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January 24, 2011

The Honorable Thomas Schweich
Office of the State Auditor
P. O. Box 869
Jefferson City, Missouri 65109

Dear Auditor Schweich:

I have been retained by Missourians Against Higher Sales Taxes to provide a fiscal analysis of the proposed constitutional amendments that your office has received regarding repealing the state income tax and other taxes and replacing them with a greatly expanded consumption tax.

Because the proponents have submitted nine separate petitions that are similar in most aspects, we are submitting this information as a single letter that is identical in addressing each of the nine petitions.

We will begin our analysis with some words of caution for you, and suggestions for the questions that you should ask in every phase of your analysis. We believe that a sound analysis by your office will reach the conclusion that we have reached—that is, all of these petitions are fiscally untenable. They will either bankrupt the state, or in the alternative, bankrupt the poor and the working lower and middle income classes.

Part 1—Background and Overview

Beware Baiting and Switching

As we will explain in our analysis below, proponents of the increased consumption tax have been using calculations that are simply wrong on their face. They have all calculated a rate that is too low in determining the real consumption tax rate, primarily because they have overstated the taxable base subject to the increased consumption tax.

As the current proponents who submitted the initiative petitions have recognized that their assumed tax base has been too high, the proponents have recently began to put exemptions from the increased consumption tax into their proposals. This is either because the items cannot be taxed under federal law, or they view that their taxation would be electorally unpopular. The simple math is that exemptions from taxation lower the taxable base. The more tax exemptions assumed, the lower the tax base, and the higher the tax rate has to be. If the goal truly is to do this new tax in a way that replaces existing taxes, the higher tax rate has major ramifications to those taxed, particularly the lower and middle income classes.

The proponents deal with this phenomenon by either capping the tax rate at 7% (whether or not that generates adequate tax revenue to replace current tax revenues), and/or suggesting a "prebate", although none of the proposals provide any funding for it.

The proponents would leave you to believe that you can have a reduced tax base, a relatively low and capped tax rate, and a prebate fully funded. That notion, however, is a pure fantasy, and a basic "bait and switch" tactic. The "bait and switch" would attempt to make you believe that these three components are not absolutely inter-related. The 7% cap is a gimmick to get around the significant problems with these initiative petitions.

Things To Consider In Developing Your Fiscal Statement

As you prepare your fiscal analysis pursuant to the statutes and the Missouri Constitution, we would encourage you to consider the following key aspects in your fiscal analysis:

- What goods and services are taxed;
- What is the rate applied to those goods and services that are taxed;
- Is there a "prebate", and if so how much is it and who gets it;
- If the prebate is not given to every citizen, does the structure create "tax cliffs" and disadvantage the middle class;
- What exemptions are granted from the increased consumption tax;
- What happens if the calculations are wrong, both in the short term and the longer term?

As we discuss the history of this proposal and the various attempts by consumption tax advocates at quantifying the fiscal impact in the past, please note that there are a number of significant variances between: 1) past legislative proposals to submit the expanded consumption tax to a vote of the people, and 2) what is contained in the initiative petitions that have been submitted to the Secretary of State.. These include:

- Past proposals have envisioned the replacement of the individual income tax, the corporate income and franchise taxes, and the existing sales tax to be essentially revenue neutral. In the legislative proposals, there was a commission established to review the adequacy of the 5.11% calculation (we will show that rate was inadequate on its face) and to reset the rate if necessary. The proposed initiatives cap the consumption tax at 7%, which is inadequate to replace the foregone revenues and provide funding for a prebate. The proposed initiatives do not pretend to be revenue neutral, nor to provide for any recalculation of the rate.
- The FairTax Book and the proponents of an expanded consumption tax have in the past called for a "prebate" (which we will discuss below) to protect the

poor and the middle class from this extremely regressive tax structure. While the initiatives call for the General Assembly to establish a prebate by law, there is no money set aside for this prebate with the 7% cap on the increased consumption tax. According to the Show-Me Institute, the prebate will cost at least $2 billion.

