HCS HB 1967 -- TAXATION

SPONSOR: Koenig

COMMITTEE ACTION: Voted "Do Pass" by the Committee on Ways and Means by a vote of 10 to 3.

This bill reduces the state individual income tax rate and replaces the current state and local sales and use tax with a state and local sales tax on retail sales of new tangible personal property and taxable services. Beginning January 1, 2015, the state individual income tax rate will be reduced annually if the Director of the Department of Revenue determines that the total tax revenue collected by the state including the rate reduction is equal to or greater than the total tax revenue collected in the prior tax year, subject to review and verification by the State Treasurer. From January 1, 2015, to January 1, 2017, the local sales tax rates will be recalculated to produce reasonably equivalent amounts of revenue to the prior rate of tax collected averaged over the previous five tax years with the federal Consumer Price Index changes factored in. After that date, the state sales tax rate plus the conservation sales tax rate, the parks and soils sales tax rate, and local tax rates, excluding transportation district taxes and community improvement district taxes, cannot exceed 10% unless the increase is imposed by voters or the temporary result of the recalculation of local taxes. Beginning January 1, 2015, there will be no state tax on food.

Property purchased to be a component part or ingredient of a new tangible personal property to be sold at retail; government purchases including federal, state, and local governments; purchases of inventory; real property transactions; construction of an entirely new building or structure; purchases of utilities; purchases of medical services including medications; purchases of professional services; purchases of child care and elderly care; purchases between consolidated entities; purchases of services rendered by employees for his or her employer; business-to-business transactions including agriculture; purchases for investment; purchases involving gambling at licensed bingo, racing, or gambling boats; purchases relating to common carriers; purchases of railroad rolling stock; purchases of barges and cargo; tuition and fees for education; purchases of insurance products and services; purchases of used tangible personal property; and purchases by charities will be exempt from sales tax.

PROPONENTS: Supporters say that the bill eliminates state sales tax on food, lowers the income tax rate, provides various exemptions, and broadens the sales tax base to include services. The basic necessities are exempt from tax to help the poor. This bill will make Missouri rely less on income tax. The nine states without an income tax are prospering. If a state shifts from taxing production to taxing consumption, the gross state product will increase by about .5%; Tennessee is a good example. A sales tax is easier to collect and more reliable than an income tax. This bill will be revenue neutral.

Testifying for the bill were Representative Koenig.

OPPONENTS: Those who oppose the bill say that it is dangerous to move from an income tax to a sales tax and will create a great deal of uncertainty surrounding the implementation and guidance of tax policy. The bill will cause a reduction in revenue and needed services in the state. Food sales tax reduction is a problem and a rebate needs to be provided for poor families. By removing all existing precedents regarding sales tax without thorough guidance, CPAs and their clients would have to operate in a very uncertain tax environment.

Testifying against the bill were Missouri Budget Project; Missouri Society of Certified Public Accountants; and Civic Council of Greater Kansas City.