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POLICY BRIEF: HOUSE JOINT RESOLUTION 36

THE NEW SALES TAX RATE

The legislative language on HJR 36 does not say what the combined sales tax rate in Missouri would have to be to make the bill revenue neutral overall, but does specify that the basic sales tax rate would be increased from 3 to 5.11 percent under HJR 36.

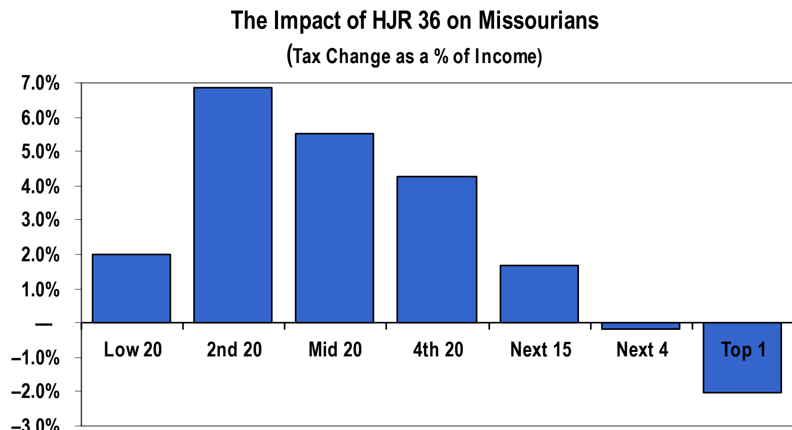
The official fiscal note for HJR 36 notes that a 5.11 percent basic state tax rate would not be sufficient to make the bill revenue-neutral overall, and predicts an annual revenue loss of between $2.2 and $6.6 billion from changing the rate to 5.11 percent.

ITEP's estimates confirm the fiscal note's findings: it would take a significantly higher basic sales tax rate of 9.9 percent to make the bill's provisions revenue-neutral overall. In fact, when the additional sales taxes used to fund conservation, parks/soils, and education are combined with local sales taxes the average combined state and local rate would have to be around 12.5 percent to achieve revenue neutrality.

IMPACT ON MISSOURIANS

This constitutional amendment doesn't impact Missourians equally. Wealthier Missourians would benefit the most from HJR 36.

- Middle- and low-income families would see substantial tax increases, on average, under this plan. The 20 percent of Missourians who fall squarely in the middle of the state's income distribution would see an average tax hike of over $2,000, the equivalent of 5.5 percent of their income.



- The top 1% of Missourians are the biggest "winners" from this legislation. Those with an average income of over $1 million would experience an average tax cut of $22,864.

FURTHER COMPLICATIONS

- **Need for a balance among revenue streams.** Nutritionists always recommend a balanced diet filled with a variety of fruits, vegetables, and proteins. State governments function best on a similar principle of balanced revenue sources. It's ideal for states to have a mix of sales, property and income taxes. Given the recent economic downturn now is an especially poor time to put all of Missouri's revenue eggs in the sales tax only basket.

- **There is little evidence that states without an income tax weather economic storms better**. The chart to the right shows the nine states without broad based income taxes and their projected budget gaps for fiscal year 2010. Tennessee's budget shortfall is approximately 9 percent of the state's general fund budget the equivalent of $856 million dollars. Washington State has no tax on income and has one of the largest projected budget shortfalls in the country – over $3 billion or 18.5 percent of their general fund budget. While it's certainly true that states with an income tax are also experiencing difficult times, there is ample evidence to show that simply not having an income tax does not ensure a state's immunity from tough economic times.

Estimate of FY10 Budget Gaps in States Without a Broad Based Income Tax

	Shortfall (Millions)	% of General Fund Budget
Alaska	N/A	N/A
Florida	$2,500	11.2%
Nevada	$1,067	37.6%
New Hampshire	N/A	N/A
South Dakota	$82	6.7%
Tennessee	$856	9.0%
Texas	$2,100	5.1%
Washington	$3,177	18.5%
Wyoming	N/A	N/A

Source: NCSL, Update on State Budget Gaps: FY 2009 & FY 2010, 2/20/09

- **The uniqueness of non-income tax states.** The majority of states without a broad based income tax also have special and unique revenue streams that aren't available in Missouri. For example, Alaska and Wyoming have an abundance of natural resources that are taxed which bring in significant revenue.

- **Bucking the national trend.** Eliminating the state income tax would also put Missouri at odds with the national trend toward taxing income. For example, states like Tennessee and New Hampshire are debating taxing income more broadly to generate needed revenue.

- **Tax Avoidance.** Given that such a large share of Missouri's population lives near states with sales tax rates much lower than that proposed under HJR 36, it is not unreasonable to expect that a number of Missourians would consider shopping in bordering states in order to avoid the tax.

- **Incentive for Avoidance.** If retail sales taxes are always tax-exempt when businesses make purchases, and always taxable at 12.5 percent when individuals make purchases, then consumers will have a clear incentive to arrange to have purchases made through their employers or other businesses in an effort to avoid the tax. This could reduce the yield of the tax by an undetermined amount, making it even harder for the bill to achieve revenue neutrality.

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.