- Article X, Section 18(e) calls for a vote of the people to raise taxes by more than approximately $90 million. Therefore, to fund the prebate (if not funded by the current initiatives) would require the passage of a constitutional amendment by a statewide vote of the people to increase the consumption tax by about 3%.
  If any of the initiatives submitted through these proposals is adopted by the voters, since there is no possible way to fund a prebate without another constitutional amendment, the tax burden will fall disproportionately on the lower-income and middle class population of the state.
- The legislative bills previously introduced called for an undefined exclusion from the consumption tax on services of "business to business transactions". The initiative petitions contain no such exclusions, which means that all services will be subject to the expanded consumption tax. These proposals would tax the services of lawyers, doctors, accountants, architects, consultants, advertising agencies, and interior designers at the greater than 12% rate (we will explain this calculation below), as well as also taxing rents, food, utilities, telecommunications, print and video advertising, day care, beauty care and other similar services.
- Because Missouri borders eight other states, those providing services or consuming services will simply move across the border, or go across the border to sell or purchase goods or services that they desire to consume at a lower tax rate. No fiscal impact statement by your office can be complete without including an estimate of these adverse impacts.
  Rather than create some great economic movement in Missouri, the passage of any of these initiative petitions will out-migrate Missouri talent providing services and shift Missouri purchases to other states.
- A Show-Me Institute study shows that the increased economic activity generated by having a consumption tax instead of income taxes would take a generation to occur (if it does), and in the shorter term may result in a loss of economic activity.

In order to assist your analysis, we will provide you with our view of the "prebate" concept from the FairTax Book, discuss prior efforts at broadening the consumption tax that have been introduced in the Missouri General Assembly, and the calculation errors that existed in prior calculations by the proponents.

<u>The Importance of the Prebate to the Consumption Tax Discussion</u>

It is generally recognized that sales taxes tend to be regressive—that is, they place more of the relative tax burden on those at the lower and middle-income level, who spend a higher percentage of their income on items that are subject to sales tax.

A consumption tax that broadens the definition of the goods and services that are subject to a sales tax arguably is even more regressive, as the broadened base would include areas where poor and middle-class families and individuals spend most of their money. Examples of goods and services that would be subject to the expanded consumption tax under various proposals would include rents, utilities, food, prescription drugs, health care services, and child care. Low and moderate-income individuals and families spend a majority of their income on these services that would be subject to the higher consumption tax.

In response to the concern that an expanded consumption tax is regressive, the authors of the FairTax Book, Neil Boortz and John Linder, developed the concept of a payment received by all citizens to alleviate the regressive nature of the expanded consumption tax. This payment, which would be made at the beginning of each month, is called a "prebate".

The prebate is important to this discussion for two reasons. The first is that the expanded consumption tax is incredibly regressive without this payment. The second is that the prebate adds to the cost of this proposal dramatically if it in fact is paid to all citizens and accounted for in the fiscal analysis. The FairTax Book envisioned that the prebate would be given to every citizen; the Joseph Haslag/Abhi Sivasailam calculation of the prebate referenced herein assumed the same.

Please note that while we disagree with Ms. Wahby's calculation, as outlined below, she also did attempt to take the prebate into consideration in her calculation.

<u>Boortz/Linder on the Prebate</u>

While we understand the potentially devastating effects of an increased consumption tax on the poor, the lower income class and middle class working people, the concept of the necessity of a prebate (upfront monthly payment to all citizens to offset the impact on lower and middle income citizens) to address that problem was contained in the original The FairTax Book, authored by Neil Boortz and John Linder.

Here are some excerpts discussing the prebate from the FairTax Book:

"***The folks who wrote the FairTax plan knew that burdening the poor with a 23 percent retail sales tax would doom the plan from the outset…its creators ensured that no one should ever have to pay the sales tax on the basic necessities of life. That's why the prebate—the monthly check on all basic household necessities—was invented.***

The size of the monthly prebate payment will be based on the government's published poverty levels for various-sized households. The number is updated every year to keep up with inflation, so the work of calculating the size of the prebate is already done. Here's an example of how the prebate payments would work in 2005.

Let's say your household consists of a married couple with two children. The FairTax Act sets forth a formula for computing the poverty level, based on government figures, which negates any marriage penalty. Under the FairTax Act, in 2005 your

household would be granted an annual consumption allowance of $25,660. This is the amount the government estimates you would spend during that one year to buy the necessities of life for your family. The sales tax on this amount would equal $5,902. The government would rebate this amount to you in twelve equal monthly installments of just under $492.

Now, it's clear that low-income Americans will be better off, much better off, under the FairTax Plan. They would have their income and payroll taxes abolished; they would receive their whole paycheck with no federal withholding; they would have the 22 percent tax costs that are currently embedded in everything they buy eliminated; and they would receive a payment each month to guarantee they they could spend all of their money up to the poverty level and not lose one penny to taxes. Wow….

