

HB 1034 -- FAIR TAX ACT OF 2007

SPONSOR: Emery

COMMITTEE ACTION: Voted "do pass" by the Special Committee on Tax Reform by a vote of 7 to 2.

This bill establishes the Fair Tax Act of 2007 which requires the Department of Revenue to develop by January 1, 2008, methods for replacing the state individual and corporate income tax and the estate tax with a fair tax based on all new retail sales and services. Upon voter approval, the income tax will be replaced beginning January 1, 2009, with the department-proposed fair tax. Tax credits and sales tax exemptions will be phased-out as the fair tax rate is adjusted to provide continued funding for programs. Each sales tax collector and the department will be allowed to retain .25% of the amount collected. Each family will receive a monthly sales tax rebate based on the number of members in the family and the federal poverty level guidelines to offset the sales tax on basic necessities.

FISCAL NOTE: No impact on state funds in FY 2008, FY 2009, and FY 2010.

PROPONENTS: Supporters say that with the problems in the existing tax code and various economic issues the bill authorizes the Department of Revenue to implement the fair tax. The fair tax is not a tax increase or a tax cut. It just changes the way Missouri will collect taxes. Currently, the more productive a taxpayer is, the more taxes he or she pays. The bill will eliminate income taxes for individuals, corporations, and estates. The family rebate will assist with basic-need purchases of taxpayers. Under the fair tax, the administration costs will drastically decrease, and the gross domestic product index will increase 6% to 10% in Missouri. Everyone will pay the tax, even those currently working underground or outside the current tax system. Prices could actually be lower, and it would encourage purchases in Missouri and draw purchases from other states. Businesses will want to invest in Missouri. Home ownership should not decrease with the elimination of the interest deduction since the homeowner will still receive all the benefits of owning his or her own home. The sales tax base will be expanded since all services will be taxed. There will be no tax on the sale of used items or sales to businesses.

Testifying for the bill were Representatives Emery and Robb; and John Putnam, Ray Walker, and William E. Plaster, FairTax.org.

OPPONENTS: Those who oppose the bill say that eliminating the income tax and broadening the sales tax base from \$60 billion to

a new level with services taxed to \$120 billion will shift the tax burden from high income taxpayers to middle income taxpayers. The impact on Internet sales and border transactions has not been determined. The sales tax will need to increase an estimated 7% to 9%. There is no need to eliminate the estate tax. A sales tax is the most regressive form of tax while an income tax is the only fair way to tax. The average sales tax for a family of four is approximately \$2,100 per year.

Testifying against the bill were Missouri National Education Association; Otto Fajen, School Administrators' Coalition; and Missourians for Tax Justice.