

Date: August 4, 2010
To: Local League Presidents and State Board Members
From: Lois Detrick, LWVMO President.
Re: Ballot issue proposing elimination of the Earnings Tax

The state Board, at its July 16th board meeting, voted to oppose the November anti-earnings tax ballot issue. Below is the actual wording of the ballot issue to be voted on at the November 2, 2010 election.

In addition we have included:

- Overview of the earnings tax
- Proponents and opponents points of view
- LWVMO tax positions and the earnings tax
- Action suggestions
- Sample letter to the editor
- Copy of state press release will be under separate cover when the state board sends it out.

This information is sent to you as background material. Please do not take action until the League officially announces its position through its statewide press release. You will receive a copy at that time.

The official ballot title as certified by the Secretary of State for the Nov., 2010 election.

Shall Missouri law be amended to:

- repeal the authority of certain cities to use earnings taxes to fund their budgets;
- require voters in cities that currently have an earnings tax to approve continuation of such tax at the next general municipal election and at an election held every 5 years thereafter;
- require any current earnings tax that is not approved by the voters to be phased out over a period of 10 years; and
- prohibit any city from adding a new earnings tax to fund their budget?

The proposal could eliminate certain city earning taxes. For 2010, Kansas City and the City of St. Louis budgeted earnings tax revenue of \$199.2 million and \$141.2 million respectively. Reduced earnings tax deductions could increase state revenues by \$4.8 million. The total cost or savings to state and local governmental entities is unknown.

The Earnings Tax

St. Louis imposed the earnings tax in 1954. It provides about 32% of the city's budget while Kansas City gets about 38% from the earnings tax. St. Louis receives \$460.5 million in general revenue while Kansas City gets \$202 million. In Kansas City about

40% of the earnings tax is derived from outside of the city, 20% of that comes from outside the state.

Earnings taxes, according to the Missouri Budget Project, were developed as a way to share the responsibility for funding local services and attractions among everyone who benefits from them, including those who live and those who work within the cities.

The earnings tax provides a major source of general revenue. It funds fire and police protection, street repair, cultural attractions and code enforcement. Even if services were cut, the cities would be very difficult to make up the revenue.

The tax options that would produce the greatest amount of revenue are the sales tax and the property tax. However, there are many less lucrative taxes that may be imposed such as utility taxes, tobacco and gas taxes, entertainment and restaurant taxes. Then there are fees for services such as admission to the museums, increasing the cost of trash collection and the like.

St. Louis for example, would have to more than triple its current local sales tax rate to 5.3 percent from 1.4 percent. Kansas City would have to more than triple its local sales tax rate to 5.4% from 2.375 %.

If the property tax were used to replace the earnings tax, St. Louis and Kansas City would both need to increase it by almost four times.

Proponent of Ballot Issue

The Show-Me Institute, the proponent of the ballot issue to eliminate the earnings tax, says that the “the earnings tax gives businesses and residents an incentive to locate production outside of the city.” It believes that the city share of per capita income is smaller in cities with earnings taxes than without them. It also attributes St. Louis’ stagnating personal income tax partially to the earnings tax. The Show-Me Institute recommends a revenue-neutral land-value tax which would reach 10.04 percent at the end of the ten year phase-out period. It predicts the number of people working in St. Louis would double.

Opponent of Ballot Issue

The opponents of the ballot issue believe that the increase in alternate taxes would be unbearable. A sales tax or property tax increase would put a burden on retailers and people who live in the city.

The Missouri Budget Project says “There aren’t currently any good answers for replacing the revenue lost from eliminating the earnings taxes. With so many critical issues facing the state’s local communities, discussion of this proposal is a waste of time.”

LWVMO Tax Positions.

