Center on Budget and Policy Priorities

820 First Street NE, Suite 510
Washington, DC 20002

Tel: 202-408-1080
Fax: 202-408-1056

center@cbpp.org
www.cbpp.org

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"FAIRTAX" PROPOSALS TO REPLACE STATE INCOME AND BUSINESS TAXES WITH EXPANDED SALES TAX WOULD CREATE SERIOUS PROBLEMS

By Elizabeth C. McNichol and Nicholas Johnson

Proposals in several states to eliminate income and business taxes and substitute higher, broader sales taxes would threaten a state's ability to maintain necessary services over time and sharply increase the taxes that many low- and middle-income households pay.

Such proposals, which supporters often call "FairTax" proposals, are under consideration in Missouri, South Carolina, and Arkansas; a petition to adopt an expanded sales tax was circulated in Michigan in 2008 but failed to obtain enough signatures to be placed on the ballot. (See box on page 12 for more details on these proposals.) Similar proposals are likely to emerge in other states.

The stated goal of these proposals — which appear to be an outgrowth of efforts to promote a flat consumption tax at the federal level in place of personal and corporate income taxes — is to make state tax systems simpler, fairer, and more hospitable to business development, with no net revenue loss for the state, by replacing all other tax sources with a greatly expanded sales tax. Specifically, the proposals would repeal the personal and corporate income tax and the sales tax on business purchases while significantly expanding the types of purchases subject to sales tax and increasing the sales tax rate in order to recover the lost revenue. In addition, "FairTax" plans include a rebate designed to offset the increase in sales taxes for low-income taxpayers.

But the proposals that have actually been submitted would not achieve those goals. This report uses information from states where expanded sales tax proposals have been considered and language contained in legislation and proposed ballot measures; it also draws on a number of analyses of these measures in Missouri and Michigan, the two states where the proposals advanced far enough to draw close scrutiny. This examination reveals that, in every case, "FairTax" proposals would:

- **Require huge, and probably unworkable, sales tax rate hikes.** "FairTax" proposals would do away with revenue sources that now provide 42 percent of the average state's tax revenue — funds that are essential for K-12 education, health care, public safety, social services, and other functions. To fully replace revenue lost from eliminating other taxes, sales tax rates would have to be markedly higher than they are now, and often higher than "FairTax" proponents claim would be needed.

- **Levy those new, higher rates on transactions that no state has ever attempted to tax.** The goods and services that are now untaxed in most states but that would be subject to the new tax include health care services such as nursing home care, prescription drugs and medical devices, child care (including babysitting), school tuition, private lessons, and new home sales, to name just a few. Bringing all these goods and services into the tax base at the new, significantly higher rates would cause a number of technical, economic, and political problems. For instance, taxing sales of new homes at rates as high as 10 percent or more would seriously disrupt the housing market.

- **Create an unsustainable spiral of rising rates and widening exemptions.** The problems with the new, broader tax base would spark furious efforts to exempt many of those purchases from tax. But if a state granted such exemptions, or if taxpayers took advantage of the opportunities to evade the tax that the proposals would create, the state would have to compensate by raising the sales tax rate even higher. The ultimate result, most likely, is that the new tax would fail to meet its revenue-neutral promise — resulting in deep cuts in education, transportation, health coverage, and other essential services.

- **Fail to boost state economies.** A "FairTax" would do little or nothing to improve a state's business climate or economic performance. On the contrary, the resulting high sales tax could hurt in-state businesses as residents shift purchases to neighboring states or the Internet. And if a state had to curtail public services because the expanded sales tax failed to make up the lost revenue from the eliminated taxes, economic development would be hampered.

- **Undermine long-term revenue adequacy.** Income tax revenue, in most states, has fallen faster than other forms of revenue as a result of the recession, but it is also likely to bounce back more quickly. Abandoning income tax revenue would lock the state into its current, depressed levels of revenue, further undermining long-term revenue adequacy. Moreover, by making a single tax the sole source of revenue for a state — rather than the mix of sources presently utilized — "FairTax" proposals would deprive a state of a balanced revenue portfolio and jeopardize its ability to collect adequate revenue for future needs.

