

FISCAL POLICY

WHO PAYS, MISSISSIPPI?

*An Overview of State Tax
Policy and Racial Equity
Impacts*

IN MISSISSIPPI, STATE AND LOCAL TAX SYSTEMS WORSEN INEQUALITY

OVERVIEW

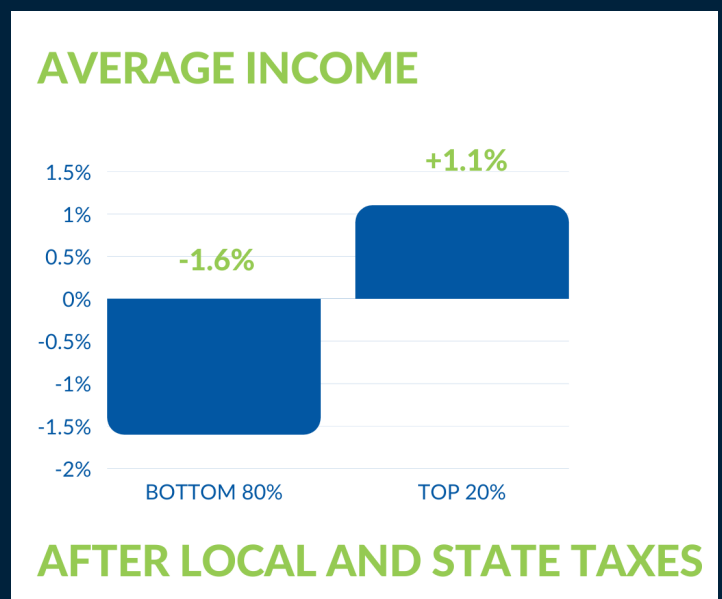
Historic and current injustices, both in public policy and in society more broadly, have resulted in vast disparities in income across race and ethnicity in Mississippi. State and local tax codes are not the sole contributors to, nor will they be the sole solution to, racial economic inequities. However, the state's tax system is playing an active role in worsening these disparities. Black and Hispanic families face the highest effective tax rates in the state while also having among the lowest average incomes. In the context of Mississippi's overall regressive tax system, which asks the least of the state's most affluent residents, these higher tax rates on communities of color are stripping them of both income and wealth, contributing to the state's ongoing struggle with severe economic inequality.

Policymakers can generate more economic and racial equity with better decisions about state and local taxes. By enacting progressive income taxes with more brackets at the top, restoring estate or inheritance taxes, taxing earnings from wealth at least as much as earnings from work, and taxing wealth itself, policymakers can meaningfully address economic and racial inequality and create a more equitable Mississippi.

This report builds upon the Institute on Taxation and Economic Policy's *Who Pays?*, 6th Edition report to help state lawmakers and the public understand how Mississippi's current tax policies affect taxpayers at all income levels and across racial backgrounds. It also presents solutions that can narrow racial income and wealth gaps in the state.

In most states, state and local tax systems worsen inequality. Mississippi is no different. Incomes are more unequal in Mississippi after state and local taxes are collected than before. This is because Mississippi's regressive tax system causes lower-income people to be taxed at higher rates than top-earning taxpayers. In Mississippi, the bottom 80% of taxpayers or those earning less than \$77,500 per year, pay a larger percentage of their income in state and local taxes. The state's top 20% of taxpayers, on the other hand, pay a smaller percentage of their income in state and local taxes.

