

# Income Tax Reform 2025: HJR 173 (Rep. Bishop Davidson) and HJR 174 (Speaker Jon Patterson)

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## Speaker:



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Ray McCarty has served as president and CEO of Associated Industries of Missouri (AIM) since 2008.

Associated Industries of Missouri is the state's oldest general business advocacy organization.

McCarty is active in many groups and has served as a lobbyist for 37 years, representing government and private taxpayers primarily in tax and economic development legislation.

# Components of tax reform proposal

## **ORIGINAL PROPOSAL (HJR 173 and HJR 174):**

- If for tax years beginning on or after 1/1/2031 revenue triggers (unspecified) reduce individual income tax below 1.4%, “no individual income tax shall be enacted or imposed by the State of Missouri.” Does not apply to earnings taxes.

## **CURRENT VERSION (HCS HJR 173 & 174):**

- In order to reduce and eliminate the state individual income tax by 1/1/2032:
  - Benchmark is set at state revenue level in FY 25 and adjusted annually for inflation;
  - For each \$20m in revenue above the inflation-adjusted FY 25 amount, the income tax would be reduced by .01% up to a maximum reduction of 1.6% (if revenues exceeded FY 25 levels by \$3.2 billion in a year);
  - When the rate would be reduced below 1.4%, the rate would be “zero percent” – this would require \$6.6 billion in revenue above FY 25 level (for reference, net general revenue only increased \$4.7 billion from FY 15 – FY 25);
  - The \$20m measure is also adjusted by the rate of inflation;
  - If not eliminated by 1/1/2032, the triggers and reduction would continue until eliminated; and,
  - Earnings taxes are excluded.

# AIM ISSUES

## HCS HJR 173 & 174 (Davidson/Patterson)

ISSUE	ORIGINAL DRAFT	AIM SUGGESTION	CURRENT DRAFT
Pass-through entities (PTE's)	Specifically excluded from tax cut " <b>trusts, estates, fiduciaries thereof, corporations, partnerships, LLCs or any entities, however organized, other than individual people.</b> "	We suggested removing all this language so PTE's would be included in tax cut like all other individual taxpayers.	Language changed to allow tax cut only to " <b>income of natural persons</b> " under Sec. 143.011 and 143.041. This language appears to at least give the DOR an argument that PTE's are not included. Remember capital gains?
Citation	Art. X, Section 4(d).2, page 2		Art. X, Section 4(d).3, pages 2-3

# AIM ISSUES

## HCS HJR 173 & 174 (Davidson/Patterson)

ISSUE	ORIGINAL DRAFT	AIM SUGGESTION	CURRENT DRAFT
<p>Revenue plan to replace net individual income tax receipts of <b>\$7.75 billion</b></p>	<p>No plan. Depending on Legislature to enact a future bill if the constitutional amendment is approved by voters in November 2026.</p>	<p>We believe the revenue replacement should be determined and disclosed to voters <b>BEFORE</b> the constitutional amendment passes this session so taxpayers know what their vote means. We also suggested expanding the base first, placing money in fund, and using that to reduce the income tax.</p>	<p>Still <b>no specific plan</b> to replace revenue in the constitutional amendment.</p>

# AIM ISSUES

## HCS HJR 173 & 174 (Davidson/Patterson)

ISSUE	ORIGINAL DRAFT	AIM SUGGESTION	CURRENT DRAFT
General Assembly may expand sales and use tax without limitation.	State and local sales and use taxes or any <b>similar transaction-based tax</b> may be <b>expanded</b> by legislation to impose taxes on transactions involving <b>any goods and services</b> .	<ol style="list-style-type: none"><li>1. Exempt B2B transactions for any service or other business subject to sales/use tax;</li><li>2. Protect current exemptions; and,</li><li>3. Prohibit new gross receipts and other creative taxes, such as profits taxes.</li></ol>	State and local sales and use taxes or any <b>similar transaction-based tax</b> may be <b>expanded</b> by legislation to impose taxes on transactions involving <b>any goods and services</b> .
Citation	Art. X, Section 26.2, page 2		Art. X, Section 26.2, page 3

