

Missouri would not fare well under “fair tax”

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If there's an issue “most likely to be debated” in the 2011 Missouri legislative session, it's a proposal to replace state income taxes – both individual and corporate — with a greatly expanded sales tax. Proponents refer to it as the “fair tax.” But Missourians should think twice, because the “fair tax” is anything but.

Missourians know that if it sounds too good to be true, it probably is. And that's the case with the proposal to change how the state collects revenues. No more income tax might sound great at first blush. But reality dictates that the revenue that would be lost has to be made up. Someone has to pay. And that “someone” is the average Missouri family.

In fact, 95 percent of Missourians would end up paying considerably more in taxes under the “fair tax.”

How does that happen? Missouri would become reliant on a greatly expanded sales tax. This would be a sales tax like none ever seen before in any state. First of all, far more things would become taxable; almost all goods and services would be covered.

The way the legislation is written, the new sales tax would apply to nearly everything anyone buys. That means food, prescription medicine, new cars and even new homes. It would also apply to services, like child care, nursing homes and assisted living for seniors, doctor's office visits, legal counseling, financial services, and more — even funerals. No other state taxes services to that extent.

Second, even with all those new items added to what's taxable, the rate of sales tax people pay would have to go up, too. How much? We're talking about 11 percent, according to recent estimates.

Yes, the legislation itself says 5 to 7 percent (compared with the 4.225 percent people pay now in state sales tax), but that understates how much money the state would have to collect. We at the Missouri Budget Project calculated the 11 percent rate estimate in partnership with the Institute on Taxation and Economic Policy. But ours isn't the only analysis that parts company with what the legislation contends. The nonpartisan Missouri Joint Tax Policy Committee's research says the state sales tax rate would be at least 10 percent, depending on which version of the legislation is analyzed. These estimates don't even include the local sales tax rate, which would add an additional 2 percent. But, shhh ... “fair tax” supporters don't want you to know that.

It is clear who would bear the brunt of that increased tax rate. Middle-income Missourians would be hit the hardest because they have to spend a higher portion of their incomes on essential products and services than do the wealthiest people.

Other states do exist without income taxes, but those states collect more revenue from things like tourism or oil and mineral extraction taxes than Missouri could. No state has a system like what's proposed for Missouri. There's no comparison to assess the economic ramifications.

We do know, though, that Missouri's sales tax rate would go up dramatically. And we know that about 70 percent of our population lives in easy proximity to other states. Those states would all have lower sales tax rates and apply the tax to fewer services. The so-called "fair tax" would boost economic development all right — for Kansas, Illinois, Iowa, Oklahoma, Arkansas ... every state but Missouri.

No tax structure is perfect, and Missouri's definitely needs some reforms. But, not the "fair tax." It's a flawed concept that threatens Missouri's well-being. Let's look at other, tested and proven effective ways to update the state income tax.

Amy Blouin is the executive director of the Missouri Budget Project, which provides reliable, objective research, public education and advocacy to advance public policies that improve economic opportunities for all Missourians. For more information, visit www.mobudget.org.