ITEP

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BRIEFING ON THE MISSOURI SO CALLED "FAIR TAX" PROPOSAL
STATEMENT FROM KELLY DAVIS
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In Columbia, on June 13th proponents of the so called "fair tax" are holding a rally at the Boone County fairgrounds. Attendees and speakers will advocate an allegedly revenue neutral proposal that would eliminate the state's individual and corporate income taxes and replace that revenue with sales tax revenue generated through an increased rate and broader base. A similar proposal which included a rebate designed to offset sales taxes paid up to the poverty line was introduced in the Missouri Legislature this year as HJR 36.

The Institute on Taxation and Economic Policy, using a microsimulation tax model is able to estimate the revenue generated from specific tax changes as well as show the impact that tax changes have on people of different income levels. We've analyzed the impact of HJR 36 and our complete analysis can be found on our website.

My statement will focus on two things: what the Missouri sales tax rate would need to be if HJR 36 became law, and the impact this legislation would have on tax fairness.

As introduced in the 2009 legislative session by Representative Ed Emery (R-126), HJR 36 would increase the basic state sales tax rate from 3 to 5.11 percent.

However, ITEP's analysis shows that even if every dime of personal consumption were taxed, it's simply not possible to make these changes revenue neutral with such a low rate.

In fact, we estimate that the basic sales tax rate would have to be increased from 3 to just under 10 percent in order to raise sufficient revenue to be revenue-neutral, and that the combined state and local rate would have to be around 12.5 percent to achieve this. It's worth noting that the official fiscal note for the bill seems to come to a similar conclusion. The 5.11 percent rate is simply insufficient. In other words, the 5.11 percent tax rate advertised by HJR 36's supporters is simply not high enough to pay for the other tax cuts in the bill.

Secondly, we found that making these changes would impose tax hikes on the poorest 95 percent of the income distribution, with especially large tax hikes falling on middle income Missourians. For example – Missourians in the middle 20% of the income distribution with an average income of $37,000 would see an average tax increase of $2,036. By contrast, the top 1 percent of Missourians with average incomes over $1 million would see an average tax cut of over $22,500.

HJR 36 would dramatically reshape Missouri's tax system, making an already-unfair system even more heavily balanced on the backs of low- and middle-income working families.

BACKGROUND ON ITEP

Founded in 1980, the Institute on Taxation and Economic Policy (ITEP) is a non-profit, non-partisan research organization, based in Washington, DC, that focuses on federal and state tax policy. ITEP's mission is to inform policymakers and the public of the effects of current and proposed tax policies on tax fairness, government budgets, and sound economic policy. ITEP's full body of research is available at www.itepnet.org.