# AIM ISSUES

## HCS HJR 173 & 174 (Davidson/Patterson)

ISSUE	ORIGINAL DRAFT	AIM SUGGESTION	CURRENT DRAFT
Tax increases	General Assembly may increase any tax within 3 years for purpose of eliminating individual income tax - Hancock protections do not apply.	<ol style="list-style-type: none"><li>1. Cap the state sales/use rate increase at 3% - (6% increase on current base replaces revenue);</li><li>2. Cap the corporation income tax rate at the current 4% to prevent a shift to corporations.</li></ol>	General Assembly may increase any tax within 3 years for purpose of eliminating individual income tax - Hancock protections do not apply.
Citation	Art. X, Section 26.5, page 3		Art. X, Section 26.5, page 4

# AIM ISSUES

## HCS HJR 173 & 174 (Davidson/Patterson)

ISSUE	ORIGINAL DRAFT	AIM SUGGESTION	CURRENT DRAFT
Transportation tax increases	Taxes increased on motor fuel, motor vehicle sales, etc., that would normally be constitutionally required to be spent for transportation improvements may be used to replace income tax revenue loss.	N/A	Removed the reference to the motor fuel taxes, but still allows increased taxes on motor vehicles to be diverted to non-transportation uses (replacing the individual income tax loss).
Citation	Art. X, Section 26.5, page 3		Art. X, Section 26.5, page 4

# Rate Rollbacks

## Art. X, Section 26.3

### **ORIGINAL PROPOSAL (HJR 173 and HJR 174):**

- ▶ Any political subdivision that imposes a sales/use tax must reduce one or more of these to prevent windfall:
  1. Sales/use rate
  2. Personal prop tax levy;
  3. Real prop tax levy; or,
  4. Earnings tax rate.

### **CURRENT VERSION (HCS HJR 173 & 174):**

- ▶ Any political subdivision that imposes a sales/use tax must reduce one or more of these to prevent windfall:
  1. Sales/use rate
  2. Personal prop tax operating levy;
  3. Real prop tax operating levy;
  4. Operating levy for all property tax if political subdivision imposes the same rate of levy on all taxable property; or,
  5. Earnings tax rate.

# Rate Rollbacks

## Art. X, Section 26.4

### **ORIGINAL PROPOSAL (HJR 173 and HJR 174):**

- ▶ Beginning 1/1/2029, the rate of constitutional sales and use taxes (conservation and parks and soils) are to be reduced to the amount necessary to produce the median annual revenue for the previous 3 fiscal years, after the revenues for those years have been adjusted for inflation. The State Auditor makes this calculation by 7/1/2028 and the reduced rate is to be effective 1/1/2029.

### **CURRENT VERSION (HCS HJR 173 & 174):**

- ▶ Beginning 1/1/2028, the rate of constitutional sales and use taxes (conservation and parks and soils) are to be reduced to the amount necessary to produce the median annual revenue for FY24, FY25, and FY26, after the revenues for those years have been adjusted for inflation. The State Auditor makes this calculation and adjusts the rate effective 1/1/2028.

