

Amendment 5 Would Increase Taxes for Most Missourians, Damage Communities & Economy

The “Everything Tax” would swap Missouri’s income tax for a massive increase in sales taxes. This would increase overall taxes for most Missourians, cut critical services that support Missourians and damage our state economy – all to give the wealthiest yet another big tax break.

House Joint Resolution (HJR) 173 places a constitutional amendment on the ballot that initiates a swap of the income tax for a greatly expanded sales tax. If approved by voters, Amendment 5 would:

REQUIRE lawmakers to eliminate Missouri’s income tax.

- Missouri’s income tax generates \$8.5 billion per year, supporting 64% of the general revenue budget.¹
- The amendment does not include specific guardrails that would account for population growth, inflation, or economic downturns that dramatically impact cost of (and need for) state services.

ALLOW lawmakers to impose new sales and use taxes on products and services not currently taxed AND increase Missouri’s existing sales tax rate.

- For five years, lawmakers could bypass the provision of Missouri’s “Hancock Amendment” that requires a vote of the people for any significant tax increase. Instead, the State Legislature would have free rein to greatly expand and increase sales taxes.
- Lawmakers would be forced to choose between unprecedented increases in sales taxes to fill the budget hole – or deep cuts to public services, including education.

WHAT THIS MEANS: Income taxes would be eliminated *regardless* of whether lawmakers choose to replace this revenue with an expanded sales tax, placing Missouri at risk of an up to \$8.5 billion hole in the state budget.

THE BOTTOM LINE: Amendment 5 would raise taxes for most Missourians, risk devastating cuts to services that build opportunity, and damage our state’s economy.

- 80% of Missourians would see a net tax increase with the average Missourian paying over \$500 more in taxes each year; only the wealthiest Missourians would see a tax cut.
- There is simply no realistic way to make up the revenue lost from eliminating the income tax – meaning harmful cuts to state services such as schools and community supports for older adults.
- By taxing the products and services Missourians use every day, everyday costs would increase dramatically making it more difficult for families to get ahead and slowing economic activity.

CONSEQUENCES OF AMENDMENT 5's "EVERYTHING TAX"

Increased Taxes for Most Missourians; Yet Another Tax Cut for the Wealthiest

- Missouri already has an upside-down tax structure, where Missourians earning the least contribute a higher share of their incomes than Missourians earning the most. Replacing Missouri's income tax with a greatly expanded sales tax will make this even worse.
- To fill the gap, Missouri's general revenue sales tax rate would need to more than triple, from the current 3% to 10.7% - resulting in a combined average state and local sales tax rate of 16%.ⁱⁱ
- Alternatively, lawmakers could expand the sales tax to apply to all of the products and services that Missourians use every day like doctor's visits and medication, childcare and summer camps, home and car repairs – even gasoline. The measure does not include any exemptions.
- In both cases, a median income Missourian making \$65,400 per year would face \$535 net tax increase.ⁱⁱⁱ
- Older adults who rely on Social Security or public pensions and active-duty military members, whose income is largely already exempt from income tax, will have a much steeper tax increase.

Massive Budget Deficits That Trigger Cuts to Education & Other Services That Build Opportunity

- Missouri's income tax currently generates \$8.5 billion per year and supports 64% of the state general revenue budget.^{iv} There is simply no realistic way to make up the revenue lost from eliminating the income tax.

- Missouri already faces a \$2.5 billion budget deficit resulting from a decade of tax reductions that largely benefited the wealthy and corporations; this has already triggered painful cuts to critical services with even more steep cuts likely in the coming years.^v
- Even if lawmakers expand the existing sales tax to ALL services, the revenue generated would fall far short of making up for the loss of income tax. There is simply no realistic way to replace the income tax without expanded the sales tax to all services AND increasing the rate of sales tax.

Fewer Investments in the Everyday Missourians Whose Contributions and Skills Drive Our Economy

- If tax cuts were the key to economic prosperity, Missouri would already be seeing the benefits. Instead, sustainable economic growth is driven by real improvements in the lives of everyday Missourians.
- Increasing Missouri's sales tax would dramatically increase daily costs for Missourians and dampen consumer spending in communities across the state.
- Missourians may be tempted to cross state lines or travel to big box stores for many purchases, devastating small local businesses and communities.
- State investments in quality K-12 and higher education, affordable care for children and aging parents, and access to health coverage are key drivers of economic growth and critical components in attracting and retaining a skilled workforce and quality employers.

Endnotes

- i FY2027 Executive Budget: FY2027 Consensus Revenue Estimate
- ii Missouri Budget Project Estimated Fiscal Impact of 26-HCS HJR 173 & 174
- iii Institute on Taxation and Economic Policy analysis
- iv Executive Budget FY2027
- v Missouri Budget Project Living on Borrowed Time: Missouri Faces Big Budget Cliff