

Bill Analysis: House Bill 1439

Tax Proposal Moves State Away from a Better, More Equitable Mississippi

Plan would lead to massive revenue shortfall,
make tax code less fair



Mississippi's House of Representatives recently passed House Bill 1439 ("the Mississippi Tax Freedom Act of 2021"). The House passed the 300-page bill less than 24 hours after they introduced it with little debate and no fiscal note. The plan revives the recurring attempts of some lawmakers to cut state income taxes, but does much more. This proposal would eliminate the individual income tax, replace the lost revenue with numerous sales tax increases and decrease the grocery tax. This would not only create an unsustainable revenue shortfall that will likely lead to cuts to schools, healthcare and the criminal justice system, but it would also deepen existing income, race and gender inequities in the state.¹

State lawmakers contend that HB 1439 is a revenue neutral tax plan that will lead to a "fairer tax structure."² However, the combined impact of the key components—including income tax elimination, sales tax increases and grocery tax reduction—will provide a major benefit for the state's wealthiest, primarily white, taxpayers. In contrast, the state's lower-and middle-income taxpayers—taxpayers that are disproportionately Black and Brown and disproportionately women—will have to take on even more responsibility for funding government, despite the current challenges that so many of these working families have to meet their most basic needs. The overall cost associated with the tax elimination, including costs to the education, healthcare and criminal justice systems coupled with worsening inequities, far outweigh its benefits to the state's wealthiest.

HB1439

Key tax proposals in HB 1439 include:

- **A phased approach to the elimination of Mississippi's income tax.**
- **An increase in the state's general sales tax rate to 9.5% from 7%.**
- **A reduction in the sales tax paid on groceries to 3.5% from 7%**
- **Sales tax base broadening.**
- **An increase in the tax paid on cigarettes by \$0.50 a pack.**

¹ All estimates related to the impact of HB 1439's tax proposals produced by the Institute on Taxation and Economic Policy, based on ITEP's microsimulation tax model, and provided to One Voice upon request, 2/24/21.

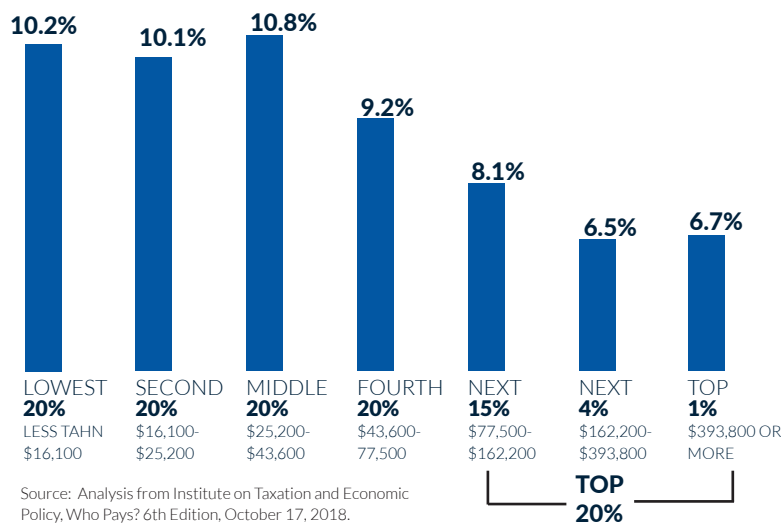
² "House leaders move to eliminate Mississippi income tax, raise sales and other taxes in landmark tax bill," Mississippi Today, 2/22/21.

A Fair Tax System is Better for Mississippi.

A fair tax system is important because it ensures everyone pays their fair share of taxes to fund the state's services and programs, contributes to a more stable economy by relying on the collection of taxes from those most able to pay, and promotes income, race and gender equity throughout the state.

Mississippi's current tax system is already inequitable. This is due to the fact that the top 20% of taxpayers in the state pay the lowest percentage of their income toward state and local taxes. And while the state's tax system is not the lone culprit in creating inequity within the state, it is a significant factor. This is because incomes in the state become more unequal in Mississippi after taxes are collected than before.

TOTAL STATE AND LOCAL TAXES IN MISSISSIPPI SHARE OF FAMILY INCOME



Individual income taxes are the fairest feature of Mississippi's income tax system.

When compared to sales and property taxes, individual income taxes are the fairest of the state's three major taxes. This is mostly because income taxes are based on one's ability to pay. Mississippi's slightly graduated income tax structure allows for taxes to be paid at different levels of income at various rates. As a result of the graduated income tax structure, lower-income earners pay a lower percentage of their income in the individual income tax than with sales and property taxes. Higher-income earners pay a higher percentage of their income in the tax than with the state's sales and property taxes. As a result, income taxes help offset the largely regressive impact of the state's consumption and property taxes.