- **Raise taxes on the middle class.** Eliminating income taxes would, in most states, mean the wealthiest households would see the biggest tax reductions. The net result would be an overall tax increase for everyone else. "FairTax" proposals would include a rebate to shield low-income taxpayers from this tax increase, but the rebate would not be large enough to shield middle-income families from bearing the brunt.

Radical "FairTax" Experiment Is Unlikely to Fulfill Its Goals

The dangers of "FairTax" proposals derive from the enormity of the changes they envision. "FairTax" proposals are radical. They would repeal state personal income taxes, corporate income taxes, and other key sources of revenue. Income taxes alone raise 42 percent of states' tax revenue, on average — an amount equal to total state spending on highways, prisons, state police, public hospitals, public health, and parks. This extraordinary loss of funds would be replaced, according to proponents, by a higher-rate sales tax that also covers many more goods and services than any current state sales tax.

Given the sweeping nature of the proposals, it is worth considering very carefully whether they would work. Would they, in fact, raise enough revenue? For the reasons described here, there's significant reason to question whether the new tax would function as promised. It would be a massive experiment in taxation with very great risks.

Extending Sales Tax to All Goods and Services Would Be Difficult

A wide range of tax policy experts have long argued that states should broaden their sales tax bases and, in particular, should include a wider range of services as well as goods. But because the amount of money that the "FairTax" needs to generate is so large, the proposed base expansion goes well beyond what would likely be optimal for states.

Most "FairTax" proposals submitted to date define the sales tax base as *all final purchases of goods and services*. This far exceeds any state's current base. Under the "FairTax," the new, high sales tax rate would be levied on consumer purchases of all food, all prescription drugs and other health care products and services (such as doctor's visits and laboratory tests), purchases of new homes, utility bills, private school tuition, and many other services and goods now exempt from the sales tax in most or all states.[1]

Extending sales tax to some of these transactions would be extremely difficult, both politically and in terms of implementation.

For example, states exempt most health care purchases from sales taxes, and given the legitimate public concern about high health care costs, lawmakers would likely face considerable pressure to maintain that exemption. But prescriptions, medical supplies, doctors' fees, and other health care-related purchases make up roughly 19 percent of spending on goods and services for personal consumption. Exempting these purchases from the sales tax would shrink the tax base by nearly one-fifth and thus require an even higher sales tax rate to maintain revenue neutrality.

In addition, the vast majority of health care costs are paid for by third parties: most notably Medicare, Medicaid, and private health insurance. There are a number of barriers — legal and practical as well as political — to applying the sales tax to these expenses. For example, federal law bars surcharges over and above the prices the federal government sets for Medicaid services, and the sales tax could be considered such a surcharge. And in Medicare, it seems unlikely that states would be willing to increase the already high costs of health care for seniors by adding a 10 percent charge that would most likely fall on patients.

Complications would exist for taxing health care costs financed by private insurance as well, such as how to define the price to be taxed. States would have to decide whether to apply the tax to the provider's price, the discounted amount that the insurance company pays the provider, or the individual patient's co-payment. The implications of this choice for the amount of revenue collected would obviously be huge.

Taxing new home purchases could prove problematic as well. Although many states levy taxes on real estate transfers, these taxes are typically less than 1 percent. A new tax of 5 percent, 10 percent,

[1] The proposals in Arkansas and Missouri exempt some tuition payments, but nothing else.

or more on residential real estate transactions would have a major, disruptive impact on the real estate market. For example, the purchase of a $200,000 house, if taxed at 10 percent, would cost the buyer an additional $20,000 — and this sum would have to be paid at closing, because in the current real estate market, few lenders would be willing to roll that extra sum into the mortgage. As a result, fewer families would be able to afford a house, which would depress home sales and real estate values. Among other consequences, this would further reduce property tax collections and create another hit on local governments already reeling from the decline in the housing market.

