FISCAL POLICY

BILL ANALYSIS: House Bill 531

Eliminating the State Individual Income Tax is Still Bad for Mississippi

HB 531 KEY TAKEWAYS:

- House Bill 531 is a proposal to eliminate the individual income tax. If enacted, the proposal would:
  - Eliminate the state individual income tax;
  - Increase the state's general sales tax rate to 8.5% from 7%;
  - Reduce the state's sales tax on groceries to 4% from 7%; and
  - A reduction in the tax on car tags by 50%.[1]

- The combined impact of HB 531 would increase the total amount of taxes paid to the state for Mississippians who make less than $19K annually and older adults on fixed incomes who do not currently pay income taxes. Meanwhile, nearly a third of the tax cut would go to the state's top 1%. Nearly half would go to the top 5%.[2]

- HB 531 would further shift the state's tax burden to lower-and middle-income families, thereby making Mississippi's tax system more regressive and widening income and racial wealth disparities in the state.

- The state's current revenue surplus is deceptive and fleeting. The surplus is not enough to support much-needed investments in the public services that Mississippians want, like quality schools, affordable healthcare, solid infrastructure, safe neighborhoods, and affordable housing — nor is it enough to support yet another tax cut that largely benefits the state's wealthiest.

- To the extent that state lawmakers want to reform the tax code, they should consider the following more equitable, revenue-raising tax policies:
  - Taxing wealth to ensure that the state's wealthiest individuals pay what they owe;
  - Strengthening, not eliminating, the state income tax;
  - Reinstating the corporate tax and estate tax;
  - Expanding the sales tax base to include internet businesses and travel companies; and
  - Implementing tax credits, including the creation of a refundable state earned income tax credit and child tax credit.

OVERVIEW

Mississippi's House of Representatives recently passed House Bill 531 ("the Mississippi Tax Freedom Act of 2022"). Key features of the bill include:

- The elimination of the state individual income tax;
- An increase in the state's general sales tax rate to 8.5% from 7%;
- A reduction in the state's sales tax on groceries to 4% from 7%; and
- A reduction in the tax on car tags by 50%.[3]

As a whole, this tax plan would harm lower- and middle-income earners—who are traditionally working families, people of color, women, retirees, and older people—and further exacerbates income, racial wealth inequities in the state. The final combined impact of HB 531's key proposals would save the state's wealthiest income earners, or those earning $485,000 and above, more than $30,000, on average.[4] A middle-class Mississippian, or someone earning between $31,000 and $52,000, would save approximately $565, on average.[5] The state's lowest-income earners, or those earning less than $19,000, would experience an overall increase in the amount of taxes paid to the state.[6]

Meanwhile, the tax cut would cost the state approximately $1.5 billion in revenue. Some lawmakers are suggesting that, due to a current surplus, Mississippi's revenue system is sound enough to support this tax cut. But this could not be further from the truth. The state's surplus is not enough to support much-needed investments in the public services that Mississippians want, like quality schools, affordable healthcare, solid infrastructure, safe neighborhoods, and affordable housing — nor is it enough to support yet another, long-term tax cut that largely benefits the state's wealthiest. Cutting taxes now would have a serious opportunity cost, reducing the state's ability to meet the needs of our communities and escalate long-term harm to our economy and working families.

