

Four New “Mega Sales Tax” Initiative Petitions Would Cut State General Revenue by One-Third

Four new initiative petitions have been filed that propose a constitutional amendment to be placed before voters in November 2012. Like the 9 petitions previously filed, these eliminate personal income tax and replace it with an expanded sales tax. This new tax structure would result in a shortfall of at least \$2.5 billion in general revenue – about one-third of total general revenue.

Quick Facts on the Petitions

- All phase out the state personal income tax by 2016 and replace it with a higher, expanded sales tax.
- The sales tax rate would be capped at 7 percent, but would apply to most goods and some services that are currently exempt from tax.
- Food, currently exempt from the state general revenue sales tax, would be taxed at 5.5 percent.
- Current, dedicated sales taxes for the purposes of conservation; soil and water conservation and state parks; and current taxes on alcohol, aviation fuel, insurance products, and tobacco would remain the same.
- All tax credits for individuals are eliminated except for the Senior Circuit Breaker Tax Credit as it exists in 2012. Two of the initiative petitions give additional property tax relief to home owners age 65 and older with incomes under \$75,000, when appraised values exceed a threshold. However, neither measure provides revenue to pay for these credits.
- During the phase out of the income tax, the income tax rate would drop to 3 percent in 2014 and 2015 then be fully eliminated by 2016.
- All prohibit the General Assembly from establishing an earnings tax in any political subdivision (the current St. Louis and Kansas City earnings taxes are allowed to continue).
- All allow the General Assembly to exempt more goods or services with a 2/3 vote in each chamber.

The Most Recent Mega Sales Tax Proposals Do NOT:

- Eliminate corporate income taxes or corporate income tax credits.
- Provide a rebate or prebate to soften the impact of higher sales taxes on lower income Missourians.
- Exempt food, the most basic necessity for low income families, from higher sales tax rates. However, food sales are capped at a slightly lower rate than other non-exempt goods and services. The state sales tax on food may not exceed 5.5 percent in 2016.
- Propose that the mega sales tax will raise equivalent money for the state. If the mega tax generates much less revenue than the state currently collects, there is no mechanism to allow an adjustment.

The Mega Sales Tax Would Result in Damaging Budget Shortfalls

Unlike the previous versions, these proposals do not even attempt to make up for the billions of dollars that would be lost. **The Missouri Budget Project’s initial estimate is that the new sales tax structure would**

result in a shortfall of at least \$2.5 billion in general revenue. Total general revenue is currently a little over \$7.2 billion. A shortfall this great would require deep cuts in K-12 education, higher education, health and mental health, and the services that result in a safe and healthy environment. The proposals would not allow us to make investments in the public structures that are needed to make Missouri a desirable place for families and for businesses.

Missouri’s fiscal year 2011 state general revenue spending was \$7.8 billion.¹ The chart below illustrates the distribution of general revenue (GR) among major departments/services, as well as the estimated cuts that would be required as a result of the estimated shortfall that would be created by the mega tax. These estimates assume that the state would distribute the burden of budget cuts resulting from the mega sales tax shortfall in a proportional manner.

Department/Service	Share of GR Spending	Estimated Required Cuts Due To Mega Sales Tax Shortfall
<i>Elementary & Secondary Education</i>	34.73%	\$868.25 million
<i>Social Services & Medicaid</i>	18.62%	\$465.5 million
<i>Higher Education</i>	11.64%	\$291 million
<i>Public Safety, Corrections, & Judiciary</i>	10.87%	\$271.75 million
<i>Senior Services, Health, & Mental Health</i>	10.51%	\$262.75 million
<i>State Employee Benefits</i>	6.8%	\$170 million
<i>Transportation</i>	< 1%	\$5 million
<i>Agriculture</i>	< 1%	\$10.25 million

Mega Sales Tax Proposals are Unwise Policy

In addition to creating a significant drop in the amount of funding available for education, infrastructure and other critical services, **the petitions tax essential, basic products and services at a higher rate.**

They shift from the diversified revenue structure that currently funds state services that benefit our local communities and economy to one that relies predominantly on the consumption of individuals.

Taxing food means that low and middle income Missourians will assume a disproportionate share of the costs of paying for the services that benefit all Missourians.

The mega sales tax proposals are constitutional amendments: By locking in the policy as a constitutional amendment, making any needed changes would be extremely difficult and would require another vote of the people.

Some Goods and Services are Exempt from the Mega Sales Tax Rate

The following are subject to sales taxes lower than the maximum sales tax of 7 percent

- Tobacco, alcohol, aviation fuel, and insurance products are subject to current sales taxes.

¹ \$7.8 billion in general revenue spending includes federal stimulus dollars, in addition to state general revenue dollars.

- Food is subject to a maximum sales tax of 5.5 percent.

The following are exempt from the maximum sales tax of 7 percent

- Sales, rent or leases of real property
- Utilities
- Prescription drugs and services from a licensed healthcare professional. It is unclear whether all mental health services are also exempt.
- Child care services
- Residential care, assisted living, intermediate care or skilled nursing facility care
- Tuition and fees for early childhood, pre-K, kindergarten, elementary and secondary schools, vocational or technical schools, or accredited higher education institutions
- Professional services by accountants, architects, barbers, cosmetologists, embalmers, engineers, funeral directors, lawyers, real estate agents, real estate brokers, or real estate appraisers
- Sales of materials, manufacturing goods, machinery or parts that are used in manufacturing processes
- Construction, warehousing, computer design, software design, employment, call center, and payroll processing services
- Sales of stocks and bonds and other intangible personal property
- Sales of bullion and coins, artistic work, precious stones or other intangible property held for investment purposes
- Railroad rolling stock and large vehicles used by common carriers
- Barges used for interstate transportation
- Purchase or storage of tangible personal property used by a common carrier engaged in interstate air transportation
- Gaming sales, services, winnings and admission fees
- Sales for the benefit of governmental entities or non-profit organizations

For more information contact the Missouri Budget Project. www.mobudget.org