



TESTIMONY

April 1, 2021

HOUSE BILL 554 AND TAXATION

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Testimony before the Missouri Senate Ways and Means Committee

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 House Bill 554.

House Bill 554 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

House Bill 554 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 net effect should not be an increased tax burden. Further, taxpayers deserve transparency and accountability from their government with regard to how they are being taxed and where their tax dollars are going.

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. Research suggests that lowering the income tax a corresponding amount would benefit the state's economic growth.¹ Income taxes are among the most economically distortionary taxes, so by broadening the sales tax base (as the online sales tax would do) and lowering the state's income tax correspondingly, policymakers have the opportunity to provide a much-needed boost to the state's economy.²

Collecting online sales taxes comes with a host of complexities for state and local officials to iron out, but the economic theory on the topic is clear. Transparently and accountably broadening the state's sales tax base while lowering the income tax in a revenue-neutral fashion would be a good move for Missouri's taxpayers.³

CONCLUSION

There are numerous ways to improve tax policy in Missouri, and HB 554 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 HB 554 would represent steps in the right direction.

Elias Tsapelas is a senior analyst and Corianna Baier is an analyst at the Show-Me Institute.

ENDNOTES

1. Hafer, R.W. “Should Missouri Eliminate the Individual Income Tax?” Policy Briefing, Show-Me Institute, 2007. https://showmeinstitute.org/wp-content/uploads/2015/06/smi_study_11_0.pdf.
2. Haslag, Joseph H. and Haleigh Albers. “What Makes a Good Tax Structure?” Essay, Show-Me Institute, October 2013. https://showmeinstitute.org/wp-content/uploads/2015/06/2013-Sept%20-%20What%20Makes%20A%20Good%20Tax%20Structure%20-%20Haslag%20&%20Albers%20FINAL%20FINAL%2010-1-13_0.pdf.
3. Ibid.



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