Prop A and the poor: Sinquefield's tax policies would shift burden to sales tax and low-income

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For Missourians who make $17,000 or less, about six percent of their income goes towards sales taxes – and less than one percent goes towards income taxes, according to a November 2009 study by the Institute on Taxation and Economic Policy.

For those who make $412,000 or more, it's almost completely opposite.

Less than one percent of their income goes towards paying sales taxes, and 4.4 percent goes towards income taxes.

If Missouri's poor pay proportionately more sales tax and the rich pay proportionately more income tax, an important question for voters this November is: Why would a billionaire propose a ballot initiative that would result in getting rid of local income tax and replacing it with more sales taxes?

On Nov. 2, Missourians will vote on Proposition A, a ballot initiative funded by retired billionaire financer Rex Sinquefield. If passed Prop A would trigger voters in St. Louis and Kansas City to vote every five years on whether to phase out their cities' earnings taxes. It also would bar other municipalities throughout the state from enacting their own earnings taxes.

To remain competitive, Sinquefield and his researchers at the Show-Me Institute say, cities such as St. Louis and Kansas City that border other states cannot afford to have additional income taxes.

In St. Louis city, residents and people who work in the city pay an additional one percent income tax on their earnings. For this fiscal year, this local income tax is expected to generate $137.5 million, said Comptroller Darlene Green. That is almost one-third of the city's general fund budget.

If Proposition A passes on the statewide ballot on Nov. 2, then voters in St. Louis would be triggered to vote next April on whether to retain or sunset the city's one percent earnings tax. If voters refuse to give up the city's earning tax, the issue will come up again for renewal in five years.

Some local politicans believe that Sinquefield's agenda puts St. Louis' economic future in jeopoardy.

State Rep. Tishuara Jones (D–St. Louis) said the five-year renewal aspect of the proposition would make it more difficult for St. Louis and Kansas City to obtain bond financing.

"No one in their right mind would buy bonds from a municipality with an unstable income stream," said Jones, who is vice president of public finance for Blaylock Robert Van, LLC, one of the country's largest minority-owned investment firms.

Jones gives this example. Say a person wanted to buy a house with a 30-year mortgage, and the bank knew that every five years, that person might lose his or her job. The bankers would be far less likely to give that person a home loan.

If Proposition A passes, St. Louis and Kansas City would find themselves in exactly the same scenario, she said.

Further, in her view, the city's earnings tax structure has not hindered the city's growth.

"In recent years, both St. Louis and Kansas City have experienced exponential development through the use of historic and other tax credits," she said.

St. Louis taxathon

If St. Louis City were to get rid of its local income tax, the city would have to triple its current local general revenue sales tax from 1.375 percent to 5.3 percent, according to Amy Blouin, executive director and founder of the Missouri Budget Project.

That means that sales tax could be as high as 13.166 percent, depending if the area is a special taxing district. For every dollar a person spends on groceries, he or she would pay 13 cents, instead of the current 8 cents. If that person spends $100 on groceries a week, that's $20 more in taxes a month for food.

For sit-down restaurants, there is currently a 1.5 percent sales tax added to the current 8.241 percent. To compensate for the lack of local income tax, restaurants would have to charge up to 14.66 percent sales tax.

The other anticipated source of expanded revenue would come from increased property taxes in the city.

"It is truly disheartening that the philosophical interests of one person can determine the economic future of two of the metro areas that contribute more than 60 percent of the state's general revenue," Jones said.

"I urge you, vote against Proposition A."

The city's financial decisions are made by the Board of Estimate and Apportionment, comprised of the mayor, president of the Board of Aldermen and comptroller.

Comptroller Darlene Green, who has received no campaign funding from Sinquefield, has forcefully and publicly opposed Proposition A.

Mayor Francis G. Slay and aldermanic president Lewis Reed both have received significant contributions from Sinquefield, who is Slay's single largest campaign donor. Neither has publicly opposed Prop A. Both have repeatedly failed to respond to The American when questioned on the issue.

Some aldermen and other officials held a press conference against Prop A soon after it was announced for the Nov. 2 ballot. Slay and Reed did not participate, and chiefs of staff for both officials were observed slipping into City Hall immediately after the press event was concluded.

Sales tax Sinquefield

Sinquefield ultimately wants to eliminate Missouri income tax completely.

Currently there are two Missouri House bills (HJR 56 and HJR 71) in motion and one Missouri Senate bill (SJR 29), which Sinquefield supports, to do just that. In Sinquefield's Show-Me Institute studies, researchers show that the U.S. states that don't have income taxes, such as Texas, Nevada, Florida, Tennessee and Washington, achieve higher economic growth.

Sinquefield points to a study "Rich States, Poor States" released by the American Legislative Exchange Council this year. It shows Missouri's gross state product growth rate from 1998 to 2008 was 44.8 percent. Tennessee is a bordering state that does not have personal income tax, but does have corporate income tax. It had a growth rate was 56.7 percent.

In an essay Sinquefield co-authored, "Why a Sales Tax is Better for Missouri than an Income Tax," he writes that there is a strong correlation between Tennessee's lack of personal income tax and its economic gains.

Blouin of the Missouri Budget Project refutes this claim. She said that Missouri's personal income growth over the past 10 years, according to the U.S. Department of Labor, is 44 percent, compared to Tennessee's 43 percent. Tennessee also has a higher unemployment rate.

Blouin said that Kansas and Illinois, states with higher personal and corporate income taxes per capita than Missouri and Tennessee, have stronger economic growth.

Sinquefield said Missouri would need to increase sales taxes to make up for the elimination of income tax.

"In 2007, Missouri's sale tax generated $2 billion. To replace the income tax fully, the sales tax would have to produce another $4.9 billion," the Sinquefield essay states. "If no other items were added to Missouri’s sales tax, the rate would have to rise to nearly 11 percent in order to achieve the necessary $4.9 billion.”

Sinquefield said that 140 categories of items are exempt from sales tax, including college athletic events and “animals or poultry used for breeding or feeding purposes.” He wrote that sales tax should be applied to every product and service purchased by an individual. If that were to happen, a general sales tax rate of about five percent would suffice.

Blouin said this would increase the tax burden on those living in poverty because it would make child care and necessities taxable.

Of those nine states that Sinquefield touted as having impressive economic growth and no income taxes, the Institute on Taxation found that Tennessee, Texas, Washington, Florida and Nevada were in the top 10 U.S. states that put the highest tax burden on their poorest residents.

These states ask their poorest residents – those in the bottom 20 percent of the income scale – to pay up to six times as much of their income in taxes as they ask the wealthy to pay.