Now… bear in mind, the prebate isn't just for the poor. It's paid to everyone, rich and poor alike. The purpose here is to make sure that no American has to pay the FairTax on the basic necessities of life. Unlike the present income tax system, the FairTax treats each and every person in this country exactly the same."

Part 2--Prior Legislation and Consumption Tax Calculations

2009 Legislative Session—HJR 36 filed by Representative Ed Emery

House Joint Resolution 36 was introduced in the 2009 General Assembly by Representative Ed Emery. HJR 36 would have repealed the Missouri individual income tax, the corporate income tax, the corporate franchise tax, the bank franchise tax, and all existing state sales and use taxes, and would have replaced them with a broadened tax upon "all sales, use, or consumption of all new tangible personal property, rental property, or taxable services".

Under HJR 36, the rate of the tax is set at 5.11%. In the fiscal note, the Oversight Division notes that "Officials from the University of Missouri, Economic and Policy Analysis and Research Center (EPARC) assumed a previous version of the proposal would if enacted…taxes would be replaced with a state sales tax rate of 5.11%."

Upon reading the fiscal note, it would appear to the uninformed reader that someone in Missouri actually did a calculation that verified the 5.11% as a correct number for replacing these taxes. Further investigation tells us that was not in fact the case, and that the 5.11% was not adequate to replace all of the repealed taxes.

The 5.11% is a calculation prepared by Karen Wahby of Americans for Fair Taxation, based upon a prior study of the Fair Tax by the Beacon Hill Institute at Suffolk University in Suffolk, Massachusetts. (A copy of her original calculations attached). Her calculation to reach the 5.11% is as follows:

	(in millions)
Private Consumption	$168,862
Federal Government Consumption	$16,285
State Government Consumption	$17,174

Total Consumption	$202,321
less Prebate base (poverty level spending)	-$42,931
plus nontaxable government spending adjustment	$3,799
Total Mo Fair Tax Base	$163,189
Fair Tax Base Excluding govt consumption (Line 2)	$146,904
Revenues to be replaced	$7,142

<u>Tax Rates</u>

Rate to replace revenues in line 11	4.58%
Rate to replace revenues in Line 11 excluding federal government consumption	5.11%

There are a number of problems with this calculation. Since this calculation was performed in January 2009, it is assumed that Ms. Wahby was utilizing the most recent revenues from Fiscal Year 2008 as the replacement number. However, the actual revenues that would need to be replaced are:

	Net Rcpts FY 2008 (in millions)
Individual Income tax	$5,210
Sales tax (general revenue)	$1,931
Sales tax (1.225% non GR)	$955
Corporate income and franchise taxes	$459
Total	$8,555

In essence when Ms. Wahby solved for the FairTax rate at 5.11% she solved for the wrong revenue number. She only solved for $7.142 billion when she should have solved for $8.555 billion. Please note that our numbers include the 1/8% conservation tax and the 1/10% park and soils sales tax. The Wahby calculation also does not take into account that there are items in the consumption base that cannot be taxed.

Hence there was never a basis for the legislation that would have set the proposed consumption tax rate at ***5.11%. It was an incorrect calculation*** that was validated in the fiscal note; the fiscal note was simply incorrect, and the 5.11% proposed rate was dramatically too low.

Even though this calculation was simply wrong, it has become institutionalized in legislative proposals, including a bill recently introduced in the 2011 legislative session.

What Does The Prebate Cost?--The Show Me Institute Calculation of the Prebate

There have been varying estimates of the cost of the prebate in Missouri. The Missouri Budget Project calculated that the cost of the prebate would exceed $3 billion. For the purpose of our analysis we will utilize the estimates of the prebate cost that were developed by Joseph Haslag and Abhi Sivasaliam in a paper published by the Show-Me Institute on October 13, 2009 that was written in rebuttal of the $3 billion calculation by the Missouri Budget Project.

Here is the calculation outlined in the paper by Haslag and Sivasaliam:

"We estimate the number of families qualified for the rebate to be 2,626,800—the number of resident filers for Missouri's individual income tax, as of 2007. Dividing Missouri's population by the number of resident filers yields an average family size of 2.2. The federal poverty threshold approximation associated with a family of 2.2 is $15,393, which—when multiplied by the sales tax rate—amounts to an average rebate value of $786.58. Multiplying the rebate value by the number of rebates, we estimate the total cost of the rebate to be $2,066,167,540."

