



TESTIMONY

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SENATE BILL 97 AND TAXATION

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Thank you for the opportunity to submit testimony today. My name is Elias Tsapelas, and I am a senior analyst at the Show-Me Institute, a nonprofit, nonpartisan, Missouri-based think tank that advances sensible, well-researched, free-market solutions for state policy. The ideas presented here are my own and those of my coauthor, and summarize research on the tax-related issues included in Senate Bill 97.

Senate Bill 97 offers much-needed change that would improve Missouri's tax landscape. Currently, when Missourians shop, it's often difficult to figure out how much will be due in sales taxes. And once those taxes are collected, it's even harder to determine where they're going. The proliferation of special taxing districts in recent years necessitates action to increase transparency and accountability for taxpayers. Similar concepts should be applied to any proposal related to the imposition of new online sales taxes,

with the added component that any such action be revenue-neutral.

TAX MAP

Senate Bill 97 proposes that use taxes levied by political subdivisions be added to the department of revenue's sales tax mapping feature. These additions would be a positive step toward transparency and accountability for taxpayers. Missouri's myriad taxing districts are of serious concern to taxpayers, and though this map does not address the problems with the districts themselves, it provides essential information to Missourians. It should be noted that the current tax map is difficult to navigate, so apart from any legislation practical steps should be taken to make the map user-friendly.

ONLINE SALES TAX

Missouri is one of the few remaining states that does not collect online sales taxes from out-of-state retailers.

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Ever since the U.S. Supreme Court handed down its *South Dakota v. Wayfair* decision in 2017, states across the country have been adjusting their laws to accommodate the increasing portion of commerce that is facilitated by the internet. With the COVID-19 pandemic have come new budgetary pressures on state and local governments, which in turn make an additional stream of revenue seem even more desirable. But if Missouri is going to begin collect new tax revenues, the interests of taxpayers need to be part of the equation, which means addressing transparency and accountability issues while ensuring the net effect is not an increased tax burden.

Missouri's current tax system has many flaws and lacks both transparency and accountability. Collecting new taxes for online purchases would serve as a boon to state and local checkbooks. If these funds are collected, it's essential that taxpayers be able to track where they are eventually spent. Many localities will likely update their laws if the state begins collecting such a tax in order to fully capture all available sales and use tax revenue. Accordingly, avoiding the pitfalls we've seen with the lack of transparency in many special taxing districts across the state is incredibly important.

In addition, any proposal that raises taxes on Missourians during a once-in-a-generation pandemic should be a nonstarter. Thus, legislation to impose the internet sales tax should be accompanied by a similarly sized tax cut that would make the move revenue-neutral. As currently drafted, Senate Bill 97 falls short in this regard.

Senate Bill 97 proposes to reduce the state's sales tax rate beginning in 2023 in order to maintain revenues substantially similar to those collected in 2022. This change would make the collection of online sales taxes essentially revenue-neutral after 2022, which will be important if Missourians continue increasing their share of purchases made online. The problem is that SB 97 uses 2022 as the base year for calculating revenue neutrality. In effect, this bill would immediately raise taxes on Missourians because of the imposition of a new tax on online purchases from out-of-state retailers. After the first year, their taxes would stay roughly the same, but the effect of a higher tax would still be felt. To address this issue, the bill should be changed to set the base year for the sales tax

reduction calculation to one prior to the state beginning to collect the online sales tax, and continue to allow for the sales tax rate to be adjusted downward in the years to come.

Collecting online sales taxes comes with a host of complexities for state and local officials to iron out, but what Missourians don't need is a net increase in taxes as they try to recover from the economic ravages of a pandemic. Transparently and accountably broadening the state's sales tax base while lowering the rate in a revenue-neutral fashion would be a good move for Missouri's taxpayers.

CONCLUSION

There are numerous ways to improve tax policy in Missouri, and SB 97 contains provisions that could provide much-needed reforms. Moving Missouri's tax system forward requires greater transparency and accountability without increasing Missourians' overall tax burden. Taxpayers are entitled to know who is receiving their hard-earned dollars and how that money is being spent. There is certainly more work that could be done to help Missouri's economy, but the tax changes outlined in SB 97 would represent steps in the right direction.

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