

Commentary

April 9, 2008 • Vol. 4, No. 8



Be Careful Where You Live — It Might Cost You More Than You Think

By Justin P. Hauke

Everyone knows that April's showers bring May's flowers. Unfortunately, it also brings Missourians' tax bills. This year, individuals, businesses, and nonprofits will spend an estimated six billion hours complying with local, state and federal income taxes, according to research by The Tax Foundation. On April 15, Missourians will cough up more than \$4 billion in net state income taxes alone. But the size of your slice of the Missouri tax pie will depend significantly on where you happen to live.

Many people assume that state and local taxes don't vary much throughout Missouri. For statewide taxes, this is certainly true. But local taxes — particularly property and sales taxes — vary considerably from one city to the next. Missouri sales tax rates range from 4.7 percent to nearly 9 percent across the state. The disparity in local property taxes is even more dramatic, with rates differing by more than \$2 per \$100 of assessed property value in some parts of Saint Louis County. For a home worth \$150,000, this difference would translate into an annual tax difference of about \$1,000.

This suggests that sometimes moving just a few miles down the road may have a significant effect on how much of your own money you get to keep. Unfortunately, though, most people don't have the resources to compare tax rates for cities and counties throughout the state. That's why the Show-Me Institute created "Show-Me: The Taxes," an easy-to-use tax estimator that provides Missourians with the ability to compare taxes as they make decisions about their finances, lifestyle, and places to live and work.

How do the differences actually impact household wallets? More than you might think.

Consider, for example, four hypothetical Missouri households: a single 25-year-old college graduate, a married couple with two young children, a single working mother with one child, and a recently retired couple living on a fixed income. By plugging these households into our estimator, we were able to compare the taxes they might expect to pay in cities across the state — assuming their financial

Summary

Local taxes tend to vary significantly throughout Missouri, but most people don't have the resources to compare tax rates for cities and counties throughout the state. The Show-Me Institute has created a new tax estimator that provides users with the ability to make more informed decisions about where to work and live.

Main text word count: 755

Sometimes moving just a few miles down the road may have a significant effect on how much of your own money you get to keep.

Show-Me Institute Mission:
Advancing liberty with responsibility
by promoting market solutions
for Missouri public policy

situations would not otherwise change.

The results were surprising. For example, a 25-year-old with an annual salary of \$30,000, modest student loan debt, and a shared two-bedroom apartment would pay approximately \$275 less in taxes each year by moving from Saint Louis city to a nearby suburb (in this example, Maplewood). If we consider the impact of this annual tax savings over the course of a career, however, the numbers are even more remarkable. For example, investing that \$275 each year and earning the historical market return could generate more than \$70,000 in additional income by retirement at age 65.

The same was true for the other households we considered. A young family could save more than \$700 in taxes each year by moving from Kansas City to Grain Valley — also in Jackson County. A single mother could finance more than half of her child’s tuition at the University of Missouri simply by moving a few miles down the road and saving the amount she would no longer pay in taxes each year.

Retirement provides the most dramatic illustration of the differences in local taxes. We found that a relatively low-income retired couple could save more than \$1,100 in taxes each year by living in Cape Girardeau instead of Kansas City. Investing this annual tax savings in low-risk securities such as rolling certificates of deposit or annuities would increase the household’s monthly cash flow by nearly \$100. This extra money could be used to help defray the cost of prescription drugs and other medical expenses, or to help finance a grandchild’s education.

Of course, the amount one saves in taxes is not the only way to measure quality of life. Clearly, there are benefits to retiring in a city where there are people you know and love, and high tax cities may offer intangible benefits that are difficult to quantify. But it’s important that Missourians be able to weigh these options when deciding where to live.

Nobody likes to pay taxes, but no matter where you live or work, some level of taxation is a certainty. Not all locations are the same, though. Small differences in tax rates can have dramatic effects on household wealth. In many cases, such differences may be enough to encourage citizens to “vote with their feet,” relocating to cities with lower tax burdens. The Show-Me Institute’s tax estimator can help Missourians quantify these benefits, so they can make informed living decisions. Are small tax differences really so insignificant?

Justin P. Hauke is a policy analyst at the Show-Me Institute and a graduate student at Washington University’s Olin Business School.

Small differences in tax rates can have dramatic effects on household wealth. In many cases, such differences may be enough to encourage citizens to “vote with their feet,” relocating to cities with lower tax burdens.

Attention Editors and Publishers

Show-Me Institute commentaries are designed to be reprinted in newspapers and other publications. Reprint permission is hereby granted, provided that proper credit is given to the author. Electronic versions are available at the Show-Me Institute website, www.showmeinstitute.org.

We request, but do not require, that those who reprint one or more of our commentaries to notify us of publication, for our records: info@showmeinstitute.org

The author of this commentary is available for interviews. To speak with the author or other Show-Me Institute scholars, please contact:

The Show-Me Institute
7777 Bonhomme Ave. Suite 2150
Clayton, MO 63105

Phone: 314-726-5655
Fax: 314-726-5656

www.showmeinstitute.org
info@showmeinstitute.org