Tax Rate Would Be Considerably Higher Than Proponents Acknowledge

All analysts — including "FairTax" proponents — agree that the "FairTax" base-broadeners, by themselves, would not raise enough revenue to make up for the income tax repeal. To raise the additional revenue needed, "FairTax" proposals typically call for increasing the state sales tax rate by about 2 to 3 percentage points. These sales tax rates would be higher still when *local* sales taxes (which cities, counties, or school districts in 36 states levy) are added on.

But even those significant tax hikes may not be enough. In several cases, independent analyses of these proposals find that even these substantial rate increases would not replace the revenue lost from the taxes that would be repealed. In Missouri, for example, one version of the "FairTax" would raise the state's general sales tax rate from 3.0 percent to an unspecified rate that cannot exceed 7 percent.[2] But Missouri would actually have to raise its sales tax rate to *11 percent or more* to replace the lost revenue, according to a recent analysis by the Missouri Budget Project and the Institute of Taxation and Economic Policy.[3] This would be well above the country's highest state sales tax rate (California's 8.25 percent) and almost twice the national average. Similarly, in Michigan the "FairTax" proposal to raise the sales tax rate from 6 percent to 9.75 percent on a greatly expanded base would fall $2.5 billion a year short of the amount needed to maintain revenue neutrality, according to the state Department of Treasury.

The new rates would have to be so high not only to replace a great deal of revenue but also to pay for a new tax credit designed to shield low- and moderate-income families from the impact of the expanded sales tax. There is a spiraling effect here — raising the tax rate requires a larger tax credit, whose cost requires raising the rate even further.

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[2] Currently, Missouri levies both a general state sales tax rate of 3 percent and additional dedicated statewide sales taxes that total 1.225 percent. Under the original Fair Tax proposal the dedicated sales taxes would be eliminated. The resulting lost revenue is part of what the expanded sales tax would have to raise.

[3] "Determining the Statewide Sales Tax Rate Under SJR 29 & HJR 56," the Missouri Budget Project and the Institute on Taxation and Economic Policy, February 11, 2010, http://www.mobudget.org/category/3/article/80-Determining_the_Statewide_Sales_Tax_Rate_Under_SJR_29_HJR_56.

Basic Elements of "FairTax" Proposals

Details differ by state, but the proposals generally share the following features:

- Personal and corporate income taxes would be eliminated.
- Business-to-business sales would not be taxed. In some cases, other state taxes on businesses would also be eliminated.
- With very few exemptions, all purchases of goods and services by households would be subject to the sales tax.
- The sales tax rate would be increased, supposedly to a level that would both replace all revenues lost from eliminating existing state taxes and pay for the cost of the rebate (see below).
- A rebate — usually equal to the new sales tax rate times the federal poverty line — would be provided to all households.
- The new system would be written into the state's constitution, making future changes difficult.

For example, under current law, Missouri collects $9.9 billion a year from the personal and corporate income tax, sales tax, and other taxes that the "FairTax" proposal would eliminate. In addition, the new sales tax would have to generate enough additional revenue to pay for the proposed low-income tax credit; the original Missouri proposal specified that each taxpayer would receive a payment equal to the new sales tax rate times the federal poverty line. This would cost approximately $4.4 billion.[4] That brings to $13.4 billion a year the revenue the new sales tax would have to take in,[5] requiring both a much broader base and an 11 percent rate to achieve revenue neutrality, as noted above.[6]

And the rates could easily go higher still. As noted above, "FairTax" proposals probably are unrealistic and unsustainable in their taxation of health care, real estate, and other types of services. A state that tried to maintain revenue neutrality, exempt health care and real estate transactions, create an effective low-income tax rebate, and sustain local sales taxes easily could find the tax reaching a rate of 15 percent or higher.

In addition to these technical challenges, there would be enormous political problems in enacting and sustaining the broad "FairTax" tax base. Pressure for sales tax exemptions is already affecting proposals under consideration in various states. For example, Missouri lawmakers amended their state's "FairTax" proposal soon after its introduction to exempt private school tuition; lobbyists for many other products and services are seeking exemptions as well.

