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Consumption tax more nuanced than some people might think

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COLUMBIA — The Center on Budget and Policy Priorities and the Economic Policy Institute have released reports on Missouri's income disparities, and they show a stark figure: income inequality has grown in Missouri over the past two decades.

The richest Missouri families have had the greatest income gains in that time period. The gap between Missouri's richest and poorest families is the 22nd largest in the nation, and the gap between the richest families and families in the middle income group is 14th largest, according to the report.

Proponents of the Fair Tax Act of 2009, federal legislation to enact a consumption tax, say the proposal would reconcile these disparities by replacing income taxes with a system that taxes spending instead. The consumption tax would replace the federal income tax entirely.

Sales taxes are generally considered regressive, since those with the lowest incomes end up spending a larger percentage of their incomes on basic goods such as food and clothing than those with higher incomes. Property taxes, on the other hand, are considered progressive, since wealthier people tend to own more property.

While the federal legislation remains in committee, Missouri has moved into the forefront of efforts to enact a consumption tax. A national group promoting a federal consumption tax has organized a rally from 8 a.m. to 4 p.m. Saturday at the Boone County Fairgrounds that's attracting national attention.

Robert Weagley, associate professor and chair of MU's Personal Financial Planning Department, said the current U.S. tax system is made up of different taxes, such as sales taxes and property taxes, which work together to make the overall system proportional and relatively equitable for people with a wide range of incomes.

As a professor and a certified financial planner, Weagley has followed the consumption tax issue closely, but he remains reserved in drawing any conclusions about the plan.

In addition to a federal sales tax on goods and services, the consumption tax would provide rebates to taxpayers, helping especially those below the poverty level.

Estimates of the sales tax under the Fair Tax Act of 2009 range from 23 percent to 30 percent.

[FactCheck.org](#), an online resource from the Annenberg Public Policy Center at the University of Pennsylvania, says taxpayers below the poverty level would receive a rebate of about \$5,600 annually, costing the U.S. Treasury Department \$485 billion per year.

The policy center also says those earning less than \$24,156 per year would benefit from the consumption tax, as well as those earning more than \$200,000. Families earning between \$40,000 and \$100,000 would see their share in the tax burden rise. However, according to a FactCheck.org report, proponents of the consumption tax say that in the long term, people in the middle group would see their "purchasing power grow faster than the tax burden."

Weagley said he considers the Saturday rally political theater, given a program that includes Joe Wurzelbacher, better known as Joe the Plumber, from the 2008 presidential campaign.

"It's going to be a circus, trust me," Weagley said. "Anyone going will have a good time."

While the rally's organizers have been promoting the federal legislation, the Institute on Taxation and Economic Policy, a Washington-based policy research organization with an office in Columbia, has criticized Missouri's proposal of the consumption tax. The organization says the new sales tax rate would have to increase to about 12.5 percent – up from 5.11 percent – to make up for the state's lost revenue from the elimination of income taxes.

The tax policy institute also says the burden of an increased sales tax would be shouldered by lower income and middle-class families, while Missouri's wealthiest 1 percent would see the highest tax cuts.

In response to the institute's report, sponsors of Saturday's rally have issued a "rebuttal" that cites the report's ambiguities and says the institute used no methodology.

Another complaint about the institute's analysis is that it doesn't account for the behavioral effects of tax law changes.

Missouri Rep. Chris Kelly, D-Columbia, an advocate for a state consumption tax, agrees on the need for studies to include the behavioral aspects of tax reform.

A consumption tax that would replace the state income tax cleared the Missouri House in the past legislative session but failed to pass in the Senate on May 5 of this year.

"You have to make that assumption that purchasers will behave rationally in a marketplace," Kelly said. If the income tax is repealed and the consumption tax is implemented, sales tax prices for many goods and services would ultimately increase. Kelly believes strongly, however, that even though most of Missouri's citizens live close to a border, like in St. Louis and Kansas City, they would not travel out of state to purchase in neighboring states with lower sales taxes. But, the Institute on Taxation and Economic Policy does not agree with that assumption, saying that a higher sales tax brought upon by the elimination of the income tax would cause people to shop elsewhere.

"You have to figure out at what point it becomes a problem," Kelly said. He thinks that in order for the consumption tax to work in Missouri, the state legislature needs to find a threshold where the new sales tax won't be too high and drive people out of the state.

Weagley said he sees a double standard, however, coming from many consumption tax advocates.

"Proponents of a fair tax argue that politicians are not able to legislate behavior," he said. "But on the other hand, if we still have taxes like sin taxes, we are trying to legislate behavior right there. They sound like they talk from both sides of their mouths." "Sin" taxes are usually imposed on goods like alcohol and tobacco.

Kelly said he thinks that compared to the income tax, a sales tax is more difficult to cheat and less expensive to collect. Weagley for the most part agrees that a consumption tax does offer efficiencies not obtainable under the current system. He also said it would put a lot of accountants out of work.

Kelly also said that both the opponents and proponents of a consumption tax manipulate numbers to their own benefit. For instance, he said many proponents think the cost of produce and consumer goods is going to fall because of decreasing income taxes. "That's being too highly speculative at this point," he said.

“The proponents – basically the fair tax people – think it’s far easier to do than it is,” Kelly said. “We’re talking about changing our entire tax system. We have to do it carefully and we have to do it right. It’s not one of those things you can get wrong and then fix later.”