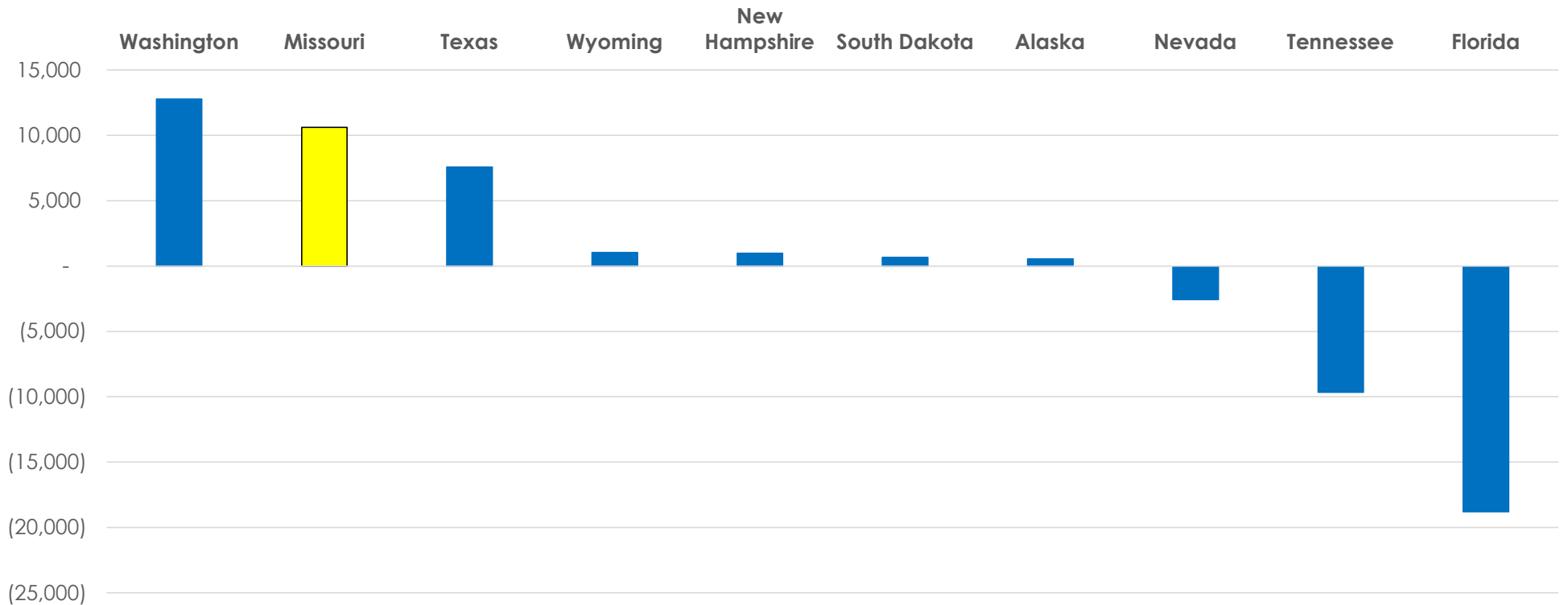
# Still Unknown:

1. Which services will be taxed?
2. Will current exemptions be eliminated?
3. What happens to “stranded” tax credits?
4. How much will the sales/use tax rate increase?
5. Will business-to-business transactions be excluded, and if so, will all business purchases be exempted or only those whose goods and services are subject to tax?