This paper also stated that, utilizing this prebate figure, the consumption tax would be 5.79%, as noted in further discussion below.

Our comments on the prebate at this level are:

- Exemptions from the taxable base raise the required tax rate. If the 5.79% rate goes higher due to exemptions from the tax base, the prebate rate needs to be higher. As the tax burden increases (due to exemptions), the payment to offset the impact of the increased tax rate also needs to increase, or lower-income and middle-income citizens are disproportionately impacted.
- This prebate calculation by Haslag and Sivasaliam does not address any local sales taxes. The proposed constitutional amendment requires local sales taxes to be adjusted to tax the same things as the increased consumption tax, and to adjust their rates accordingly. So the poor and working lower and middle class income citizens would have no prebate to offset the broadened base for local taxes.

The 2010 Legislative Session—HJR 56, HJR 71, SJR 29, SJR 36

In the 2010 General Assembly there were a number of bills similar to HJR 36 from the 2009 session that were introduced that called for an expanded consumption tax. These measures included HJR 56, introduced by Representative Ed Emery; HJR 71, introduced by Representative Andrew Koenig; SJR 29, introduced by Senator Chuck Purgason; and SJR 37, introduced by Senator Luann Ridgeway.

All of these measures continued to reference a tax rate of 5.11%, even though this number was clearly in error since its inception in the Karen Wahby calculation.

For the first time, one of the fiscal notes references the possibility that 5.11% is an incorrect number. The fiscal note states,

"..data that is sufficiently detailed to estimate consumer spending while excluding difficult-to-define concepts such as business inputs, rents and investment is difficult to access. What little literature is available on this subject suggests this rate is likely too low. For instance, the Show-Me Institute has calculated the rate to be 5.79%. Estimates from other groups, such as the Institute for Taxation and Economic Policy, range higher, as much as 12% or more. Assuming a 5.79% rate is correct, this proposal would be short of revenue neutrality by nearly 11.74%. Estimating lost individual income, sales tax, and corporate revenues at a very high $7.1 B, this leads to a revenue shortfall of $834 M."

<u>The Show-Me Institute's 5.79% Calculation</u>

The calculation of the consumption tax rate at 5.79% comes from a paper dated October 13, 2009 that was published by the Show-Me Institute. The paper was written by Joseph Haslag and Abhi Sivasailam.

Here is their calculation of the 5.79% rate. The paper states,:

"**The sum of the new government revenue necessary to replace the individual income, corporate income, and sales taxes is $7,117,761,408 in fiscal 2009, according to the Department of Revenue. Further, the cost of the rebate program is $2,066,167,540. Dividing this by personal consumption of $158,531,333,333, we arrive at a revenue-neutral sales tax rate of 5.79 percent".**

Please note that the $7,117,761,408 only accounts for the 3% general fund sales, and not the additional 1.225% that goes into earmarked funds.

The other major assumption is that the $158 billion in personal consumption will all be subject to the increased consumption tax to make the rate 5.79%. Clearly there are items in the $158 billion, as noted blow, that cannot be taxed.

<u>Response by the Institute on Taxation and Economic Policy</u>

In analyzing and critiquing the 5.79% calculation, the Institute on Taxation and Economic Policy (ITEP) notes that the personal consumption number of $158 billion includes many expenditures that are either exempt from the increased consumption tax under the proposal (expenditures for higher education, for example) and other expenditures that arguably cannot be taxed under federal law (health care spending by the government, rental value of owner occupied housing, food stamps, spending by charities on behalf of individuals, interstate transportation, foreign travel).

This leads us to the central question that we noted earlier in determining what is the correct consumption tax rate: 1) what is the base to be taxed, 2) what is the prebate, and 3) what is exempt from the consumption tax?

These are all factors that are necessary to determine what the correct tax rate is.

<u>The United For Missouri Calculations</u>

One of the proponents of the initiative petitions that have been filed is a group called **United for Missouri**, which is headed by former State Representative Carl Bearden. In a PowerPoint presented at the Associated Industries of Missouri (AIM) conference in the fall of 2010, Carl Bearden of United for Missouri showed a calculation of an increased consumption tax that would be capped at 7%.

