



TESTIMONY

January 28, 2026

HOUSE JOINT RESOLUTION 174: INCOME TAX ELIMINATION AND SALES TAX MODERNIZATION

By Elias Tsapelas

Testimony before the Missouri House Commerce Committee

TO THE HONORABLE MEMBERS OF THE COMMITTEE

Thank you for the opportunity to testify. My name is Elias Tsapelas, and I'm the Director of State Budget and Fiscal Policy at the Show-Me Institute, a nonprofit, nonpartisan, Missouri-based think tank that advances practical, well-researched policy solutions that recognize the central role of the free market in advancing prosperity for Missouri families and businesses. The ideas presented here reflect my assessment of the evidence on Missouri's tax structure and the benefits of eliminating the individual income tax.

Missouri faces a persistent economic challenge: Our economy continues to underperform compared to the rest of the country. Missouri's GDP growth rate for 2024 was 2.3%, ranking 30th in the country and falling well below the national average of 2.8%.¹ Perhaps worse, Missouri's population growth over the past decade ranks below average, or 34th nationally.² Underperforming on both fronts has real consequences for Missouri families and businesses. House Joint Resolution (HJR) 174 represents a bold but fiscally responsible approach to tackling this problem by asking Missourians whether they want to put the state on a path to eliminate the individual income tax entirely.

Why Missouri's Income Tax Is Holding Us Back

Economic research on the topic of taxation is clear: income taxes are the most destructive taxes for economic growth.³

It follows that Missouri's overreliance on the income tax puts the state at a competitive disadvantage. Missouri collects around two thirds of state revenue through the income tax, placing the state among those most heavily reliant on this revenue source in the country.⁴ When the reward for productive activity (work, entrepreneurship, innovation, and investment) is diminished by taxation, there is less of this activity, and all Missourians suffer as a result.

Looking to zero-income-tax states that consistently outperform Missouri economically is instructive. Florida, Texas, and Tennessee have become magnets for attracting and retaining people, jobs, and capital. And while it is true that in recent years Missouri has taken some steps to reduce the state's individual income tax, our surrounding states have also been cutting their income taxes, in several cases more significantly, which only makes it more important for Missouri to keep up.⁵

ADVANCING LIBERTY WITH RESPONSIBILITY
BY PROMOTING MARKET SOLUTIONS
FOR MISSOURI PUBLIC POLICY

Why This Approach Makes Fiscal Sense

HJR 174 takes a measured, responsible approach to income tax elimination. Asking Missouri voters whether they'd like to amend the state's constitution to eliminate the income tax is entirely appropriate for such a significant policy change.

The HJR's framework makes fiscal sense. Because the HJR would continue the state's reliance on revenue-based income tax cut triggers, Missouri taxpayers can be assured the state has the fiscal capacity to afford the transition.

HJR 174 also authorizes sales tax base expansion to replace the revenue lost from income tax elimination. If the HJR is approved, this would represent a profound shift from taxing production to taxing consumption, which economic research shows is far less harmful to growth. Of course, the devil is in the details regarding what goods and services the sales tax base is expanded to include, in terms of the revenue and economic impact that would follow. But the goal of broadening the state's sales tax base is economically sound.

The resolution includes important protections that prevent sales tax base expansion from becoming a net tax increase on Missourians. Revenues from expanding the sales tax base must go toward income tax elimination rather than growing government. Local governments must reduce their sales tax rates, property tax levies, or earnings tax rates to offset revenue gains from base expansion. Constitutionally imposed sales tax rates will be adjusted to produce substantially the same revenue as before.

Modernizing Missouri's Sales Tax

Missouri's current sales tax reflects an economy from decades past. Missouri has one of the lower state sales tax rates in the country at 4.225%, ranking 38th nationally. Yet the combined state and local rate of 8.44% ranks 12th.⁶ This discrepancy reveals that Missouri's local governments are heavily reliant on sales taxes (more so than most states) but are working with a narrow, outdated base focused primarily on tangible goods.

The American economy has fundamentally changed. Personal consumption has shifted dramatically toward services and away from traditional goods over the past

several decades, yet most digital goods and services remain untaxed in Missouri. As commerce continues this shift, the narrow base erodes and creates economic distortions.

Missouri's failure to modernize also hurts the competitiveness of Missouri businesses. Consider digital goods: when someone can buy an e-book for their Kindle without paying sales tax, but buying the same book from a Missouri bookstore means paying more because of the sales tax, local retailers are put at a disadvantage. The same principle applies more broadly: Missouri's narrow tax base favors certain purchases over others for no good policy reason.

Economically, a modern sales tax should apply broadly to final personal consumption of both goods and services. Importantly, a sales tax should only apply to final consumption, not to intermediate purchases or business inputs. This is because taxing business inputs reduces economic competitiveness, which goes against a core purpose of eliminating the income tax in the first place.

Sales Tax Base Expansion and Income Tax Elimination

Other states have shown how sales tax base expansion can enable income tax elimination. Kentucky provides a particularly instructive example. In 2018, Kentucky expanded the sales tax to numerous consumer services including landscaping, janitorial services, pet care, fitness activities, admissions to events, and dry cleaning. In 2022, Kentucky added 34 more services. These expansions were paired with significant income tax relief. The state consolidated six individual income tax brackets into one flat rate and has been systematically reducing that rate, from 5% in 2018 to 4% today, dropping to 3.5% on January 1 of this year.

Kentucky is part of a broader trend. Three states (Kentucky, Mississippi, and Oklahoma) have recently legislated concrete paths to eliminate their income taxes entirely through revenue-based triggers.⁷ In each case, sales tax base expansion has been or will be part of the strategy to replace income tax revenues. These states demonstrate that income tax elimination is achievable when paired with thoughtful modernization of consumption taxes.

In conclusion, HJR 174 represents a historic opportunity to fundamentally improve Missouri's tax competitiveness. The approach is fiscally responsible, includes important taxpayer protections, and is grounded in sound economic research. Missouri voters should get the chance to weigh in on this important issue.

NOTES

1. U.S. Bureau of Economic Analysis, "Gross Domestic Product by State, Fourth Quarter 2024," March 2025, <https://www.bea.gov/data/gdp/gdp-state>.
2. University of Missouri Extension, "Report Outlines Missouri Population Growth," Missouri Economy Indicator Brief, 2024, <https://extension.missouri.edu/news/report-outlines-missouri-population-growth>.
3. Elias Tsapelas, Show-Me Institute, "Another Crack at the Income Tax," January 2025, <https://showmeinstitute.org/article/taxes/another-crack-at-the-income-tax>.
4. Show-Me Institute, "The 2026 Blueprint: Moving Missouri Forward," November 2025, <https://showmeinstitute.org/publication/blueprint-for-missouri/the-2026-blueprint-moving-missouri-forward>.
5. Tax Foundation, "State Tax Changes Taking Effect in 2026," January 2026, <https://taxfoundation.org/research/all/state/2026-state-tax-changes>.
6. Tax Foundation, "State and Local Sales Tax Rates, 2026," January 2026, <https://taxfoundation.org/data/all/state/sales-tax-rates>.
7. American Legislative Exchange Council, "How States Are Eliminating the Personal Income Tax," December 2024, <https://alec.org/article/how-states-are-eliminating-the-personal-income-tax>.



P.O. Box 16024 · Saint Louis, MO 63105 · 314-454-0647

Visit us:

showmeinstitute.org

Find us on Facebook:

Show-Me Institute

Follow us on X:

@showme

Watch us on YouTube:

Show-Me Institute