are currently not taxed such as **Food and Prescription Drugs.** As HJR 36 is applied to the range of services and purchasing that Missourians need in order to meet their basic needs, **the cost of living in Missouri will increase dramatically.**

HJR 36 May also require Missouri to Increase its Sales Tax Rate to 9 Percent

Another significant concern in the measure is that HJR 36 is designed to be "revenue neutral". In other words, the new sales tax rate must offset any state revenue loss associated with the bill. As mentioned previously, individual and corporate income tax account for approximately 73 percent of state general revenue. The bill includes both an expansion of sales tax to include all services and purchases in Missouri *and* increases the sales tax rate from the current rate of 3 percent to 5.11 percent.

However, HJR 36 also includes a rebate measure to all taxpayers that is intended to offset some of the cost of the increased sales tax. Under the measure, all taxpayers would receive a rebate allowance that is based on the official Federal Poverty Level multiplied by the new sales tax rate of 5.11 percent. For example, the official poverty level for a family of four is $22,050 in 2009.[3] Under the bill, a family of four would receive a rebate of $1,126. The rebate would vary based on family size and the official poverty guidelines. However, according to the U.S. Bureau of Economic Analysis, the average family spends closer to $48,000 per year. Therefore, the rebate would only slightly offset the increased costs of the new sales tax.

Not only does the rebate not adequately account for the costs of living, nor adequately offset the burdens of the new sales tax, it adds a higher cost to the bill overall. Because the bill is meant to be revenue neutral, the increased cost associated with the rebate will require a dramatic increase in Missouri's sales tax rate. Estimates from the official State Fiscal Note for the bill indicate that **Missouri would need to increase its sales tax rate to at least 6. 4 percent and possibly to 9 percent** to offset the cost of the measure (See Table 2, below).[4]

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[2] Missouri Department of Health & Senior Services, http://www.dhss.mo.gov/NursingHomes/SelectNH.html

[3] U.S. Department of Health and Human Services Federal Poverty Guidelines available at: http://aspe.hhs.gov/poverty/09poverty.shtml

[4] The official State Fiscal Note is available online at: http://www.house.mo.gov/content.aspx?info=/bills091/bills/hjr36.htm

Table 2: Cost of HJR 36 and Associated Sales Tax Rate Increase *Based on the Official State Fiscal Note*				
	Cost to Replace Income Tax	**Cost of Rebate**	**Total New Revenue Needed**	**New Sales Tax Rate**
Low Estimate	**$5.8 Billion**	**$3.14 Billion**	**$8.99 Billion**	**6.4 Percent**
Middle Estimate	**$5.8 Billion**	**$5.31 Billion**	**$11.17 Billion**	**7.7 Percent**
High Estimate	**$5.8 Billion**	**$7.49 Billion**	**$13.34 Billion**	**9 Percent**

As indicated, for HJR 36 to remain revenue neutral the increased sales tax rate would need to be much higher than the proposed 5.11 percent in order for the measure to remain "revenue neutral". **If the proposal were to pass with a new sales tax rate of 5.11 percent, Missouri general revenue would fall by an estimated $1.5 billion and the state would be required to cut services by approximately 18.75 percent.**

Economic Impact of HJR 36: Missouri Would Become Less Competitive

Because HJR 36 is applied to the range of services that Missourians access in order to meet their basic living needs, the cost of living in Missouri will increase dramatically. In addition, the cost of consumables and purchases would also increase significantly. As described previously, under HJR 36, Missouri would need to increase its sales tax rate to between 6.4 – 9 percent. The increased rate is significantly higher than Missouri's Border States:

Sales Tax in Missouri's Border States:[5] (Federation of Tax Administrators)

- *New* Missouri Sales Tax Rate: 6.4 – 9 percent
- Arkansas: 6 percent
- Iowa: 5 percent
- Illinois: 6.25 percent
- Kansas: 5.3 percent
- Kentucky: 6 percent
- Nebraska: 5.5 percent
- Oklahoma: 4.5 percent
- Tennessee: 7 percent

The increased tax would make Missouri retailers less competitive than surrounding states. As Missouri families face increased costs for access to basic services, **consumer spending at retailers or for entertainment would decrease, impacting Missouri businesses.** In some border areas of the state, Missourians may cross state lines for purchases to a state with a lower tax rate. As a result, HJR 36 would:

- Create a new burden for Missouri-based companies, and could reduce the state's economic output;

[5] Sales tax rates from the Federation of Tax Administrators

- Could diminish state revenue as families spend less in Missouri; and
- Could result in a transfer of the state's tax burden to families who reside in the "interior" areas of Missouri as they would be unable or unlikely to easily travel to Iowa, or Illinois or Kansas for lower tax rates.

Comparing Missouri with Non-Income Tax States

Some proponents of HJR 36 base their support on several states that are able to operate without an individual income tax. The States that do not levy a state income tax rely heavily on taxing options that are either not available in Missouri or ones that would be difficult to levy:

- **Alaska** and **Wyoming** generate well over half of their state revenue from severance taxes on oil and coal;
- **Florida** utilizes high sales taxes on tourists;
- **Nevada** utilizes high sales and gaming taxes on tourists; and
- **Texas** combines severance tax on oil, high sales tax along with the tourist taxes.

The States of Washington and South Dakota rely on relatively high Sales and Property taxes. Absent severance and/or "tourist" related taxes, Missouri has few desirable options to reduce much less eliminate the Individual Income Tax.

Conclusion:

HJR 36 would dramatically increase Missouri's cost of living, with a new sales tax rate of 5.11 – 9 percent. The rate would apply to all services and consumer purchasing, burdening Missouri's families and Missouri's economy. The measure is a risk that Missouri can simply not afford.

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