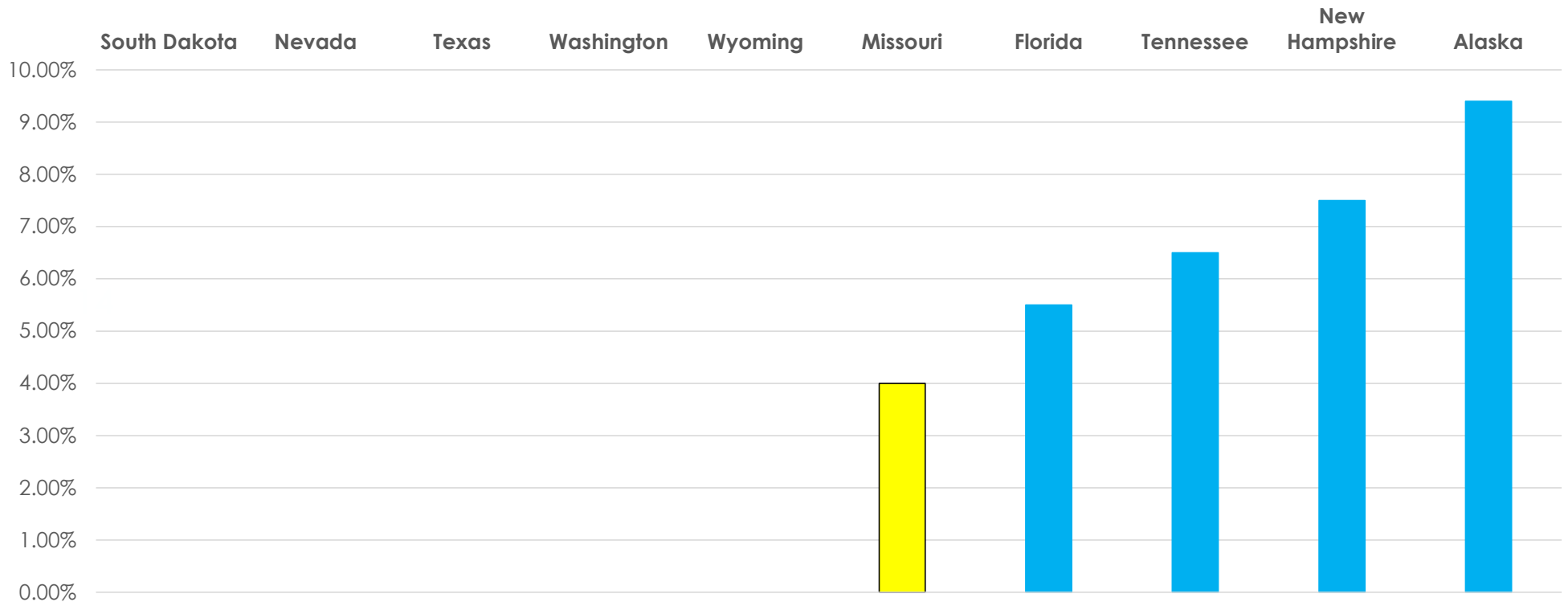
How does Missouri  
compare to states without  
an individual income tax?

# Change in # of Businesses 2024-2025



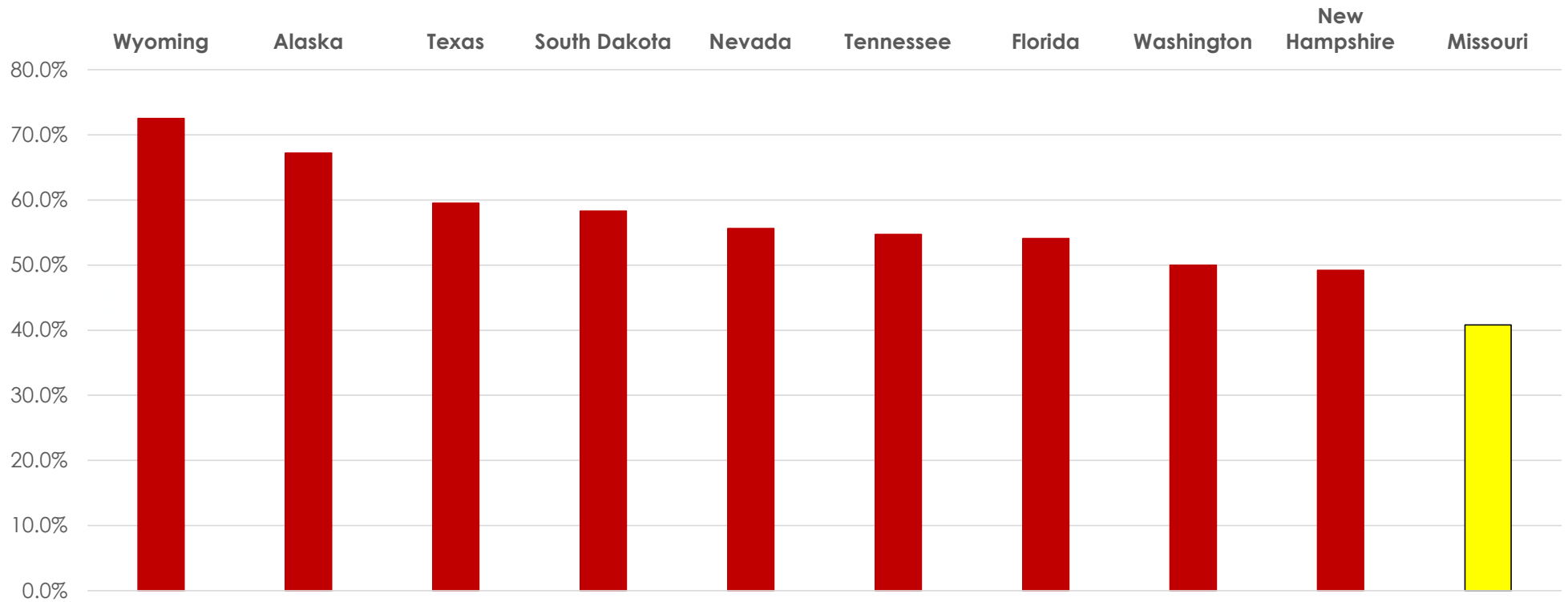
Source: U.S. Bureau of Labor Statistics, U.S. Department of Labor, Quarterly Census of Employment and Wages