How does the earnings tax jibe with LWVMO tax positions? When deciding whether to support, oppose or do nothing on an issue on which the League has done a good deal of study, as with taxes, it is necessary to look at the various parts and then at the whole picture. If there are positions that support a particular stance and then there are other

positions that oppose a particular stance, one has to decide if there is one or more compelling reasons to justify taking action. The earnings tax is one such situation. It is clear to the state board that this ballot issue must be defeated. The following is our rationale.

The League position clearly states that a statewide earnings tax is not an acceptable revenue option. Some would argue that this is really a local option earnings taxes. Local Leagues are able to support a local option sales tax *only* after study and consensus on the issue. The state League does not have a similar permissive position on a local option earnings tax. Therefore we cannot use this argument.

The League supports a progressive income tax. The earnings tax is neither progressive nor an income tax. It is a tax on salaries and wages. According to our definition, a progressive tax is one based on ability to pay and takes a higher proportion of the income of more affluent citizens who will not be so negatively affected.

So are there state tax positions to allow us to oppose the earnings tax? The answer is yes.

Financial stability should be one goal of fiscal policy.

Because the earnings tax is such a large portion of the St. Louis and Kansas City budget, the possibility of it being eliminated, even incrementally, would cause such havoc (loss of more jobs, many fewer essential services and a less desirable to place to work and live) that there is no foreseeable benefit to anyone.

The tax mix should clearly demonstrate a combination of ability to pay and benefits received.

The earnings tax clearly was designed to extend the payment of taxes to those who receive benefits even though they do not live in the city.

If significant new revenue is needed to support essential new services it should be realized through the individual income tax.

Interpreting this position broadly, we have extended the above position to the earnings tax, which is a tax on salaries and wages, not total income. Cities cannot afford to lose existing essential services which they would if the ballot issue repealing the earnings tax passed.

The tax should be difficult to evade and easy to enforce.

It is.

The tax should be broad with few exceptions.

It is.

Tax reliance should be on the three major tax sources: income, sales and property.

The earnings tax is compatible with the mix because it is neither progressive nor regressive.

Elected officials must be responsible for making fiscal decisions in a representative democracy.

Taxes should not be left up to the whim of the voters.

Conclusion

League positions are based on reasoned grounds. The earnings tax ballot issue is irrational. If passed, the citizens of St. Louis and Kansas City would have to vote every five years on whether the earnings tax should be retained. There is a good chance that with the country's no-tax mentality, the citizens of St. Louis and Kansas City would vote to eliminate their earnings tax. They might not realize that by doing so, the residents of the city would have to increase the amount of taxes they paid over and above what they would not have to pay in earnings tax. The League thinks we should not take that chance.

The proponents for eliminating the ballot issue have no way to immediately make up for lost revenue. Should St. Louis and Kansas City lose about 1/3 of their revenue, the quality of life in the cities would take a nose dive. Nobody would want to move to or bring businesses to a city that did not provide essential services and was not a desirable place to live.

Action

LWVMO will send out a press release announcing its position, probably after the August 3rd election. Local Leagues will receive a copy of the press release. That is the local League's signal to take public action on this issue.

What local Leagues can do.

- Inform you members about the earnings tax ballot issue.
- Put an article in your local bulletin
- Submit a letter to the editor in your local paper. (A sample letter is included below)
- Send out a press release to your local paper. You may use the state press release or write your own. Many local papers will not print a state release.
- Encourage your League members to take action as an individual.

Sample Letter to the Editor

The League of Women Voters says NO to the proposed earnings tax proposition on the November ballot.

St Louis and Kansas City – the two cities who use this tax – earn 30% or more of their general revenue, which is spent on city services, from this tax.

No provision is made to replace the income loss if this measure passes.

What would these cities look like with 30% fewer street lights, police, fire, and all the other essential services?

Nobody would want to move to or bring business to a city that did not provide basic services.

The metropolitan areas surrounding the core cities depend on the cities. These core cities depend on the earnings tax.

Just say NO to the earnings tax proposal which would reduce the quality of life in our two major cities.