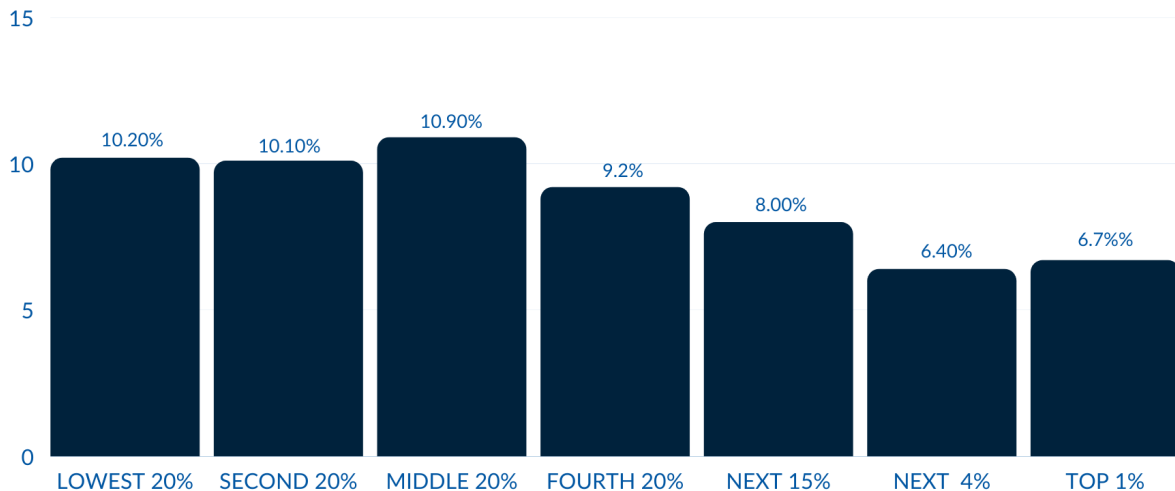
As a result, this imbalance in Mississippi's tax code suppresses the income of a diverse group of low- and middle-income families while lifting the incomes of the state's more affluent, top earners. The bottom 80% of earners receive after-tax incomes that are 1.6% percent lower than would be the case if this imbalance did not exist, while the top 20% of earners see their incomes boosted by 1.1% percent, on average, by this imbalance.



Source: Institute on Taxation and Economic Policy, January 2021

AVERAGE EFFECTIVE STATE AND LOCAL TAX RATES IN MISSISSIPPI

PERCENTAGE OF TOTAL STATE AND LOCAL TAX RATES AS A SHARE OF INCOME FOR NON-ELDERLY RESIDENTS



Source: Institute on Taxation and Economic Policy, January 2021

Wealthier tax payers, on average, pay a lower effective state and local tax rate than lower-income people, they also collectively contribute a smaller share of state and local taxes than their share of all income.

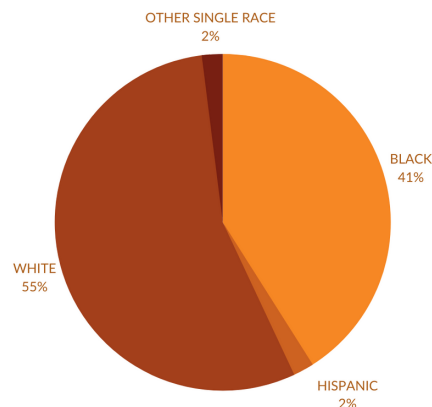
STATE AND LOCAL TAXES AGAINST A BACKDROP OF SEVERE RACIAL INEQUALITY

Far from advancing equity, Mississippi's tax system is driving a larger wedge between high- and low-income families, and between white families and Black and Hispanic families. The state's tax system contributes to the representation of a significant overconcentration of white families as the state's top earners.

White households make up 55% of Mississippi's overall population. Yet they comprise 77% of the state's top earners (defined as the top 20% of earners). Just 20% of Black households and 1% of Hispanic households can be found among this high-income group.

On the other hand, 42% of low-income families in Mississippi are white (defined as the bottom 20% of earners, or those earning less than \$16,100).

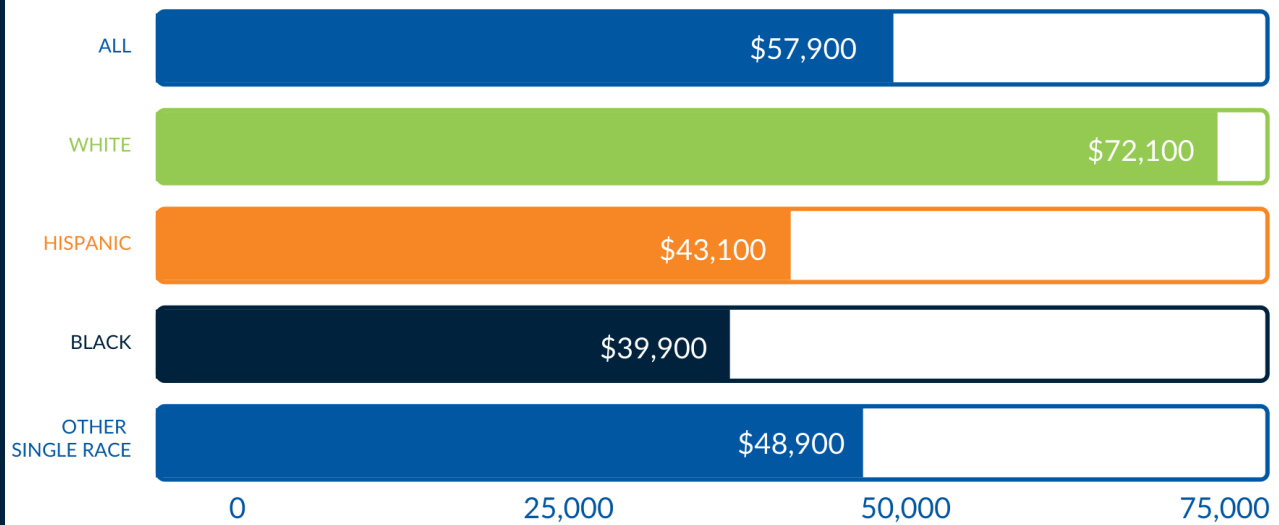
PERCENTAGE OF MISSISSIPPI TAXPAYERS BY RACIAL GROUP