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[4] Revised proposals in Missouri are less specific and instead direct the legislature to design a low-income offset. If this were available only to low-income taxpayers it would likely be less expensive than the original proposal.

[5] Missouri's current 3.0 percent general sales tax rate raises approximately $1.9 billion a year — only15 percent of the needed revenue. Additional statewide dedicated sales taxes of 1.225 percent raise approximately $1 billion per year.

[6] Missouri Budget Project and Institute on Taxation and Economic Policy.

Another potential complication is the interaction of "FairTax" proposals with local sales taxes. Many states permit cities, counties, and other local jurisdictions to levy sales taxes. Changes to a state's sale tax base could result in some goods and services facing state but not local taxes, which would cause confusion for retailers and consumers. Alternatively, the base expansion could be adopted by local governments – further increasing the rate paid by consumers on the newly taxed items. Some of the "FairTax" proposals fail to address this issue despite the administrative difficulties or higher taxes that would result.

Sales Tax Avoidance Could Push Sales Tax Rate Even Higher

An additional factor casts further doubt on the feasibility of a revenue-neutral "FairTax." As noted above, "FairTax" rates would be much higher than any existing state sales tax rate. Such a high sales tax rate, combined with the inevitable implementation challenges of significantly extending the tax's reach, would spur new and creative strategies by individuals to avoid the tax.

Since businesses would be exempt from the sales tax, individuals could avoid the tax by making purchases through their employers or by incorporating as small businesses. (For example, a restaurant owner could buy food and supplies for home consumption using the restaurant's sales tax exemption.) Moreover, the higher sales tax rate would increase the incentive for individuals with part-time businesses who provide services such as computer repair from their homes to incorporate in order to avoid the sales tax on their business supplies.

In addition, the high tax rate would significantly increase incentives for individuals to buy from out-of-state merchants, either by traveling to a neighboring state or by buying through the Internet or mail order. Individuals are legally required to report these sales and pay a use tax on them, but few actually do, and states find the law extremely difficult to enforce.

Finally, out-and-out illegal sales tax evasion would likely rise under a higher tax rate because the payoff for such evasion would be much higher.

Expanded Sales Tax as Likely to Harm State Economies as Help Them

The major argument for replacing a state's taxes with a much larger sales tax is that it would boost economic growth. This conclusion appears to be based largely on three mistaken beliefs: that progressive taxes such as income taxes impede state economic growth compared to consumption taxes; that eliminating business taxes would cause large numbers of companies to move their operations to a state and would have no negative effects; and that the proposed tax shift could be accomplished without hurting a state's ability to fund services that promote a strong economy.

The belief that higher reliance on consumption taxes such as a sales tax will boost economic growth by encouraging investment in place of consumption — seems to come from economic studies that simulate the effect of different types of tax systems on the economic growth of countries, but it has little support in the real world. The past few decades have seen substantial economic growth in states that rely relatively little on sales taxes, such as North Carolina and

Oregon. And numerous countries, including the United States for most of the 20th century, have grown impressively with an income tax.

While replacing a "pure" income tax (that is, one with no exemptions) with a "pure" consumption tax might indeed promote investment by eliminating most or all taxes on savings and investments, pure taxes do not exist in the real world. Existing income taxes already give preferential treatment to saving and investment income, and the proposed consumption taxes in "FairTax" proposals include significant exemptions, starting with the rebate for low-income households (other exemptions will likely follow). As a result, the theoretical increase in investment and resulting economic growth would be unlikely to materialize. Policymakers could achieve the other benefits of a consumption tax — a broader base that treats different types of income and assets more equally and results in lower tax rates and a simpler tax system — through reforms to the existing tax structure, without wholesale restructuring of a state's tax system.