The assumptions made by Bearden in his calculation are similar to many of the assumptions contained in the initiative petitions, and include:

- A rate capped at 7%.
- In order to replace the 3% general fund sales tax and the 1% Proposition C sales tax, the rate would have to be 6.75%.
- The 6.75% does not account for the 1/8 cent conservation sales tax, or the 1/10 park and soils sales tax; an additional .15% sales tax is required to replace them.
- This brings the rate to 6.9% (assuming their calculations are correct, which we are not conceding). The cap is 7% and the 6.9%, if correct, leaves virtually no funding for the prebate. So while the Bearden presentation calls for a prebate, he has already utilized all of the new consumption tax to replace current state revenues.
- If the Bearden calculation is incorrect, there is no review allowed or required to re-establish the rate. The State simply has to live with what they collect at that rate, even if it falls dramatically short of current collections.

The Bearden calculation is as follows (a copy of his PowerPoint page is attached):

Missouri Personal Consumption Expenditures. $166 Billion

- ✓ Less imputed rents $19.9B
- ✓ Less health care paid by government $15.1B
- ✓ Less insurance and imputed financial services $5.5B
- ✓ Less motor vehicles $4.7B
- ✓ Less motor fuels $6.3B
- ✓ Less education (K-12, higher ed, vocational) $3.1B
- ✓ Less non-profit and religious services $6.9B
- ✓ Less purchases of new homes $6.9B
- ✓ Less misc other adjustments $3.4B

Estimated Tax Base $107.7 Billion

The tax base Bearden assumes above, and a 6.75% tax rate, creates tax receipts of $7.27 billion.

The Bearden calculation also does not account for this major exemption listed in the initiative petitions:

- Healthcare services paid for by non-governmental entities for individuals,

which are specifically excluded from taxation by these initiative petitions;

Please note that the Bearden calculation excludes only government-sponsored health care payments (Medicare and Medicaid), while the initiative petitions exclude all healthcare expenditures from the increased consumption tax, which is a huge difference.

According to the **Missouri Tax Expenditure Report** for **2009** (available on the Office of Administration, Division of Budget and Planning website) prepared by the Economic and Policy Analysis Research Center at the University of Missouri-Columbia, the *foregone state tax revenues* (**at 3%**) of not taxing healthcare, prescription drugs, and non-prescription drugs is:

Medical Care	$994.0 million
Prescription Drugs	$184.9 million
Non-Prescription Drugs	$ 22.7 million

The initiative petitions also do not define a healthcare expenditure for an individual, which is a huge potential loophole. Are non-prescription drugs a healthcare expenditure? The same question would apply to therapeutic massage therapy, weight loss expenditures for services not delivered by a licensed medical practitioner, and residential expenditures for elderly care in an assisted living facility.

In any case, the Bearden calculation, which if correct required a tax rate of 6.75% to replace current revenues, did not exempt health care expenditures from the taxable base. At a 3% tax rate, this new exemption would cost about $1.2 billion in state tax revenues, and the proposed increased consumption tax rate is over double the current tax rate.

This healthcare exemption clearly leaves the state dramatically short of replacing existing tax revenues, and the other remaining problem is that there is no funding available for a prebate under the initiative petitions.

Part 3—Other Problems With The Proposed Initiative Petitions

Gaming Revenues

Neither the nine initiative petitions nor the Bearden calculation excludes gaming revenues from the taxable base. Gaming revenues are currently taxed at a rate of 21% of the gaming company's adjusted gross receipts; imposing an additional sales tax of more than 12% on the revenues from these operations would make their tax rate nearly one-third of their adjusted gross receipts.

In addition, gaming companies pay a fee of $2.00 per every two hours for patrons utilizing their services. These fees would also be subject to the additional consumption tax.

The base for the increased consumption tax calculation should either exclude the gaming taxes from the increased consumption tax, or the fiscal note should reflect that gaming companies will be double taxed.

Local Franchise Agreements/Taxing Internet Services

Many telecommunications and video service providers currently operate in local communities through agreements that call for franchise fees. The increased consumption tax called for by these initiative petitions repeals all current sales tax exemptions, and also requires local governments to recalculate their local sales tax rates to comply with the new Missouri Constitution defined consumption tax. When this occurs, any business collecting and paying taxes through a local franchise fee or a similar tax characterized as a local use tax will have to layer on top of that the dramatically higher consumption tax.

Taxation of internet services are specifically prohibited by federal law. While the initiative petitions exempt from taxation those items exempted from taxation by federal law, it is unclear whether the petition advocates understood that these specific services are exempt and must be removed from the calculation.

