



# TESTIMONY

January 30, 2019

## HOUSE BILL 374: SALES TAX CAP

*By Patrick Tuohey and Patrick Ishmael*

Testimony before the Missouri House Ways and Means Committee

### **TO THE HONORABLE MEMBERS OF THIS COMMITTEE:**

My name is Patrick Ishmael, and I am the director of government accountability at the Show-Me Institute, a nonprofit, nonpartisan, Missouri-based think tank that supports free-market solutions for state policy. The ideas presented here are my own and summarize Show-Me Institute research on topics relevant to this legislation.

Sales taxes in Missouri are high. According to the nonpartisan Tax Foundation, the combined state and average local sales tax in Missouri as of January 1, 2018, was 8.03 percent,<sup>1</sup> making it the 14th-highest in the country. This may come as a surprise to some, as Missouri's state sales tax is relatively low at 4.225 percent. But the difference is made up in what this bill is trying to address: runaway local sales tax rates. Locally imposed

sales taxes nearly double the average sales tax paid in Missouri stores. This includes extra sales taxes in special taxing districts like Kansas City's Power & Light District, which can raise the sales taxes *actually* paid by consumers to well over 10 percent. These sales taxes are, of course, in addition to the state's income and property taxes, which aren't exactly low either. This is why Missouri isn't a "low tax state."

A recent study of taxation out of Washington, D.C., underscores just how bad things have gotten here relative to other U.S. cities.

The study,<sup>2</sup> issued by the government of the District of Columbia in December 2017, "aims to calculate the combined state and local tax burdens that would apply to a hypothetical family at five different income levels living in D.C. as well as the largest city in each state." Kansas

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City is included but St. Louis is not, nor are some cities that we've identified as peers.<sup>3</sup> But the data are valuable nonetheless.

The estimated annual tax burden for a family earning \$50,000 in Kansas City—the median income is \$47,000<sup>4</sup>—is \$5,444. That's 10.9 percent of income and includes income, property, sales, and auto taxes. This places us 8th in the country, ahead of places well known as expensive such as Boston, New York, Portland, Seattle, Denver, and Los Angeles.

What's worse, the sales tax estimates are low for Kansas City. On page 39, the study lists Kansas City's sales tax rate as 8.475 percent, but anyone living there knows it goes much higher due to the proliferation of special taxing districts across the city.

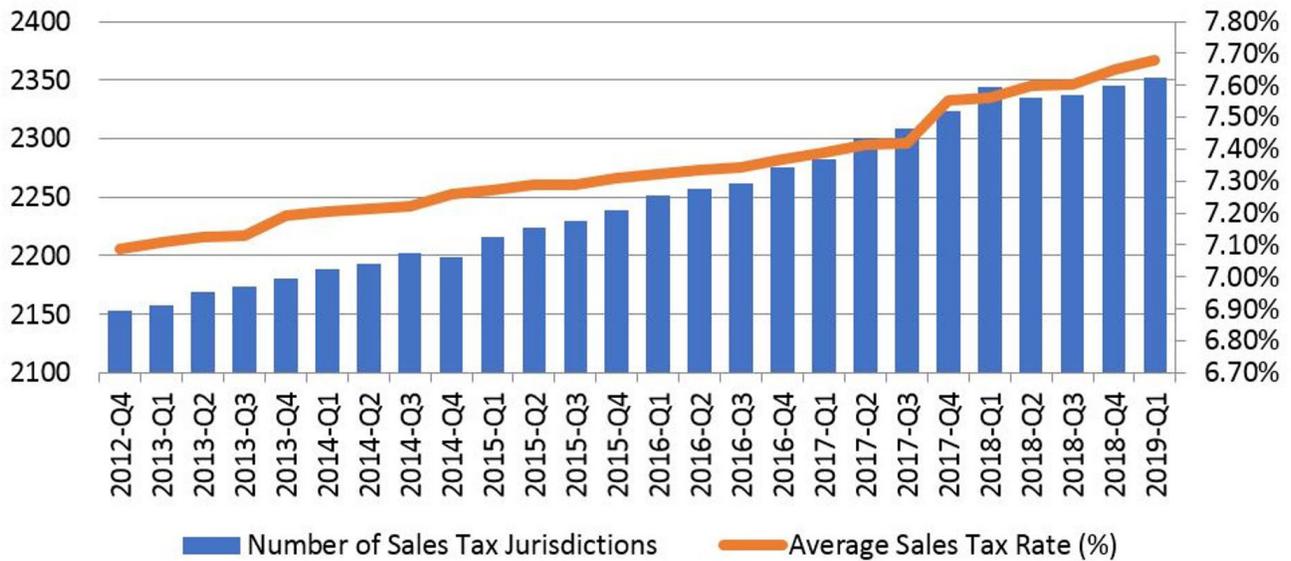
Over the past eight or so years, the number of distinct sales tax jurisdictions in Missouri has grown by more than 9 percent—a total of 199 new jurisdictions created. This growth is caused by several factors, but mostly by new and overlapping special taxing districts, such as