Relative to their share of the population, however, historical and current racism have caused a disproportionate share of Black and Hispanic households to fall into this lower-income group. 52% of Black households and 3% of Hispanic households in Mississippi, for instance, earn less than \$16,100.

Source: Institute on Taxation and Economic Policy, January 2021

AVERAGE INCOME IN 2015, NON-ELDERLY TAX UNITS



Source: Institute on Taxation and Economic Policy, January 2021

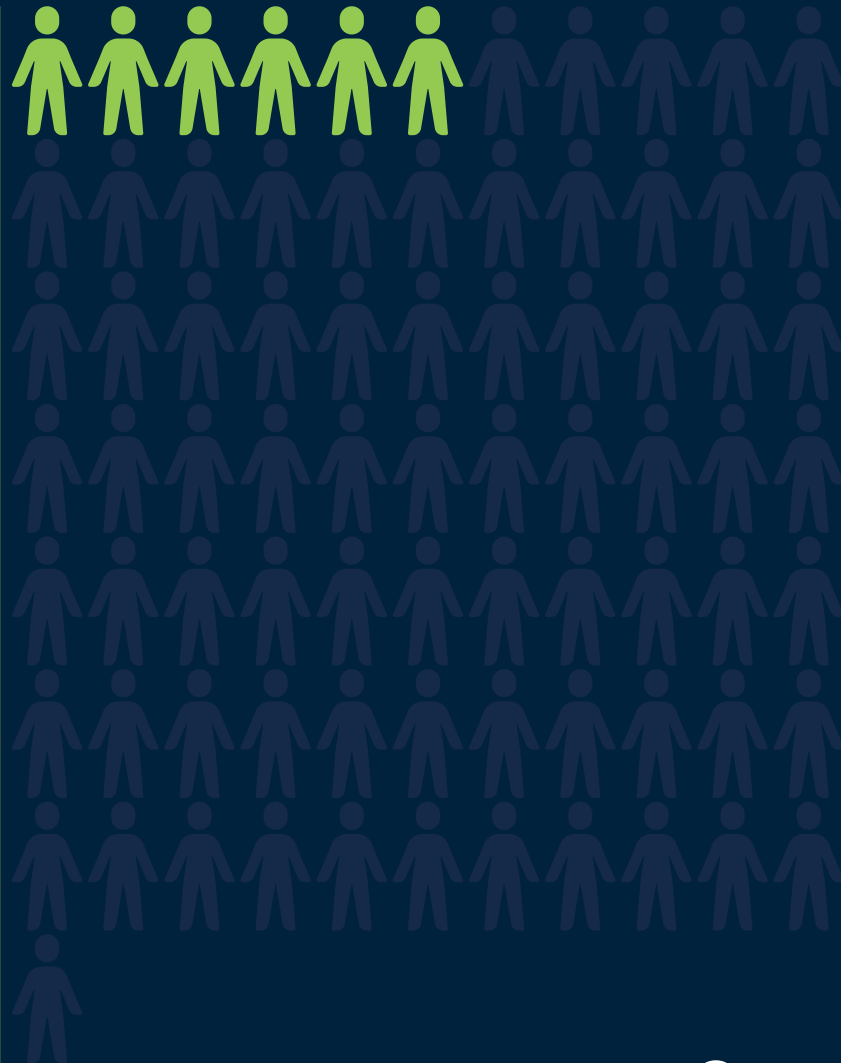
Mississippi's Budget and Tax Policy History

Tax policy is not race neutral. Enormous gaps in income and wealth across race and ethnicity have deep roots in racism, discrimination, and policy failure.

