HCS HJR 8 -- MISSOURI JOBS AND PROSPERITY ACT

SPONSOR: Funderburk (Koenig)

COMMITTEE ACTION: Voted "do pass" by the Committee on Tax Reform by a vote of 8 to 4.

Upon voter approval, this proposed constitutional amendment establishes the Missouri Jobs and Prosperity Act that phases out the state individual income tax and replaces the corporate income tax, corporation franchise and bank franchise taxes, and state sales and use tax with a sales tax of up to 7% on retail sales of new tangible personal property and taxable services. Beginning January 1, 2015, the state sales tax rate will be 4% and will gradually increase annually over the next four years to make the tax revenue-neutral and to provide continued funding for programs. The individual income tax will decrease 25% per year until eliminated based on the average collections over a five-year period. The sales tax on used motor vehicles will be phased out over a period of time but must be by January 1, 2018. Property purchased to be a component part or ingredient of a new tangible personal property to be sold at retail, federal government purchases, business-to-business transactions including agriculture, purchases for investment, tuition and fees for education, purchases of motor fuel when subject to an excise tax, certain insurance premiums or fees, and purchases of used tangible personal property will be exempt from the new sales tax while all other exemptions will be eliminated. No tax credits will be authorized after January 1, 2015; and no authorized tax credits, other than the senior citizens property tax credit, will be allowed after the elimination of the individual income tax. The conservation sales tax, the soil and parks sales tax, Proposition C sales tax, and local sales taxes will be recalculated to produce substantially the same amount of revenue. Each qualified household member will receive a sales tax rebate. The amount of the annual rebate will be calculated on purchases of $2,800 per taxpayer until January 1, 2019, when the amount of purchases the rebate is calculated on will be increased based on the increase in the federal Consumer Price Index in the previous year.

The resolution provides a process for the approval or rejection of the State Treasurer's recommendation for the adjusted state sales tax rate by the General Assembly and modification of existing state taxation statutes by the Revisor of Statutes.

FISCAL NOTE: Estimated Net Effect on General Revenue Fund of an income of $0 or a cost of more than $7,000,000 in FY 2012, an income of $0 or a cost of $211,499 in FY 2013, and an income of $0 or a cost of $855,902 in FY 2014. No impact on Other State

Funds in FY 2012, FY 2013, and FY 2014.

PROPONENTS: Supporters say that the bill authorizes a tax on consumption not prosperity, is revenue-neutral, creates jobs through a business-friendly environment, and lowers the cost of doing business in Missouri. The current 3% sales tax for general revenue will be reduced to 1.8% if services were taxed. When businesses are taxed, they add the tax to their product's price or move to a lower taxing state. The bill will increase tax compliance since sales tax is more accurate and enforceable. The bill will be good for small business because it will eliminate the costs of withholding state income tax and filing and remitting the withholding tax and corporate income tax. Currently, Missouri has the lowest sales tax of its surrounding states. Nine states have no income tax and show economic vitality including greater job growth, higher wages, higher gross state product, and population growth compared to states with income taxes. On average, states without an individual income tax have outperformed states with the highest income tax rates by 26.5% over the past decade and outperformed the national average by 20%. Without an individual income tax, Missouri could potentially add $100 billion to its gross state product. Tennessee has had a similar tax structure to the fair tax for 60 years and it is working. The bill will tax approximately 45% of Missouri's gross domestic product which is more than sufficient for the state budget and a more stable revenue source than currently exists. Counties and cites will get a more broadened base so taxes will not be so volatile. The state income tax structurally promotes poverty, discourages industry, and rewards unwise fiscal behavior. The elimination of the state income tax and the replacement with a broad-based sales tax will be a major step toward a less powerful and intrusive government and an empowered citizenry.

Testifying for the bill were Representative Koenig; Randy Gastineau; Frederick Berry; Ed Emery; United for Missouri; Robert Hillman, Missouri Republican Liberty Caucus; Philip Todd; Shirley Braden; James Naylor; John McMillen; Anna Voelker; James Coyne; Erin Dunn; Dr. Colin Malaker; Barbara Webb; Alice R. Forker; E. L. Forker; Beverly Martin; John Richard Martin; Denise Hubbard; Mitchell Hubbard; and Earl Williamson.

OPPONENTS: Those who oppose the bill say that it could bankrupt the state and the middle class, has not been tried anywhere to date, and could have unintended consequences. It will shift the tax burden to the poor and lower middle class, cut funding of state services that assist Missouri's most vulnerable citizens, and not provide adequate or sustainable revenues for public K-12 and higher education. Currently, the state sales tax brings in $7 billion annually at 3%. The fair tax adds a tax to food, rent, utilities, child care, beauty care, attorney fees, and healthcare. The prebate is too expensive and will cost $2 billion annually requiring the tax rate to be increased by 2-3% just to cover the prebate. The Missouri Budget Project estimates the tax rate needs to be 12%. The local rate calculation is problematic since it uses a five-year, look-back period and allows only one chance to adjust the rate. Last November, voters passed a constitutional amendment that prohibits the imposition of any new tax. If the bill passes, it is sure to be litigated. Taxpayers will cross the state line or shop online to save on taxes especially in the Kansas City and St. Louis areas. A tax on services could place businesses at a competitive disadvantage with businesses in adjoining states. There is no correlation with tax rates and productivity, and some states with higher taxes than Missouri have a higher growth in gross domestic product. Sales tax is not a consistent source of revenue. Streamline sales tax or a strengthening nexus should be pursued.

Testifying against the bill were Missourians for Tax Fairness; Missouri Association of Realtors; Missouri Budget Project; Missouri Retailers Association; Missouri Municipal League; Greater Kansas City Chamber of Commerce; Partnership for Children; Missouri Catholic Conference; Missouri National Education Association; Missouri Society of Certified Public Accountants; Penney Rector, MESA - School Administrators Coalition; Catholic Charities of St. Louis; Cooperating School Districts of Greater St. Louis; Missouri Society of Accountants; Missouri Broadcasters Association; Missouri Association for Social Welfare; Kelly Anthony, Missouri Jobs with Justice; Cooperating School Districts of Greater Kansas City; Missouri Hospital Association; and AARP Missouri State Office.