

Commentary

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How a Sales Tax System Could Replace the State Income Tax

By Joseph Haslag and Sara Haslag

Missouri's General Assembly is considering a resolution that would allow Missourians to vote on a constitutional amendment that would eliminate the state's individual income tax and its corporate income tax, and alter the state sales tax. Lost income tax revenue would be offset by a broadened state sales tax on all consumer goods and services. All items included in the definition of personal consumer expenditures would be subject to the new sales tax.

Because of the regressive nature of sales taxes, the new broad-based sales tax would also fund a rebate program for low-income households. In effect, sales taxes paid by low-income households would be offset entirely by the rebate.

The purpose of this article is to explain how such a broad-based sales tax would work. The aforementioned resolution, House Joint Resolution 56, has been submitted by Rep. Ed Emery (R-Lamar). The basic components of the bill, especially the tax base definition and the size of the rebate program, will undoubtedly change through House and Senate debate. With the caveat that I cannot predict the final version, I proceed with my description.

Personal consumption expenditures are the goods and services purchased for end use by households. In most instances, purchases are straightforward; the consumer buys something and the sales tax is collected on the spot by the business that has a sales tax license. The licensed business periodically writes a check to Missouri's Department of Revenue for the amount of sales taxes collected.

If the new constitutional amendment passes, many more businesses would need sales tax licenses because previously exempted services would become subject to the broadened sales tax. Many services, including medical, legal, and real-estate, are now exempt from sales taxes. If the proposed amendment were to pass, those exemptions would disappear. Your dentist would need a sales tax license, for example.

Used goods would require specific attention. Taxes on used goods would be applied only to the value added this year. Suppose you

Summary

A resolution currently under consideration by Missouri's General Assembly would eliminate the state's individual and corporate income taxes, and broaden the sales tax instead. The plan includes establishing a low-income rebate program. Despite the possibility of added administrative work in the short term, resources could ultimately be allocated more efficiently.

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bought a used CD for \$10 from a store; currently, you would pay sales tax on the entire \$10 purchase. In contrast, under the new tax structure you would be taxed only on the value added by the store owner. So, if the store owner paid \$6 for the CD you purchased from him for \$10, the sales tax would apply only to the \$4 value added this year.

Note further that no sales to businesses would be subject to the sales tax under the new amendment. For example, under the existing law if a store owner buys a file cabinet from a business supply company, he pays sales tax. If the amendment were passed, he would not be subject to a sales tax on the file cabinet. Presently, there are more than 140 exemptions to Missouri's sales tax, and many of those are for business purchases; the exemption list would be greatly simplified.

The general idea of the resolution's rebate program is to compute the expected amount of sales tax paid by low-income households and refund them this amount. Each year, households would present evidence, such as a federal income tax form, to the Missouri Department of Revenue to verify their income. Administration of the rebate program could be done by collecting all sales taxes and then refunding an amount to low-income households. Alternatively, low-income households could be given a stored-value card that would be swiped at the point of sale, reducing the amount available until it hit zero.

In one version, people with incomes at or below the federal poverty threshold would receive the rebate. For 2009, federal poverty guidelines say that a family of four is at 100 percent of the federal poverty level with an income \$22,050; that income level for a single person is \$10,830. Suppose the state sales tax rate were 5.5 percent; then, a family of four would receive a refund check for \$1,212.75 and a single-person household would receive a refund check for \$595.65.

For the stored-value card, the family would have \$1,212.75 put on the card at the beginning of the year. With every purchase, the sales tax could be deducted at the point of sale. No state sales taxes would be collected from that household until its balance on the stored-value card reached zero.

The new proposed amendment, HJR 56, would change the tax structure for Missourians. The broadening of the state sales tax would initially produce some added work for state government. There would be an increased number of sales tax filers, and the institution of a rebate program would be dramatic. But, favorably, we already have an apparatus to deal with sales tax collection, and Missouri's Department of Revenue would save resources heretofore devoted to collecting individual and corporate income tax.

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