A fair tax system
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because
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their fair share.

Income tax elimination benefits

higher-income earners.

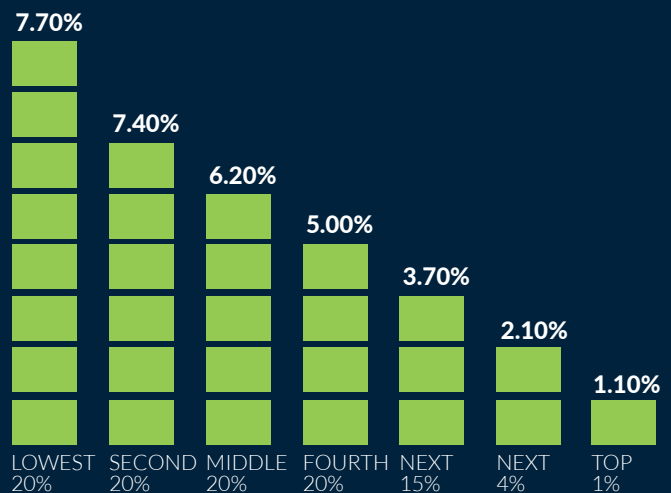
Because higher-income earners pay more in individual income taxes than any other income group in the state, higher-income earners will also have the most to gain from the elimination of individual income taxes in the state. In fact, the impact of individual income tax elimination in Mississippi would result in a tax cut for 72% of the state's wealthiest 20% of income earners in the state.

In comparison, only 28% of the state's lowest 80% of income earners would benefit from the tax cut.

Additionally, the state's highest income group on average would receive an estimated \$31,400 in tax cuts. Middle-income earners in the state would receive an average \$610 in savings. The state's lowest income earners would receive an average savings of \$20—the cost of approximately three high school football tickets.

States without individual income taxes tend to make up for the revenue shortfall by increasing sales, excise and property taxes. The revenue from the higher taxes is then used to support key services and programs.

SALES & EXCISE TAXES PAID AS A PERCENTAGE OF INCOME BY INCOME GROUPS



Source: Analysis from Institute on Taxation and Economic Policy, Who Pays? 6th Edition, October 17, 2018.

EARN **388K**
or more

SAVE-----\$31,400

EARN **30K**
-49K

SAVE-----\$610

EARN **18K**
or less

SAVE--\$20

Increasing sales taxes while eliminating the income tax harms lower-and middle-income earners.

Eliminating the individual income tax leaves a nearly \$1.9 billion revenue shortfall.

When states rely heavily on sales taxes, lower-and middle-income earners take on more responsibility for funding the government. A tax shift from the state's wealthiest, through income tax elimination, to the state's lowest-income taxpayers, through the combined income tax elimination and sales tax increase, creates a more inequitable tax system. And growing income inequality as a result of the tax shift is particularly concerning given that the state is still grappling with an unprecedented health and economic crisis due to the coronavirus pandemic. Overall, the regressive impacts of the sales tax increase proposed in HB 1493 would increase the amount of taxes paid as a percentage of income the most on Mississippians making less than \$29,500 a year.

The grocery tax cut is an equitable tax policy, but its benefits are largely lost among the other tax changes.

Mississippi's 7% sales tax rate on groceries is the highest in the nation. A reduction in the grocery tax from 7% to 3.5% would help all Mississippians save more money on this necessity. It would be particularly helpful for lower-and middle-income taxpayers, groups that tend to spend a larger percentage of their income on taxes levied on food and other necessities, as opposed to other taxes.

However, even an equitable proposal to lower the grocery tax when combined with sales tax increases results in a total tax increase for all income groups, particularly lower-and middle-income earners in the state. Again, this particular proposal would increase the amount of taxes paid as a percentage of income the most on Mississippians making less than \$29,500 a year.

The combination increases the total amount of taxes paid as a percentage of income on the state's bottom 80% of income earners more than it does the state's top 20% of income earners.

Lawmakers concerned with the unfairness of Mississippi's current tax on groceries should continue to prioritize its reduction or elimination. But this is not the vehicle through which to make this change.