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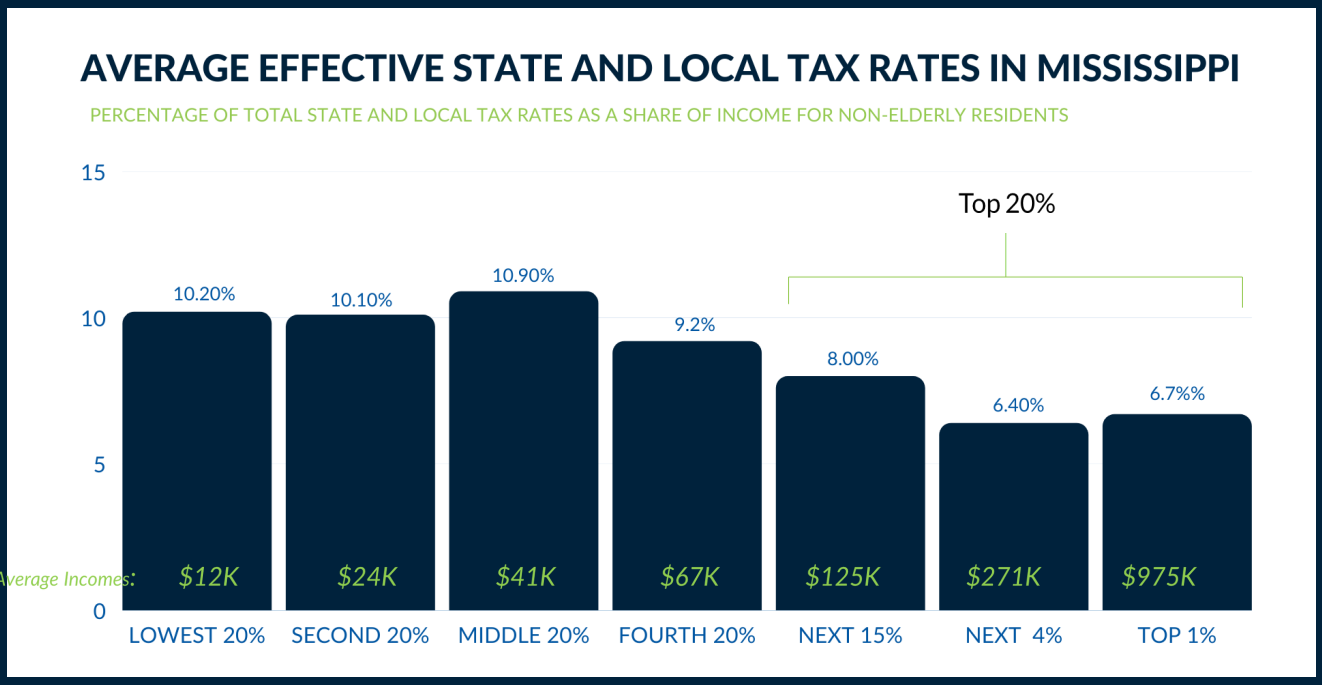
The following analysis details the harm of income tax elimination in Mississippi.

ELIMINATING THE INDIVIDUAL INCOME TAX WOULD STILL WORSEN INEQUALITY

Mississippi's tax system is largely regressive. Regressive tax systems, by definition, are tax systems in which lower- and middle-income earners pay a larger percentage of their income in taxes than do higher-income earners.



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.

On the other hand, the individual income tax is the only progressive element of the state's tax system. The tax is the only major tax (compared to the state's sales, excise, and property taxes) in which the state's wealthiest income earners pay more than other income groups.[7]

Because the state's higher-income earners currently pay more in individual income taxes than do other income groups, higher-income earners would benefit the most from the tax cut. According to data produced by the Institute on Taxation and Economic Policy ("ITEP"), the impact of individual income tax elimination would result in a tax cut for 72% of the state's top 20% of income earners, whereas only 28% of the state's bottom 80% of income earners would benefit from the tax cut.[8] In fact, 99% of the state's top 1% of income earners would benefit from the elimination of the individual income tax in Mississippi.[9] This represents a larger percentage of tax cut benefits than any other income group.

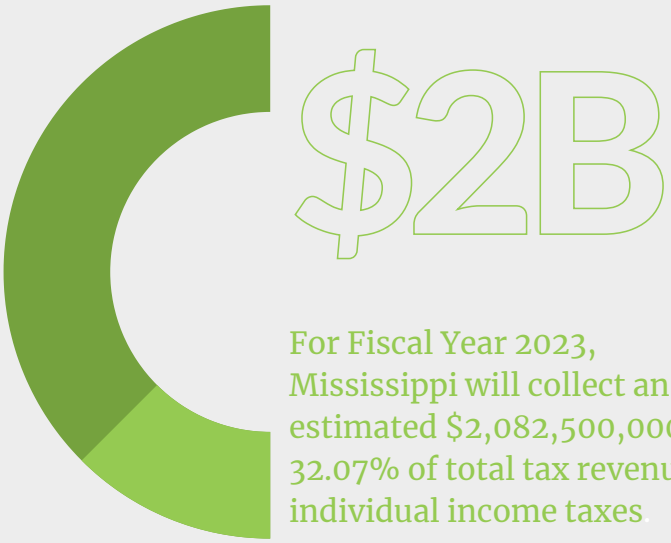
In contrast, only 68% of middle-income earners and 14% of the state's lowest-income earners would benefit from the tax cut.[10]

