



# TESTIMONY

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## HOUSE JOINT RESOLUTIONS NOS. 173 & 174: INCOME TAX ELIMINATION AND SALES TAX MODERNIZATION

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Testimony before the Missouri Senate Committee on Economic and Workforce Development

### 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%.<sup>1</sup> Perhaps worse, Missouri's population growth over the past decade ranks below average, or 34th nationally.<sup>2</sup> Underperforming on both fronts has real consequences for Missouri families and businesses. House Joint Resolutions (HJR) 173 & 174 represent a bold but fiscally responsible approach to tackling this problem by asking Missourians whether they want to put the state on a path to eliminating 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.<sup>3</sup>

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.<sup>4</sup> 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.<sup>5</sup>

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## WHY THIS APPROACH MAKES FISCAL SENSE

HJRs 173 & 174 take 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 resolutions' use of revenue triggers is critical to ensuring this approach remains fiscally responsible. Any reduction in the income tax would occur only after the state meets defined revenue benchmarks, tying tax relief directly to actual revenue growth rather than projections. This ensures that reductions are paced to match the state's fiscal capacity and helps avoid the kind of shortfalls seen when taxes are reduced without safeguards.

This approach builds on a framework Missouri has already used. In 2014, Senate Bill 509 established a system of revenue-triggered income tax reductions.<sup>6</sup> Since then, Missouri's top individual income tax rate has fallen from 6 percent to 4.7 percent, a reduction of more than 20 percent. Those reductions occurred only when revenues supported them. Over that same period, state general revenues have grown substantially, even after accounting for the elevated inflation experienced in recent years.

The current proposal improves on that model by tying the size of tax reductions more closely to the amount by which revenue growth exceeds the trigger thresholds, better aligning the pace of tax relief with the state's fiscal capacity.

HJRs 173 & 174 also authorize sales tax base expansion as a potential way to replace the revenue lost from income tax elimination, shifting the state away from taxing production in favor of taxing consumption, which economic research shows is far less harmful to growth.<sup>7</sup> 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.

However, the legislature would not be required to make any changes to the sales tax base, and those decisions would ultimately be left to future General Assemblies.

The resolutions also include important protections that prevent policymakers from using sales tax base expansion to bring about a net tax increase. Revenues from expanding the base would have to be used to reduce the income tax rather than grow government, and local governments would be required to offset any additional revenue through reductions in other taxes. Policymakers could also consider other approaches, such as modifying exemptions, reforming existing tax incentives, or adjusting spending to accelerate the pace of income tax elimination under the trigger structure.

## MODERNIZING MISSOURI'S SALES TAX

Missouri's current sales tax is suited to 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.<sup>8</sup> This discrepancy reveals that Missouri's local governments are heavily reliant on sales taxes (more so than most states), but they are working with a narrow, outdated base focused primarily on tangible goods.

The American economy has fundamentally changed in recent decades. Personal consumption has shifted dramatically toward services and away from traditional goods, 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. This principle, and those that follow, are grounded in decades of economic research on efficient tax design. 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 to which the sales tax applies. 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 3.5% today.

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.<sup>9</sup> 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 173 & 174 represent 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 have the opportunity to decide whether the state moves in this direction.

## **NOTES**

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7. Organisation for Economic Co-operation and Development, "Tax Policy Reform and Economic Growth," OECD Tax Policy Studies No. 20, 2010, [https://www.oecd.org/en/publications/tax-policy-reform-and-economic-growth\\_9789264091085-en.html](https://www.oecd.org/en/publications/tax-policy-reform-and-economic-growth_9789264091085-en.html).
8. Tax Foundation, "State and Local Sales Tax Rates, 2026," January 2026, <https://taxfoundation.org/data/all/state/sales-tax-rates>.
9. 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>.



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