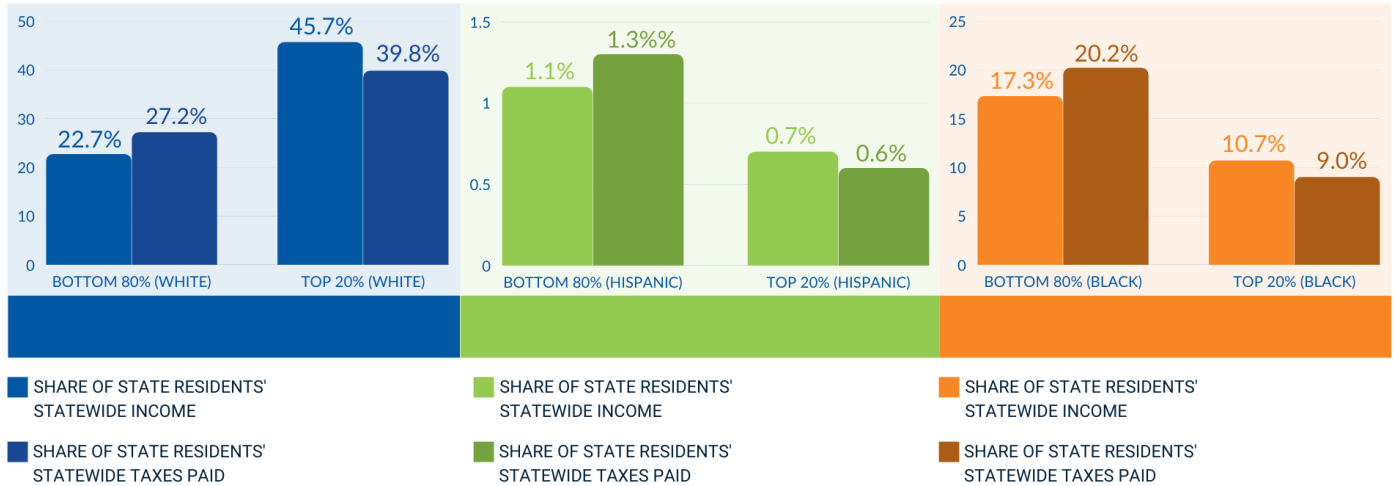
For example, during Mississippi's 1980 state constitutional convention, the state instituted the nation's oldest **supermajority requirement**—a law requiring a three-fifths majority vote in both houses of the legislature for all state tax increases. The purpose of this requirement was to disenfranchise the state's black voters, increase power amongst wealthy, white landowners, and make public spending for schools and other services for black people more difficult to secure.

In 1932, Mississippi implemented the nation's first modern retail **sales tax**. The tax helped reduce taxes for white property owners and increased taxes by black people who, with little property at the time, had few other items to tax. The tax also affected those with lower incomes because sales taxes generally take a larger portion of lower-income individuals' money. Because the sales tax proved effective in raising revenue for the state, other states also adopted sales taxes soon after Mississippi.

Source: Michael Leachman, Michael Mitchell, Nicholas Johnson, and Erica Williams, "Advancing Racial Equity With State Tax Policy," Center on Budget and Policy Priorities, November 15, 2018 available at <https://www.cbpp.org/sites/default/files/atoms/files/11-15-18sfp.pdf>.



SHARE OF STATE RESIDENTS INCOME IN COMPARISON TO THE SHARE OF TAXES PAID



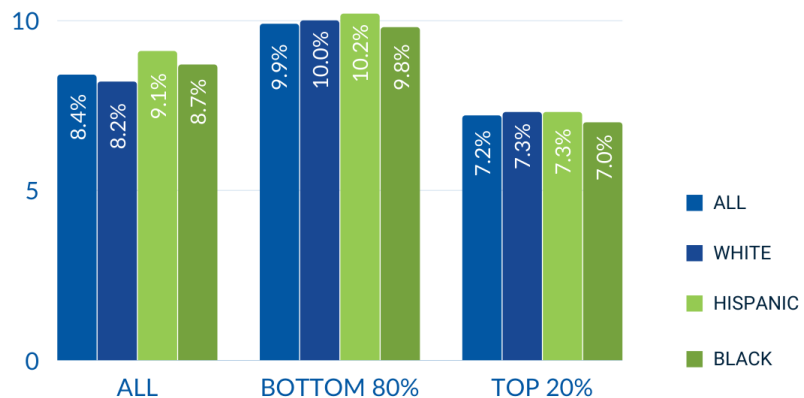
Source: Institute on Taxation and Economic Policy, January 2021

Because upper-income families contribute a smaller share of tax dollars than the share of income they receive, families of more modest means must contribute more.

