

Council Letter

Date of Meeting: August 5, 2019

Originating Department: City Manager

To the Mayor and City Council:

Subject: Use Tax Ballot Issue

Attachment(s):

1. Bill Number 6160
2. Frequently Asked Questions

Action Options:

1. Conduct 1st and 2nd Reading of Emergency Bill Number 6160
2. Other Action Council May Deem Necessary

Background:

Over 166 cities and 62 counties in Missouri have adopted a local use tax, including Scott County, New Madrid County, Cape Girardeau County and a number of nearby cities. A use tax is similar to a sales tax, but is imposed on sales of goods from non-Missouri vendors that are intended for use, storage, or consumption in Missouri. It is not a double tax; it is only imposed on sales that are not already subject to sales tax.

Out-of-state vendors currently have an unfair advantage over our local businesses, because they can sell goods to be delivered here without charging their local sales tax or our local sales tax. A use tax would level the playing field for local Sikeston vendors. In addition, as more and more sales have moved from local retailers to online and out of state retailers, sales tax revenue for essential city services and quality of life investments has not kept pace with inflation, reducing the city's buying power and ability to maintain the city services that make Sikeston a great place to live.

Over the last 15 years, taxable sales in Sikeston have increased a total of 11.2%. In the same time period the cumulative inflation rate has been 31.4%. In the past 4 years since the new capital improvement sales tax has been collected, total sales tax collections have actually declined as more and more people have embraced online shopping, which is largely untaxed.

According to the US Department of Commerce, 9% of all retail sales are now occurring online, up from 3% ten years ago; if these sales involve out-of-state vendors, then the sales are not subject to our local sales tax. There is no reason to think this upward trend will not continue. The retail marketplace has fundamentally changed. Prior to the rise of online shopping, consumers were paying local sales tax on the goods they are now purchasing online. Passage of a use tax is essential to closing the online loophole.

That said, the use tax is not exactly the same as an internet sales tax. It is a tax on out-of-state sales that are not otherwise taxed. It will apply to some internet sales but not universally. The State of Missouri cannot require out-of-state companies that do not have a physical presence in Missouri, or do not have a contract with the State of Missouri, to collect and remit use tax. Neither sales taxes nor use taxes will apply to all internet sales until Federal regulations close all the loopholes. Individual consumers will not have to file a use tax return unless they make more than \$2,000 in out-of-state purchases that were not already taxed (this is already a State law).

Much more information regarding the use tax and City finances is included in the attached Frequently Asked Questions.

Council is asked to conduct first and second readings and consider approval of the attached Emergency Bill Number 6160. The bill is presented as an emergency bill in order to comply with State of Missouri election statutes. The bill calls for the following question to be placed on the November 5, 2019 ballot:

Shall the City of Sikeston, Missouri, in order to eliminate the current sales tax advantage that Non-Missouri vendors have over Missouri vendors, place a local use tax on Out-of-State purchases?

This would be at the same rate as the local sales tax, currently 3%. If any local sales tax is repealed, reduced or raised by voter approval, the respective local use tax rate shall also be repealed, reduced or raised by the same action.

A use tax return shall not be required to be filed by persons whose purchases from Out-of-State vendors do not total more than two thousand dollars in any calendar year.

INSTRUCTIONS TO VOTERS: If you are in favor of the question, fill in the oval opposite "YES". If you are opposed to the question, fill in the oval opposite "NO".

☐ Yes

☐ No