

HCS HJR 36 -- FAIR TAXATION

SPONSOR: Smith, 14 (Emery)

COMMITTEE ACTION: Voted "do pass" by the Committee on Tax Reform by a vote of 7 to 5.

Upon voter approval, this proposed constitutional amendment replaces the state individual and corporate income tax and state sales and use tax with a fair sales tax of 5.11% on retail sales of new tangible personal property and taxable services beginning January 1, 2012. The General Assembly can make one adjustment to the rate after the imposition of the tax to adjust the amount of revenue received to make the tax revenue-neutral and to provide continued funding for programs. A component part or ingredient of a new tangible personal property to be sold at retail, federal government purchases, and business-to-business transactions including agriculture will be exempt from the new sales tax while all other exemptions and tax credits will be eliminated. Any new exemptions will require a 2/3 affirmative vote by the General Assembly and approval by the Governor. The conservation sales tax, the soil and parks sales tax, and local sales taxes will be recalculated to produce substantially the same amount of revenue. Each qualified family will receive a sales tax rebate based on the federal poverty level guidelines to offset the sales tax on basic necessities.

FISCAL NOTE: Estimated Effect on General Revenue Fund of an income of \$0 in FY 2010, an income of \$0 or a cost of More than \$100,000 in FY 2011, and an income of \$0 or a cost of Unknown in FY 2012. No impact on Other State Funds in FY 2010, FY 2011, and FY 2012.

PROPONENTS: While testifying in support of the substitute, supporters say that the substitute bill eliminates income tax for individuals and corporations, state sales and use tax, some exemptions, and all tax credits and provides a pre-bate for the basic needs of Missouri families. The departments of Conservation and Natural Resources sales tax rate can't be adjusted because they are established in the Missouri Constitution. The substitute addresses the rates for these two and also for education. It removes estate tax from the fair tax since the federal government would get the state money if the state has no estate tax; requires local taxing districts to adjust their rates; adds exemptions for the federal government, business-to-business, and agricultural; and takes monthly out of the pre-bate requirement. The effective date was changed to allow local governments time to adjust their rates, and exemptions will take a two-thirds vote to be added back. The fair tax takes away the government's ability to control behavior

with taxes, credits, and exemptions. People want a tax system that is fair to all and simple to calculate. The substitute will improve these areas of our current income tax system and completely not tax people with income below the federal poverty level. The wealthy who buy more will pay more taxes. The substitute makes the processing approach much better. Tennessee is still a good model for Missouri. There will be growth here without an income tax and no negative impact. For a family of four, \$26,000 is the poverty level. So a family of four making \$40,000 would pay tax on only the difference of \$14,000. Three principles are met with the substitute: broad-based, simple, and ease of collection.

Testifying for the substitute bill were Representative Emery; James Naylor; John Putnam, FairTax.org; Americans for Prosperity and Foundation; and Gerald Wadel.

OPPONENTS: While testifying in opposition to the substitute, those who oppose the substitute bill say that the tax is designed as a federal system and not a state tax system. Missouri will have people crossing into other states to make their purchases to avoid the tax. The elimination of income tax and replacement with a sales tax shifts taxes from wealthy taxpayers with the ability to pay down to lower and middle class taxpayers and eliminates diversity of taxation for the state. This will make Missouri's tax code more regressive and less fair.

Testifying against the substitute bill were Missouri Association of Realtors; Missourians for Tax Justice; and Missouri National Education Association.