Moreover, an analysis of actual state tax systems by Professor Howard Chernick of Hunter College found that the progressivity of a state's tax structure had no impact on its economic growth when other factors are controlled for.[7] Personal and corporate income taxes are the primary progressive elements of most state tax systems.

The second belief is that businesses (or wealthy business owners) will flock to a state that has eliminated its corporate income tax and sales tax on business purchases and cut taxes deeply for the wealthy more generally. Research on the impact of tax levels on state economic development has produced mixed results. Many studies conclude that, if all other factors are held constant, the level of taxes has little if any impact on the decisions businesses or individuals make about whether to locate in a state. Factors other than taxation, such as the education of the workforce, transportation systems, and the natural environment, play a very significant role.[8]

Moreover, implementing the "FairTax" would likely have some less-than-beneficial consequences for businesses. For example, a number of businesses could see an immediate drop in sales — particularly retail establishments located close to state borders, which would suffer as residents shop in neighboring states to take advantage of what likely would be considerably lower sales taxes. Also, firms' wage costs may increase as workers demand higher wages in order to be able to afford the higher cost of goods and services in the state.

The third belief — that the "FairTax" would not weaken public services and thus economic growth — is flawed as well. Studies have found that the quality of a state's education, infrastructure, highways, and public health matters at least as much as the level of its taxes in determining

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[7] Howard Chernick, "Redistribution at the State and Local Levels: Consequences for Economic Growth," *State Tax Notes,* Vol. 36, No. 4, April 25, 2005.

[8] See, for example, Cristobal Young, Charles Varner, and Douglas S. Massey, "Trends in New Jersey Migration: Housing, Employment, and Taxation," Princeton University, Woodrow Wilson School of Public and International Affairs, Policy Research Institute for the Region, September, 2008; available at www.princeton.edu/prior/. See also California Budget Project, "The Number of High-Income Taxpayers Increased Significantly During a Period With 10 Percent and 11 Percent Tax Rates on High-Income Earners," August 2008, http://www.cbp.org/pdfs/2008/0808_DP_High-IncomeTaxpayers.pdf; Andrew Leigh, "Do Redistributive Taxes Reduce Inequality?" *National Tax Journal,* Vol. LXI, 1, March 2008; and Richard J. Cebula, "Internal Migration Determinants: Recent Evidence," *International Advances in Economic Research,* 11:267–274, 2005.

economic growth rates. For the reasons described in this report, "FairTax" proposals are likely to reduce revenues if exemptions are granted or the rate is set too low. The resulting cuts in spending on services that businesses and residents rely on could be an obstacle to economic growth.[9]

Revenues Under "FairTax" Likely to Fall Short of Needs Over Time

As described above, there is considerable reason to doubt that, even in the short term, "FairTax" proposals would raise enough revenue to compensate for revenue lost due to repeal of the income tax and other taxes. But policymakers should also consider the effects of "FairTax" proposals beyond the short term. The switch to almost total reliance on the sales tax would endanger a state's long-term fiscal health by reducing the diversity of the tax base and slowing revenue growth.

Overreliance on Single Revenue Source Would Increase Risk of Fiscal Instability

Replacing a state's current mix of income and sales taxes and individual and business taxes with a greatly expanded sales tax on individuals goes against the established principle of diversifying state revenue sources.

Diversification is a prudent approach: a mix of taxes provides greater revenue stability in situations where revenue from one tax declines because of economic circumstances. For example, sales tax collections declined significantly at the start of the recession. Later, income tax collections dropped sharply but sales tax collections began to rebound as consumers started spending again. In better times, growth in income tax revenues allows states to build up reserves if they choose. A state that depends almost exclusively on the sales tax would not have the benefit of this balance.

Growth in Revenues Would Slow

The experience of recent recessions has been that income tax revenues grow rapidly once employment growth returns to normal, allowing states to restore services to pre-recession levels. Sales tax revenues, in contrast, have generally grown more slowly than income tax revenues during expansions.