# Top Corporation Income Tax Rate 1/1/26



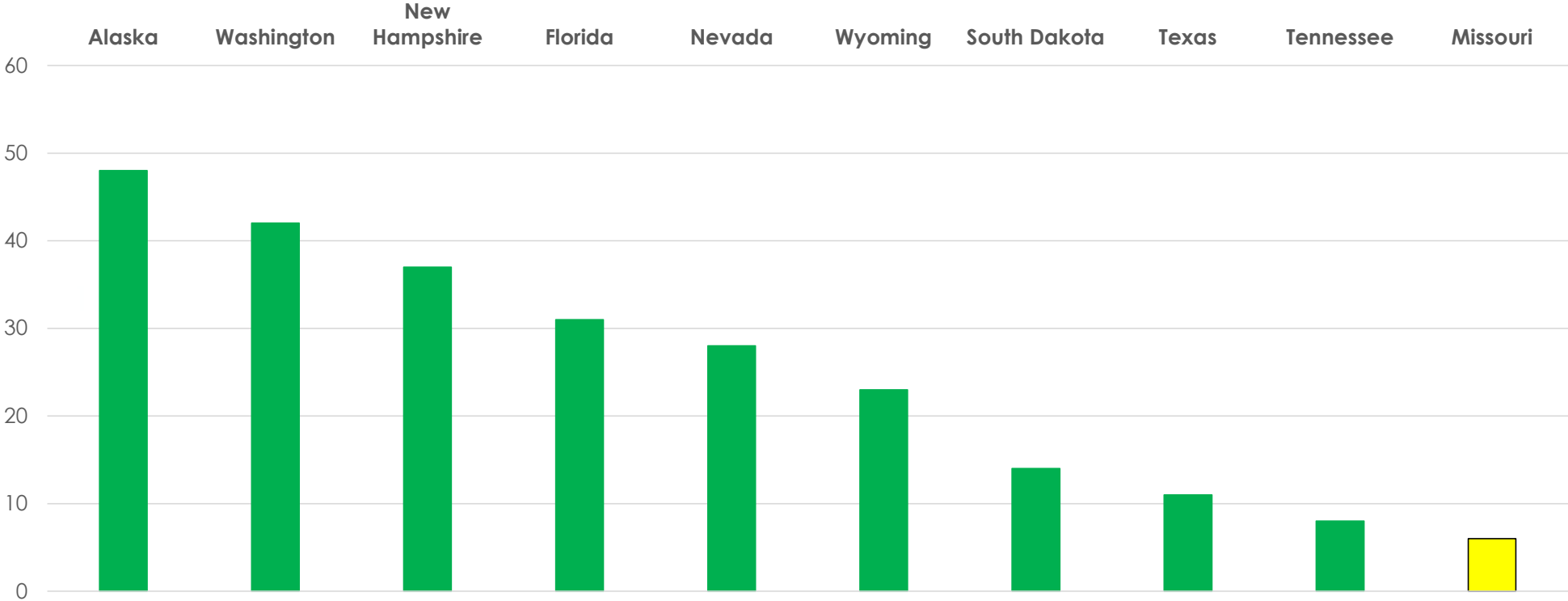
Source: Tax Foundation, <https://taxfoundation.org/data/all/state/state-corporate-income-tax-rates-brackets/>

