



James R Moody & Associates

Analysis Of August/September  
2011 Consumption Tax Initiative Petitions

# The Three Pillars of Governmental Finance

Individual Income Tax

Sales Tax

Property Tax



# What The Initiative Petitions Do To The Three Pillars

Individual Income Tax—Eliminate!!!

Sales Tax—Caps Both State and Local Tax Rates, and Put Exemptions Into The Constitution

Property Tax—Not Affected, But Already Limited By Extraordinary Vote Requirements

# The Basic False Premise Of The New Initiative Petitions

Missouri can eliminate the individual income tax and replace it with only a 3% increase in the state sales tax rate, while only somewhat widening the taxable base.

**Not True!!!**



# The Laffer Assumption

- **Dr. Arthur Laffer, in testimony to a Missouri Senate Committee in December of 2009, stated that a sales tax is preferable to an income tax because it is more stable.**
- **Tying all state taxes to the sales tax is like tying a concrete block around your neck and throwing it into the river.**
- **The sales tax receipts for Missouri have not been increasing, they have been declining.**

# Sales Tax Growth Since FY 1998



# Sales Tax Decline In The Past Five Fiscal Years

Fiscal Year	Net Sales Tax (in millions)
FY 2006	\$1,961.5
FY 2011	\$1,759.8
Difference	<u>(\$201.7)</u>
Net Collections FY 2011	+ 1.6%



# What Do The New Petitions Do?

- Eliminate Individual Income Tax.
- Replace The Individual Income Tax With A State Sales Tax Capped at 7% (including parks and soils and conservation).
- Food Is Taxed At A State Rate Of 5.5%.
- Caps Local Sales Taxes At 3%.
- Local Taxes Above 3% Require 4/7 Approval By Voters.
- First Phase-In Is 2014 (devious and devastating).
- Full Implementation In 2016 (destroys state government).



# Revenue Generated By 7% Sales Tax and 5.5% Tax On Food

	(In Thousands)
Sales Tax Revenue Per 1% Of Tax	\$586,607
Increase rate To 7%	\$4,106,251
Add Food at 5.5%	\$713,139
Total New Revenue By Adjusting Rates	\$4,819,390
Less: Conservation Sales Tax	\$89,966
Less: Parks & Soils Sales Tax	\$76,654
Net Sales Tax at New Rates	\$4,652,770

# What Needs To Be Replaced?

	(In Thousands)
Individual Income Tax	\$4,840,299
3% Sales Tax	\$1,799,822
Senior Citizen Circuit Breaker	\$120,000
1% Prop C Sales Tax	\$716,259
Tax Credits Already Issued/Earned	\$425,000
<b>Total To Be Replaced</b>	<b>\$7,901,380</b>



# What Happens In 2016?

	(In Thousands)
Current Revenues	\$7,901,380
New Revenues With Tax Rates Under Petitions	\$4,652,770
Loss of Current Revenues Before Expanding Base	(\$3,248,610)

# Net General Revenue Loss Of First Phase-In - 2014

\$.01 Increase In Sales Tax Rate	\$586,607
\$.03 Increase In Tax On Food	\$388,986
Total Increased Revenue	\$975,593
Lost Revenue From Decreasing Income Tax Rate To 3%	\$2,320,150
Net GR Loss In 2014	(\$1,344,557)



# Cuts Will Come From Where Governmental Revenues Are Spent!!

	(In Thousands)
Elementary and Secondary Education	\$2,627,000
Higher Education Institutions	\$785,000
Higher Education Scholarships	\$33,000
Employee Benefits	\$584,000
DMH/DHSS Programs	\$327,000
Medicaid	\$1,743,000
Corrections	\$595,000
Source: Office of Administration Submission To State Auditor	

## Examples Of Local Governments With Tax Rates Greater Than 3%

County	City	Combined Tax Rate
Franklin	Union	4.25%
Lincoln	Troy	3.95%
St. Louis	Clayton	3.95%
Warren	Warrenton	3.75%
Washington	Potosi	4.00%
Platte	Kansas City	3.63%
Jackson	Kansas City	3.50%



# Tennessee Tax Myths

- Tennessee has no state income tax or corporate business taxes.

**Not True!!**

# Tennessee Taxes On Individuals, Businesses and Professions

	(FY 2011 In Thousands)
Income Tax On Interest, Dividends	\$189,500
Privilege Tax	\$254,100
Gross Receipts Tax—TVA And Others	\$321,500
Franchise Tax	\$450,900
Excise Tax	\$1,068,500
Business Tax	\$118,000
Total	\$2,402,500



# Tennessee Growth Myth

Per capita income is higher in Tennessee  
than it is Missouri

**Not True!!**

Federal Medicaid Fiscal Participation Is Based  
On Per Capita Income. Higher % Equals Lower  
Per Capita Income

Missouri

- FY 2011 63.29%
- FY 2012 63.45%
- FY 2013 61.37%

Tennessee

- FY 2011 65.85%
- FY 2012 66.36%
- FY 2013 66.13%



# 2010 Bureau Of Economic Analysis (BEA) Rankings of Per Capita Income By State

○ Missouri

○ Ranks 32<sup>nd</sup>

○ \$36,979 per  
capita income

○ Tennessee

○ Ranks 39<sup>th</sup>

○ \$35,307 per  
capita income

Who Benefits Most By Shifting  
Missouri To An Expanded Sales  
Tax?

Those Who Have The Most  
Income and Wealth!!

# What Will Not Be Taxed With An Expanded Consumption Tax

Interest Income	\$3.5 billion
Dividend Income	\$3.6 billion
Capital Gains Income	\$7.7 billion
Total Unearned Income (3 sources)	\$14.8 billion
(2008 federal income tax data for Mo)	



## Who Is Harmed By The Expanded Consumption Tax?

- Low and moderate income Missourians who pay little state income tax, but who must consume most of their income on the essentials of life, such as food.
- Most seniors, whose social security income and public pensions would be exempt from Missouri income taxation (complete exemption in 2012), but who spend most of their income on items subject to the consumption tax.

# The Question For Missourians

Will They Buy Into The Economic  
Alchemy Being Advanced By  
Proponents Of The Expanded  
Consumption Tax?