DISTRIBUTION OF TAXES BY RACE IN MISSISSIPPI

Families of all races experience Mississippi's tax system differently depending on their level of income. But disparities in tax rates by income level add to the racial income divide. Black and Hispanic families face the highest effective tax rates in the state while also having among the lowest average incomes. Black households pay an average of 8.7% of their income in state and local tax while Hispanic families pay 9.1%. Those rates are significantly above the statewide average tax rate of 8.4% and the average rate paid by white households at 8.2%.

STATE AND LOCAL TAXES AS A SHARE OF FAMILY INCOME BY INCOME LEVEL AND RACE/ETHNICITY



EFFECTIVE TAX RATE: TOTAL STATE AND LOCAL TAXES

Source: Institute on Taxation and Economic Policy, January 2021

DIFFERENT TAXES AND VARYING IMPACTS BY RACE

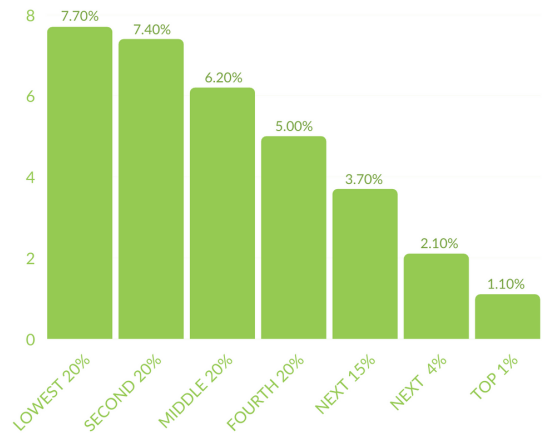
State and local governments rely generally on three types of taxes to fund public services: sales taxes, personal income taxes and property taxes. The type of tax and how states structure each tax have a distinct distributional impact by income, as well as race and ethnicity in Mississippi.

Sales and excise taxes, for example, are worsening disparities in income by race and ethnicity in Mississippi. Black households in Mississippi pay an average effective sales and excise rate that is 20% above average and 30% above the level faced by the average white household. Hispanic households pay average rates under these taxes that are 18% above average and 27% above the level face by white households.

Personal and corporate income taxes, by contrast, slightly narrow the income gap by race and ethnicity in Mississippi but the state's relatively flat personal income tax rate structure makes it impossible for that tax to address racial income disparities in a meaningful way. Because white families have higher average incomes, their average combined income tax payment, at 2.5% of income, is slightly higher than the rates paid by Black (2.0%) or Hispanic (2.1%) families.

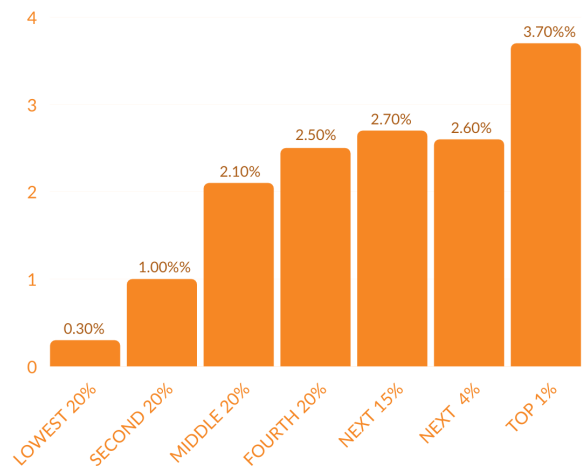
The effect of property taxes across race and ethnicity is a more complex topic. Overall, property taxes are a proportional tax. But vast differences in intergenerational wealth and a long history of racist housing policy have allowed white households to achieve homeownership rates far beyond those seen in most communities of color. Moreover, white households tend to own homes with significantly higher market values than those owned by people of color. Because white families hold significantly more property value than families of color, in some cases those white families also incur comparatively higher property tax bills. And homeowners of color can see their property tax bills pushed upward by assessment discrimination and housing segregation which tends to result in higher tax rates in lower-wealth areas.