# FY24 Business Share of Total State & Local Taxes



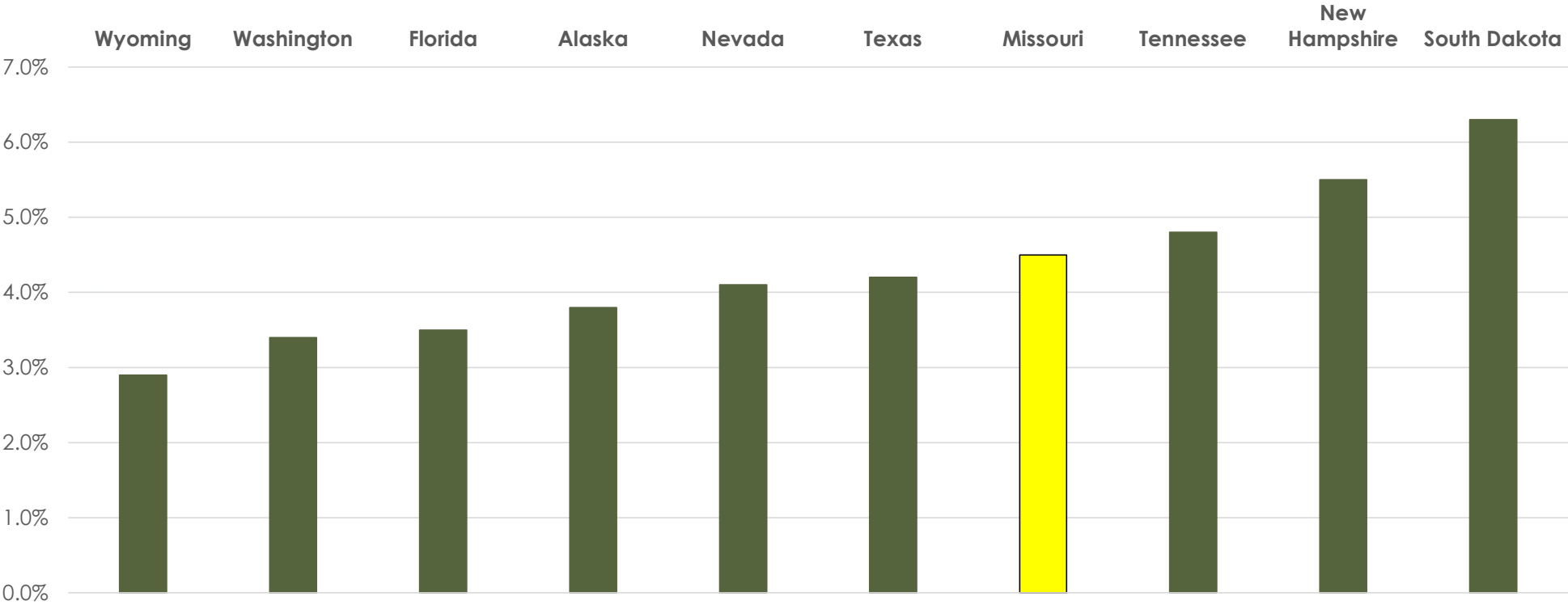
Source: "Total state and local business taxes, December 2025", Ernst & Young LLP in conjunction with the Council On State Taxation (COST) and the State Tax Research Institute (STRl), Table 7