If implemented under current state fiscal conditions, the "FairTax" approach of expanding the sales tax as a replacement for personal and corporate income taxes could reduce a state's ability to

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[9] A review of the literature by Northwestern University Economist Therese McGuire finds that the results of research on interregional differences in taxes is mixed; depending on the decade studied and the measures used, one can find significant effects of taxes on economic growth or not. Timothy Bartik, Senior Economist at the W.E. Upjohn Institute for Employment Research, finds that "Equally competent research projects may get widely divergent estimates of the economic development effects of fiscal variable." Literature that shows public services matter includes a well-regarded early study by Jay Helms, and a later review by Ronald Fisher. Economist Robert Lynch reviews the literature and finds that increases in taxes, when used to expand the quantity and quality of public services, may promote economic development and economic growth. Therese J. McGuire, "Do Taxes Matter? Yes, no, maybe so*," State Tax Notes*. Vol. 28 No. 10, June 9, 2003; Timothy Bartik, *New England Economic Review*, March/April 1997; Jay L. Helms, "The Effect of State and Local Taxes on Economic Growth: A Time Series-Cross Section Approach," *The Review of Economics and Statistics,* Vol. 67, No. 4, November 1985; Ronald C. Fisher, "The Effects of State and Local Public Services on Economic Development, *New England Economic Review*, March/April 1997; Robert Lynch, *Rethinking Growth Strategies: How State and Local Taxes and Services Affect Economic Development*, Economic Policy Institute, 2004.

meet future needs. The national recession has driven down state revenues by historic amounts. Even if an expanded sales tax were properly constructed to replace every dollar of lost revenue, revenues would start at a lower-than-normal level because of the recession, and the state would need many additional years to restore services to pre-recession levels.

Slow revenue growth would be a problem even if a state adopted the "FairTax" during more normal times. The typical "FairTax" proposal sets a base period to determine the amount of revenue that the expanded sales tax must replace; the base period is often a few years in the past so that actual revenue collections are known. But even if a state's revenue level during the base period were sufficient to meet the state's needs *at the time,* it would fall short of the amount needed to cover *current* needs because of increases in the intervening years in costs and populations to be served.

In addition, many "FairTax" proposals include provisions that make it difficult for states to adjust their tax rates if the level of taxes proves inadequate. For example, "FairTax" proposals in Michigan would cap future revenue growth, and Missouri's plan allows only one adjustment to the sales tax rate if revenues fall short of needs in the future. As the Missouri Committee on Legislative Research noted:

> Assuming [revenue] neutrality is achieved, current projections call for revenues in FY 11 to be well below the levels collected in FY 08, an extraordinary decline which would not have happened except for the recession which began in 2007. This ["FairTax"] proposal would not allow for state revenues to recover from the unprecedented declines of FYs 09-10. This proposal would make it difficult for the state to provide the level of services currently demanded and those demanded in the future.

Taxes of Middle-Income Residents Would Rise

"FairTax" proposals would significantly change the distribution of state taxes: middle-income families would pay more, while businesses and high-income households would pay less.

Sales taxes are regressive — that is, lower- and middle-income families pay a larger share of their income in sales taxes than do high-income families. For income taxes, the opposite is true: higher-income families pay a larger share of their income in income taxes because of a graduated rate structure in many states and because personal exemptions and standard deductions exempt a smaller share of their income.

Thus, repealing the state income tax would benefit high-income families disproportionately, while low- and middle-income families would bear the largest burden of an increase in the sales tax.

"Prebate" Would Not Help Middle Class

In response to this concern, all "FairTax" proposals include a "prebate" intended to shield low-income families from the effect of the shift from income to consumption taxes. The prebate, generally equal to the new sales tax rate times the federal poverty level, would be provided annually or monthly to all state taxpayers. For a family of four in a state with a "FairTax" rate of 10 percent, for example, the prebate would be $2,205 (using 2008 poverty guidelines).

