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TESTIMONY

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HOUSE BILL 1310: INCOME TAX TRIGGERS

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Testimony Before the Missouri House Special Committee on Tax Reform

TO THE HONORABLE MEMBERS OF THE COMMITTEE

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 policy solutions to state and local issues that recognize the central role of the free market in advancing prosperity for Missouri families and businesses. The ideas presented here reflect collaborative work with my colleagues in assessing the evidence that exists to date on the effects of Missouri's individual income tax and the benefits of continuing down the path of further reform.

In recent years—with the latest action happening this past fall—Missouri has been on a fiscally responsible glide path toward achieving a lower income-tax burden for working families and small businesses through incremental tax rate reductions triggered by strong revenue growth.

House Bill 1310 builds on this sensible approach by removing the limit on the number of rate reductions that can occur when state general revenues exceed those of the previous three fiscal years by more than $175 million. This approach has proved successful because it ensures the state has sufficient resources to immediately afford the tax reduction while the lower rate improves the state's growth prospects going forward.

More broadly, Missouri faces two enormous challenges—one in the short term and one in the long term. Of immediate concern, Missourians have been suffering under the highest inflation in four decades, and while inflation has been trending slowly downward in response to rapid interest rate hikes by the Federal Reserve, the purchasing power of Missourians' paychecks continues to shrink. Over a longer horizon, Missouri's economy has been a perennial underperformer compared to the rest of the country. 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. To be clear: the positive growth effects of tax rate reductions come from people being able to keep more of the fruits of their own productive activity—namely, work, entrepreneurship, innovation, and investment—as opposed to simply having more money in their pockets from government aid, which does nothing to directly incentivize value creation. It should come as no surprise that when the reward for productive activities is higher, we get more of those activities, 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 pursue their dreams.

Today, HB 1310 expands upon the state's already-planned rate reductions by also allowing for 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.

Missouri has already joined more than 30 states in implementing tax improvements this year, and that cut along with HB 1310 would be one step toward making our state more competitive with the likes of Texas, Tennessee, and Florida.

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