Tax Credits

The proponents' proposals on tax credits are very confusing. They propose to bar the authorization or issuance of any tax credits that would be taken against any tax repealed by section 1(a) or 1 (b) of the initiative. The state income tax and corporate income tax are repealed by section 1(b).

The petitions further state that after June 30, 2016, no tax credits approved or redeemed against taxes repealed under section 1(a) or 1(b).

This second section would appear to allow credits to be taken against these taxes until June 30, 2016, even though the taxes against which they may be taken are repealed on December 31, 2013, and therefore there would be no tax liability against which to take them.

The Low Income Housing Tax Credit is a 10% credit taken over 10 years, and the project must be completed before the developer can begin receiving the credit. There are 10-year low-income housing tax credits already approved, within the current year and future years, where the project will be completed (thereby vesting and earning the credits) that will exceed both of these dates. Apparently the intent of this proposal is to take those tax credits away from their owners without compensation.

When considering only low-income housing tax credits that are earned and vested by January 1, 2014, tax credit investors alone will lose in the hundreds of millions of dollars without compensation.

It is questionable whether the courts would allow this to happen. However, if the investors are paid by the State or allowed a credit against the consumption tax liability owed by a taxpayer, the initiative petitions run into the same problem as with other items we have discussed. All funds will have already been committed to other uses, and there will not be adequate funds to pay for these liabilities.

If funds are spent on tax credits after the passage of any of the initiative petitions, they take away from the available funds to replace current taxes, which are already inadequate to allow current state services to continue, as our analysis has shown.

Part 4—The "Economic Engine" Myth

Proponents of the increased consumption tax laud the fact that replacing income taxes with consumption taxes will energize enormous economic growth. Almost sounds too good to be true, does it not? We encourage you to do a little more research, and in particular reference a publication by proponents of the increased consumption tax.

We suggest you read an article for the Show-Me Institute dated December 15, 2010 entitled **Income Taxes vs. Sales Taxes: A Welfare Comparisons,** written by Grant Casteel and Joseph Haslag.

Amongst the excerpts from the article we would point you to the following quotes:

"However, we also show that if people value current consumption enough relative to future consumption, they prefer the income tax regime to the sales tax regime."

"When a sales tax policy is implemented, consumer spending declines."

"After about a generation's worth of time, people are happier under the sales tax policy than under the income tax policy."

Even by the proponents' own statements, the short term impact of an increased consumption tax is that consumer spending declines, which will make tax revenues decline.

Part 5—What Is The Real Fiscal Impact Of These Proposals

What Is The Correct Calculation

Our analysis shows that there are many factors that will impact the rate of the increased consumption tax if passed by the voters. Please note that while local sales tax rates vary by city or county, the highest rates tend to be in the most populous areas, and therefore the majority of the citizens will pay at the very highest local rates.

The voters should know the correct tax rate before they vote on this radical and understudied concept. Here is the most reasonable calculation to use to show the proper rate if this proposal were to pass:

Tax Rate Required To Replace Current Taxes (with exemptions as provided in petitions)	**9.00%**	
Tax Rate To Replace Conservation And Parks and Soils	**.25%**	
Estimated Average Local Tax Rate With New Base		**2.75%**
Total Tax Rate For Expanded Consumption Tax (without prebate)	**12.00%**	
Tax Rate To Provide For Prebate	**3.00%**	
Total Tax Rate Providing for Prebate		**15.00%**

Suggested Ballot Language

We believe that all nine ballot petitions are fatally flawed. They do not generate adequate revenues to replace the current revenues they purport to replace, nor to provide for a prebate.

Although the initiative petitions call for the establishment of a prebate by law, there is no money available to fund the prebate at a number calculated by Joseph Haslag and Abhi Sivasailam (which would be too low because the tax rate will be higher than what they calculated). An additional constitutional amendment would have to be placed in front of the voters that would increase the consumption tax rate by approximately 3%.

We understand that you are required to provide a fiscal impact statement to the Missouri Secretary of State. We respectfully suggest the following language for your fiscal impact statement on all of the initiative petitions as follows:

Caps consumption tax at 7%, which is inadequate to replace current state revenues repealed. Shifts burden of taxes through consumption tax to lower and middle income citizens. Confiscates hundreds of millions in tax credits from taxpayers without compensation. Consumption tax is expanded to housing rents, food, utilities, child care, professional services.

Thank you for the opportunity to provide this information to your office. We would be happy to discuss this further at any time if so desired.

Sincerely,

James R. Moody