HCS HB 2112 -- FAIR TAX ACT OF 2008

SPONSOR: Smith, 14 (Emery)

COMMITTEE ACTION: Voted "do pass" by the Special Committee on Tax Reform by a vote of 8 to 1.

This substitute establishes the Fair Tax Act of 2008 which requires the Department of Revenue to develop by January 1, 2009, methods for replacing the state individual and corporate income tax, corporation franchise tax, bank franchise tax, and 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, 2010, with the department-proposed fair tax. Sales tax exemptions and tax credits will be eliminated. Each sales tax collector and the department will be allowed to retain one-fourth of 1% 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: Estimated Cost of More than $100,000 in FY 2009, Unknown in FY 2010, and Unknown in FY 2011. No impact on Other State Funds in FY 2009, FY 2010, and FY 2011.

PROPONENTS: Supporters say that states without an income tax are growing faster than those with an income tax. Taxes should be fair and just. Income taxes are a disincentive to profit. Investors look for higher returns for their income. Currently, there is a loss of jobs to overseas due to our high tax rates. Ireland eliminated all corporate income tax and now several companies are moving their businesses there. The fair tax is a predictable tax system. Production costs will decrease with the fair tax and increase the take-home pay of employees. Individuals are more likely to save if their take-home pay increases. Not taxing the interest earned on savings will be a great incentive also. The fair tax will capture cheats and people doing illegal deeds and eliminate filing errors. A monthly rebate check will eliminate the tax for spending up to the poverty level. No money will be given to illegal residents. The fair tax will reward companies and industrious people. It does not tax income, only what an individual buys new. The bill will benefit lower income groups and help with competition among businesses.

Testifying for the bill were Representatives Emery and Robb; and Ray Walker.

OPPONENTS: Those who oppose the bill say that there are concerns with the fairness of the tax and tax revenue results. The sales tax on services is a good idea since goods are getting harder to tax. Sales tax hurts lower income families more than wealthier income families. The switch from the income tax to the sales tax will be a more regressive tax.

Testifying against the bill were Missouri National Education Association; Missourians for Tax Justice; and Missouri Association of Social Welfare.

OTHERS: Others testifying on the bill say that the department is not sure what the new rate will be. The department's records show who is currently paying the tax but not who would be required to now also pay the fair tax. The department will hire a consultant to determine the impact for the fiscal note. The department will shift staff from the income tax area to handle the new requirements.

Testifying on the bill was Department of Revenue.