# Cost of Living Index



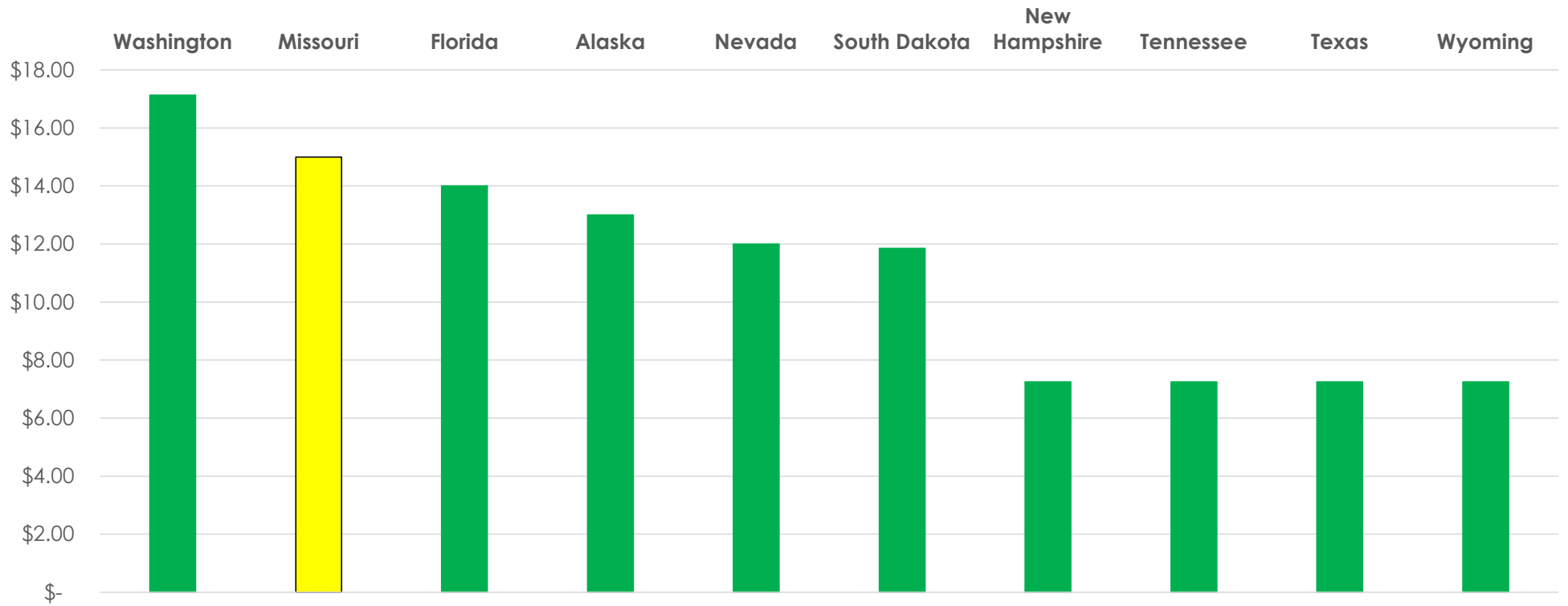
Source: 2025 3rd Quarter Composite Cost of Living Index, Missouri Economic Research and Information Center (MERIC), <https://meric.mo.gov/data/cost-living-data-series>, accessed 1/21/2026