At a time when Mississippi is grappling with a global health and economic crisis, lawmakers should consider:

- Creating a state earned income tax credit
- Closing corporate tax loopholes
- Rolling back tax cuts for profitable corporations
- Fully funding education
- Raising the minimum wage
- Creating equal pay for men and women
- Strengthening the state's income tax

INCREASE GENERAL SALES TAX RATE TO 9.5% FROM 7%

	LOWEST 20% (LESS THAN \$18,300)	SECOND 20% (\$18,300- \$29,500)	MIDDLE 20% (29,500- \$49,100)	FOURTH 20% (\$49,100- \$82,000)	NEXT 15% (\$82,000- \$181,600)	NEXT 4% (\$181,600- \$387,700)	TOP 1% (MORE THAN \$387,700)
TAX CHANGE AS % OF INCOME	+1.9%	+2.0%	+1.7%	+1.4%	+1.0%	+0.6%	+0.3%

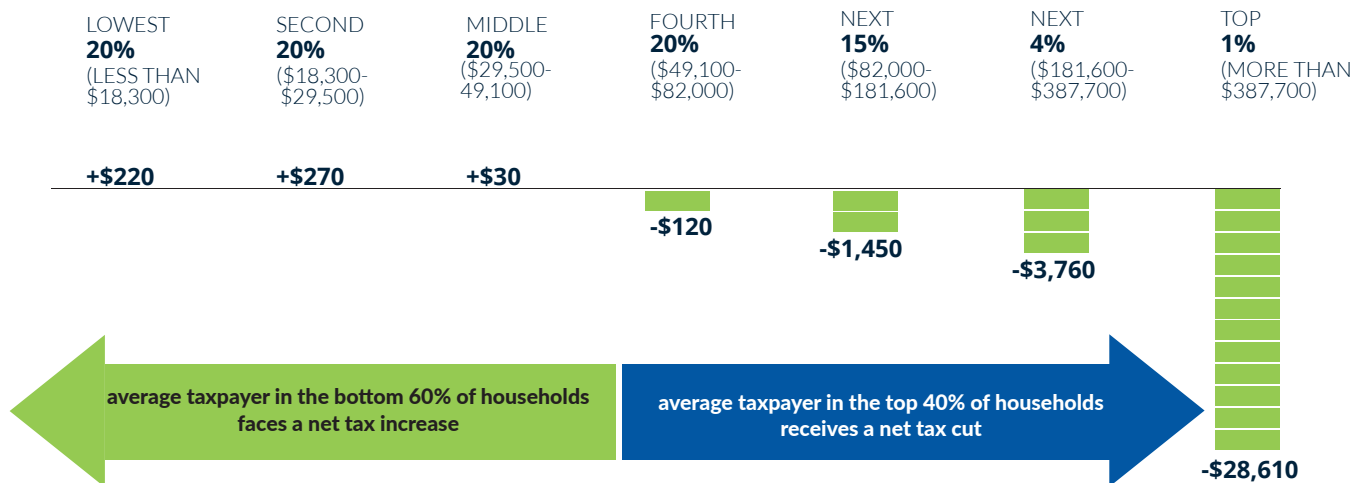
COMBINED IMPACT OF GENERAL SALES TAX RATE INCREASE TO 9.5% AND FOOD TAX CUT TO 3.5%

TAX CHANGE AS % OF INCOME	+1.6%	+1.7%	+1.5%	+1.2%	+0.9%	+0.5%	+0.3%
	BOTTOM 80%				TOP 20%		

As a whole, this tax plan deepens inequity, weakens communities and worsens the economy.

The final combined impact of HB 1439's tax plan increases the amount of taxes paid as a percentage of income on the state's lowest-income earners while decreasing the amount of taxes paid as a percentage of income on the state's highest-income earners. With this plan, the state's lowest 60% of income earners would see an average increase in the amount of taxes paid to the state. The state's top 40% would experience an average decrease in the amount of taxes paid.

FULL ELIMINATION OF PERSONAL INCOME TAX, GENERAL SALES TAX RATE INCREASE, FOOD TAX DECREASE AND CIGARETTE TAX INCREASE



The impact of fully eliminating the state income tax, increasing the general sales tax rate, increasing the cigarette tax and decreasing the grocery tax would, on average, increase the total tax paid by a Mississippian earning approximately \$23,000 by \$270. It would decrease the total tax paid by a Mississippian earning approximately \$63,000 by \$120. And it would decrease the total tax paid from the state's wealthiest income earners by approximately \$28,610.



Meanwhile, the state would still be facing a revenue shortfall that would seriously jeopardize funding for existing state services. It would also make it nearly impossible for the state to make key investments in fully funded schools, affordable colleges and universities, affordable healthcare for all state residents, affordable housing, public safety and infrastructure. The long-term impact of growing inequities and significant revenue loss from HB 1439 would harm the state and hurt Mississippi communities for years to come.

Graph Source: Institute on Taxation and Economic Policy Institute.³

³ This analysis does not include the impact of sales tax base expansion, but such an expansion would only make the overall proposal more regressive – shifting more of the impact onto lower- and middle-income earners.