ambulance districts, levee districts, and, most prominently, transportation development districts (TDDs) and community improvement districts (CIDs).<sup>5</sup> These districts are formed to collect sales and other taxes to fund various improvements and services. Unfortunately, research has shown that TDDs and CIDs usually just help pad developers' bottom lines.<sup>6</sup>

High municipal sales taxes, levied in the very areas of Missouri that should be seeing the most robust economic growth—are hampering that growth. A 2016 study<sup>7</sup> of economic growth in Missouri's largest cities concluded:

In Missouri, where over half of output comes from the Saint Louis and Kansas City metropolitan areas, the state's economic fortunes as a whole are tied to the performance of those two cities. Unfortunately, Saint Louis and Kansas City have experienced very poor growth in recent years compared to major metro areas in other states. In addition, the Missouri portions of these two areas have performed worse than the Illinois and Kansas portions. The fairly average performance of Missouri's smaller metro areas has not been enough

## Statewide Sales Tax Jurisdiction and Rate Growth



to pull its ranking up from near the bottom of states in terms of economic growth between 2001 and 2014. Improved state economic growth will require much better performance by our two large cities. In terms of government policy, business as usual is not working. Lower and more efficient tax structures, better schools, and more streamlined and market-based government programs can help.

Another problem with sales taxes is that they are regressive. Consider, for example, grocery stores in Kansas City's impoverished East Side. The Aldi grocery store on Independence Avenue charges a higher sales tax rate than Aldi stores elsewhere in the city because the shop sought and received a CID so that it could provide security and other services that the city was not providing. As a result, shoppers in this poor community pay a higher rate of sales tax!

A cap on total sales tax rates in the state is part of the solution to inefficient, wasteful government and weak municipal economic growth. An overall cap would force municipalities to make the important choices required of governing, rather than siphoning away taxpayer resources with hundreds of little sales taxes.

As a taxpayer, I find it difficult to imagine a situation in which a 14 percent sales tax cap would be considered too low, but I would ask those who oppose such a cap to tell us what sales tax cap they are prepared to accept. Our collective economic future should not be sacrificed just because undisciplined municipal governments cannot effectively provide basic services.

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## NOTES

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3. Rathbone, M. Kansas City and Saint Louis Expense Breakdown Compared to Six Other Cities. <https://showmeinstitute.org/publication/taxes-income-earnings/kansas-city-and-saint-louis-expense-breakdown-compared-six-other>.
4. U.S. Census Bureau. Quick Facts: Kansas City, Missouri. <https://www.census.gov/quickfacts/fact/table/kansascitycitymissouri/PST045217>.
5. Renz, G. Auditor's Report Sheds Light on Special Taxing Districts. <https://showmeinstitute.org/blog/transparency/auditor%E2%80%99s-report-sheds-light-special-taxing-districts>.
6. Renz, G. Missouri's Troubling Sales Tax Mosaic. <https://showmeinstitute.org/blog/local-government/missouri%E2%80%99s-troubling-sales-tax-mosaic>.
7. Podgursky, M., Pretnar, N. Weak Economic Growth in Missouri's Largest Cities Is Holding Down Statewide Growth Rates. <https://showmeinstitute.org/sites/default/files/Weak%20Economic%20growth%20in%20Missouri's%20Largest%20Cities%20-%20Podgursky.pdf>.



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