# Real GDP Percent Change Annual Rate Q3 2025

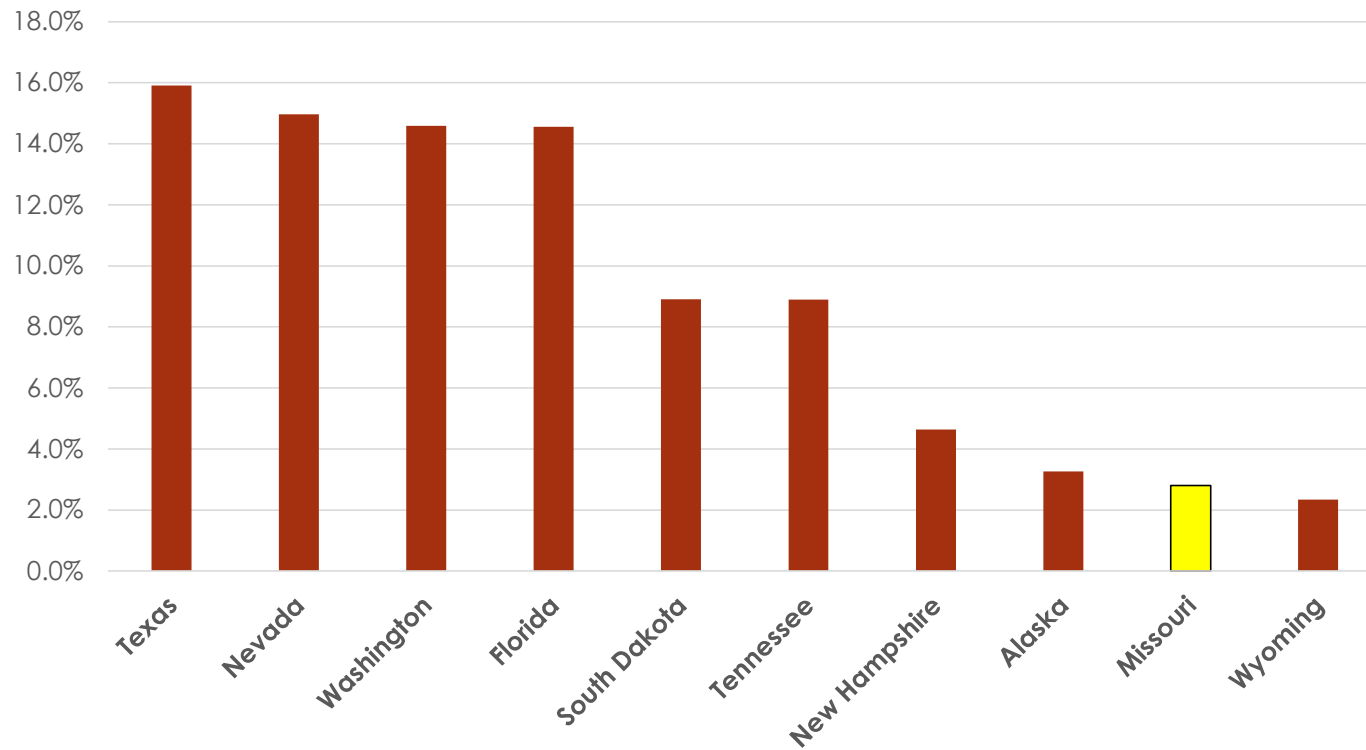


Source: Real GDP: Percent Change at Annual Rate, 2025:Q2-2025:Q3, Bureau of Economic Analysis, <https://www.bea.gov/news/2026/gross-domestic-product-state-and-personal-income-state-3rd-quarter-2025>

# Minimum Wage (per hour) 1/1/2026



# 10-year Population Growth



Source: Percent Change in Resident Population for the 50 States, U.S. Census Bureau, <https://www2.census.gov/programs-surveys/decennial/2020/data/apportionment/apportionment-2020-map03.pdf>

# Ballot Language:

**Shall the Missouri Constitution be amended to:**

- **Phase-out the individual income tax based on revenue growth;**
- **Reduce personal property tax and other local tax rates;**
- **Modernize the sales and use tax for the purpose of eliminating income tax and reducing local tax rates; and**
- **Protect local funding for public schools?**

**Do you believe Associated Industries of Missouri should support or oppose the tax reform proposal as outlined?**



**?**

# THANK YOU!



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Associated Industries of Missouri

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