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



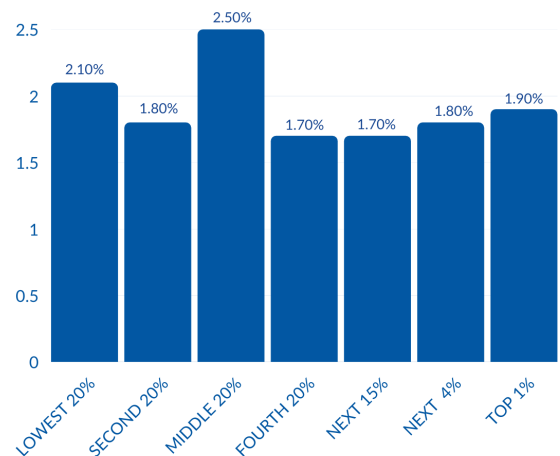
Source: Institute on Taxation and Economic Policy, January 2021

INCOME TAXES PAID AS A PERCENTAGE OF INCOME BY INCOME GROUPS



Source: Institute on Taxation and Economic Policy, January 2021

PROPERTY TAXES PAID AS A PERCENTAGE OF INCOME BY INCOME GROUPS



Source: Institute on Taxation and Economic Policy, January 2021

TAX POLICY RECOMMENDATIONS TO ADVANCE RACIAL EQUITY

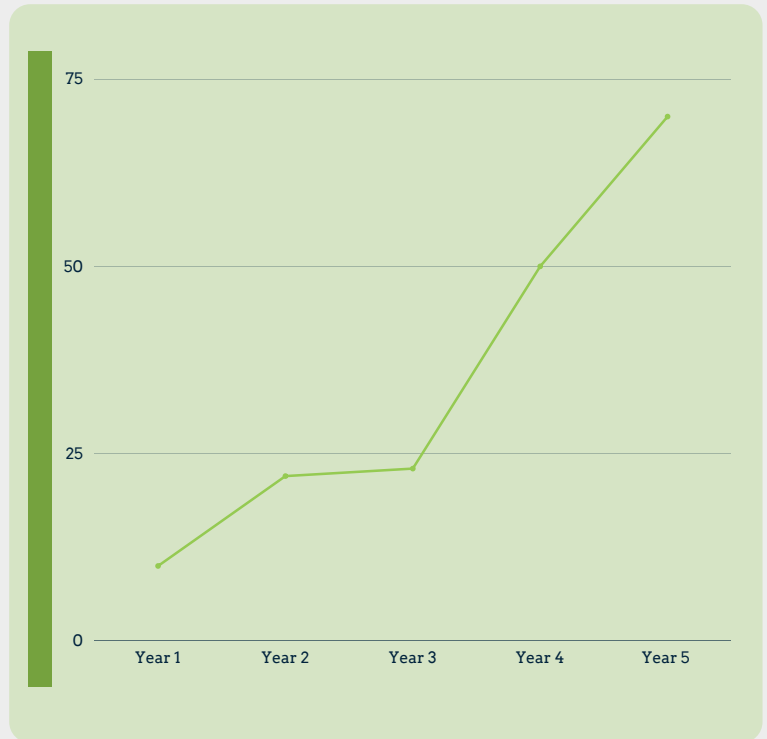
Addressing disparities in incomes by race and ethnicity in a meaningful way requires shifting towards a more progressive system with higher tax rates on affluent residents and comparatively less reliance on the tax dollars paid by lower-and-middle-income families.

To advance racial equity within the state's tax code, state lawmakers should:

- Implement a more graduated personal income tax rate structure.
- Eliminate retirement income tax exemptions for the wealthy.
- Reduce the state's reliance on sales taxes.
- Broaden the state's corporate income tax base.
- Restore an estate tax on high levels of wealth.

State lawmakers should also implement the following policies to lift up low-income families and enhance the racial equity of Mississippi's tax code:

- Provide refundable tax credits for workers, renters and families with children.
- Raise the minimum wage.
- Fully fund education.
- Expand Medicaid.
- Pass a state equal pay law .



METHODOLOGY

The Institute on Taxation and Economic Policy is the source for all data in this report. To learn more about ITEP's methodology to modeling taxes by race and ethnicity visit <https://itep.org/itep-tax-model/iteps-approach-to-modeling-taxes-by-race-and-ethnicity/>.



One Voice

FISCAL POLICY