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TESTIMONY

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OPPORTUNITIES FOR TAX RELIEF

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Testimony before the Missouri Senate Committee on Appropriations regarding Senate Bills 1, 2, 3, 4, 5, 6, 7, 8, 14, 15, 17, 18, and 19

Thank you for the opportunity to testify. My name is Aaron Hedlund, and I'm the Chief Economist at the Show-Me Institute, a nonprofit, nonpartisan, Missouri-based think tank that advances practical, well-researched, free-market solutions to state and local policy issues. The ideas presented here were developed in concert with my colleagues and are offered in consideration of proposals that will affect Missouri's tax landscape.

The bills under consideration here offer various approaches for lowering Missouri's income tax burden and creating or extending multiple agriculture tax subsidies. As many of the bills being discussed today offer variations on the same theme, this testimony will speak about the economic research supporting or opposing these ideas more broadly.

To put it plainly, Missouri faces two enormous challenges—one short term and one long term. Of immediate concern, Missourians are suffering under the highest inflation in four decades with little sign for optimism, as evidenced by the most recent consumer price index report. Over a longer horizon, Missouri's economy continues to underperform. In the five years preceding the COVID-19 pandemic, Missouri's economic growth rate was only 1.4 percent per year on average after adjusting for inflation, which is a full percentage point below that of the nation as a whole.

Tackling both of these problems calls for a bold but practical approach to reducing income taxes—specifically, tax *rates*. While any broad-based form of relief is welcome, rate reductions are unique in their ability to make Missouri a more competitive and pro-growth state where people can keep more of their paychecks and the return on their investments. It should come as no surprise that when the reward for those productive activities is higher, we get more of both, and all Missourians benefit.

The research is clear: lower tax rates lead to more investment, increased entrepreneurship and innovation, and higher productivity. For the average worker, the result is better job opportunities and higher wages, enticing more people to rejoin the labor force. For the state as a whole, it means becoming more of a magnet for talent and capital—attracting people from around the country who see Missouri as open for business and leading fewer Missourians to feel like they have to move out of state to chase their dreams.

Today, several proposals include the acceleration of already-planned rate reductions, but even better would be to put Missouri on a footing to responsibly set in motion further rate reductions triggered by rapid future state revenue growth. This sensible approach, further supported by spending discipline and a healthy rainy-day fund, would ensure that Missouri's actions today are sustainable into the future, particularly with a growing tax base fueled by a growing economy and population.

A couple of additional guideposts are worth keeping in mind. First, the north star must be generating economic growth. Without growth, all other fiscal and economic problems become more difficult and painful to solve. Second, tax credits are not the same thing as tax cuts. In fact, they are often (economically speaking) closer to government spending. This does not make them inherently bad; government does needs to spend appropriately on core priorities. But it does highlight that tax credits *compete* with the promise to cut taxes. They do not fulfill such a promise.

One approach that policymakers should oppose is the creation or extension of tax benefits for some at the expense of tax relief for all Missourians. Years of research and experience have shown Missouri that economic development tax credits, such as the eleven being considered today, do not deliver the benefits to state economic growth that they promise. A much better use of those same funds would be to keep the agricultural tax credits dormant, scale back the state's other economic development tax credits, and reduce or eliminate the state's corporate income tax as is proposed in Senate Bills 5 and 18. Show-Me Institute scholars have written frequently about the harms of both the corporate income tax and our reliance on tax credits for economic development, so scaling back the former using the revenues generated by weaning ourselves from the latter would offer a significant boon to Missouri's growth prospects.

Now is the moment when Missouri can make a down payment on major tax reform and put itself on a path to competing with the likes of Texas, Tennessee, and Florida for being the most pro-growth state in the nation.

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