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Tax on a Haircut? Missouri Voters Weigh Sales Tax Limits.

JEFFERSON CITY, Mo. — Missouri voters will be the first in the nation to decide whether to amend their state constitution to prohibit sales taxes from being expanded to services such as auto repairs, haircuts, legal work and financial accounting.

The proposal on the Nov. 8 ballot is a backlash against efforts in numerous cash-hungry states that have considered extending sales taxes beyond goods to keep pace with the service-based economy.

Concerned that states could try to tax services related to home sales, national and local organizations representing real estate agents have poured about $7 million into a campaign to pass the amendment, with hopes of a trend-setting victory.

“If we can do this here, it would be a model for the rest of the country,” Missouri Realtors CEO John Sebree said.

Opponents have not reported raising any money to fight the measure. But the Missouri Municipal League warns there could be “dire consequences” for police, fire and road departments if governments are constitutionally barred from enlarging their sales tax base.

“It’s a short-sighted attempt to solve a problem that doesn’t exist,” said the league’s deputy director, Richard Sheets.

Sales taxes have long provided an important financial foundation for governments. They are levied by 45 states and more than 10,000 local jurisdictions. But only a few states currently charge sales taxes on a wide array of services.

State revenue from general sales and gross receipts taxes has rebounded more slowly than individual income taxes following the recession that ended in 2009, according to U.S. Census Bureau figures.

Some states have sought to compensate for sluggish sales tax growth with proposals to apply the tax more widely. The rise of Republican-led statehouses since 2010 has also spawned proposals to cut income taxes and offset the cuts with higher sales taxes on a greater number of goods and services.

In March, North Carolina began charging sales tax on labor for a number of services, including vehicle maintenance, flooring and cabinet installation and jewelry repairs. The expansion was part of a new law that also will cut individual income tax rates starting in 2017.

Many customers initially questioned the new sales taxes and some decided to delay repairs, said Dean Bailey, owner of King’s Auto Service in Raleigh, North Carolina.

But, he added, “It’s a thing that now we’ve sort of grown accustomed to.”

Over the past five years, about half the states have considered some sort of proposal to expand sales taxes to services, according to bill tracking by the National Conference of State Legislatures, the

American Institute of Certified Public Accountants, the National Association of Realtors and research by The Associated Press. Many of those proposals have failed.

Missouri is the first state where voters will consider a constitutional amendment putting a halt to sales tax expansions, according to the NCSL. Amendment 4 would bar state and local sales taxes from being applied to any transaction or service not already taxed as of Jan. 1, 2015.

The campaign has drawn support from a broad coalition, including associations for accountants, attorneys, banks, funeral homes, newspapers and broadcast media.

Mark Ewers, who runs a home siding and window business in Jefferson City, was among several dozen people who recently attended a free lunch hosted by the committee backing the initiative. He said he already pays sales tax on materials, but calculating a tax for his installation work would be a paperwork headache.

“I can’t imagine having to tax for all of the services that I provide,” he said.

How voters will react remains unclear. There is scant public polling on the ballot proposal, although focus groups have shown some voter confusion over the wording of the measure.

A similar idea was proposed in Florida after legislators in 1987 expanded the sales tax to dozens of services that included construction and advertising. But the petition drive for that ballot measure subsided after lawmakers repealed the services sales tax just six months after it began.

During the past decade, Maryland, Massachusetts and Michigan also have quickly repealed expanded sales taxes on services in the face of public disapproval.

Missouri lawmakers for several years have considered expanding the sales tax base in exchange for phasing out the state income tax, but those bills gained little traction this year.

Republican lawmakers contend recent decisions by courts and the state Department of Revenue have nonetheless gradually expanded the sales tax base. For example, the revenue agency sent a letter to businesses in July notifying them that delivery services are subject to taxes if included with certain retail sales.

By THE ASSOCIATED PRESS

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