But there is a serious flaw in this approach. Since the prebate would presumably protect the poorest families from paying more in taxes under the "FairTax" than they do now, and the very wealthy are unlikely to spend so much that their sales tax payments equal what they formerly paid in income tax, only those in the middle would be left to make up the difference. In fact, 95 percent of Missouri taxpayers would pay more in taxes under a "FairTax" proposal for that state, according to an analysis by the Institute on Taxation and Economic Policy, and middle-income families would face the largest tax increase.

In-State Taxpayers Could Pay Larger Share of Total Taxes

Though state taxes are levied on in-state economic activity, they also affect residents of other states. For example, corporate income taxes are "paid" by company shareholders regardless of where they live, in the form of reduced profits. Similarly, the sales taxes that businesses pay on their purchases are "paid" in part by those businesses' out-of-state customers in the form of higher prices. Tourists and other visitors also pay a portion of state taxes.

Although the specifics will vary from state to state, a "FairTax" could, on the whole, reduce the share of overall state taxes that out-of-state residents pay and increase the share that in-state residents pay. Eliminating the corporate income tax would largely profit out-of-state shareholders, for example, and exempting businesses from taxes on their purchases would benefit many out-of-state consumers. In contrast, in-state residents would pay the greatest share of the newly expanded sales tax. (A state with a very large tourism industry might fare better under a "FairTax," however.)[10]

Conclusion

Replacing the diversified tax structure that most states have now with a dramatically expanded sales tax would jeopardize states' ability to fund public services and likely raise taxes on the middle class. It also would be unlikely to produce any benefits for a state's economy.

[10] Proponents of this tax shift have argued that the increased sales tax on residents would be offset because businesses that save money from elimination of corporate taxes would lower their prices. But even if these price cuts happened — and there is no particular reason to think this is likely — they would apply equally to in-state and out-of-state sales, so only a portion of the savings would be passed along to in-state consumers.

TABLE 1:
Summary of Recent State Proposals

	Taxes Eliminated	Change in State Sales Tax Rate	What Is Included in New Sales Tax Base	Other Features	Notes
Michigan	Personal income tax, Michigan Business Tax, school education tax (which is levied on businesses only), sales tax on business purchases	To 9.75 percent from 6 percent	All goods and services purchased by households including food, prescription drugs, out-of-pocket health care costs, new home purchases	Rebate of 9.75% of the federal poverty line; revenue growth in excess of population plus inflation would go in Rainy Day Fund to be used if revenues drop below 95% of prior year	2008 proposal, petitions circulated but not enough signatures to make it to ballot; ballot language unclear about many details
Missouri	Personal and corporate income taxes; corporate and bank franchises tax, sales tax on business purchases; dedicated sales taxes (conservation and roads); St. Louis and Kansas City earnings taxes	To 5.11 percent from 3.0 percent according to original bill language. A subsequent bill states that the new rate can be no higher than 7 percent. The proposals also say the change must be revenue neutral, which has led to rate estimates ranging from about 6 percent to over 11 percent (Note: Missouri's current statewide sales tax rate consists of a 3.0 percent general tax plus an additional 1.225 percent dedicated tax.)	All goods and services purchased by households except higher education tuition. Includes purchases of nursing home and in-home medical care, doctor's visits, child care, education, rent, housing, home repairs, new home purchases, utilities, insurance, funerals, food, prescription drugs, legal services, financial services, transportation, club dues, auto repairs	Rebate equal to new tax rate times the federal poverty line	Bill introduced that would put question on ballot
South Carolina	Personal and corporate income tax, income tax on banks, estate tax, sales tax on business purchases. (The language of the proposal also eliminates the estate tax but South Carolina does not currently levy an estate tax.)	To about 6 to 7 percent from 5 percent, according to proponents' estimates	All goods and services purchased by households		Bill introduced
Arkansas	All taxes levied by the General Assembly, including personal and corporate income taxes, capital gains taxes, payroll taxes, real estate transfer taxes	To be determined by legislature	All goods and services purchased by households except education tuition at all levels and job training courses and services mandated by federal, state, or local government	Monthly rebate equal to rate of tax times federal poverty line divided by 12	Petition for ballot measures