Similarly, the top 1% of income earners in the state would save an estimated $32,500, in taxes paid to the state.[11] A middle-income earner would save an estimated $930 in savings, in taxes paid to the state.[12] The state's lowest 20% of income earners would save an estimated $100 savings in taxes paid to the state.[13]

If Mississippi leaders eliminate the state income tax, they would be essentially gifting wealthy Mississippians new cars while barely helping low-wage earners cover a trip to the grocery store. Therefore, while eliminating the income tax would generally reduce the tax liability of Mississippians in every income, the impact of the tax cut overwhelmingly benefits the state's wealthiest—not the majority of hardworking Mississippians.

In addition to providing a tax cut to the state's wealthiest income earners, eliminating the individual income tax would further shift the state's tax burden to lower- and middle-income Mississippians. With HB 531, state lawmakers attempt to replace lost revenue from income tax elimination by increasing the state general sales tax rate to 8.5%. from 7%.[14] The bill also includes sales tax increases on public utilities, amusements, alcoholic beverages, digital products, and other items.[15] Unlike last year's tax proposal, HB 531 excludes the sales tax increases in last year's bill that were largely opposed by farmers, manufacturers, and other special interests.[16] This means that lower-and middle-income working families in the state will still be left to shoulder an even greater burden of replacing lost revenue from the tax cut with increased sales taxes on everyday items.

For good measure, HB 531 includes a reduction in the state's grocery tax from 7% to 4% and it includes a reduction in the tax on car tags. While these reductions are welcomed and would be particularly helpful for lower-and middle-income taxpayers, neither is enough to prevent the burden of funding state investments onto the backs of low-income taxpayers, people of color, older adults who currently pay no state income tax, and local communities.



ELIMINATING THE INDIVIDUAL INCOME TAX WOULD STILL HARM LOCAL COMMUNITIES

Individual income taxes are one of the main sources of funding for the state's education, healthcare, transportation, and criminal justice systems. For the Fiscal Year 2023, which began in July, the Legislative Budget Office estimates that Mississippi will collect $2,082,500,000, or 32.07% of total tax revenue, in individual income taxes.[17] This amounts to the second-highest tax revenue source for the state.[18]

Mississippi spends the majority of state revenue on educational activities, including funding for the Department of Education and Institutions of Higher Learning, and social welfare, including funding for the Department of Human Services and the Governor's Office Division of Medicaid.[19]

As such, revenue collected from the individual income tax represents over half of the state's public education and higher education budget and almost twice as much as the state's total social welfare General Fund budget.[20] Without revenue from individual income taxes, key funding for these and other state programs and services will be eliminated.

What's more is that HB 531 goes even further to jeopardize these and other services in local communities by making local tax systems more regressive and by limiting local government revenue. Similar to the state, local governments may have to increase local taxes to make up for lost revenue from HB 531's proposal to reduce the tax on car tags. Higher local taxes would likely offset any reduction in the tax on car tags and, again, be particularly harmful to lower-and middle-income earners. In addition, a revenue shortfall in the state's budget would hinder the state from offsetting lost revenue in local communities. The impact of local tax increases and an unsustainable promise by state lawmakers to reimburse local governments for lost revenue would be even more detrimental to communities, especially because local governments oversee the services that we all use and need.

In all, the overall costs associated with individual income tax elimination—costs to the state's schools, hospitals, and infrastructure—far outweigh its benefits to the state's wealthiest.

ELIMINATING THE STATE INDIVIDUAL INCOME TAX WOULD STILL HARM OUR ECONOMY

Mississippi lawmakers have approved over $577 million in over fifty-one tax cuts since 2012.[21] Recently, the state experienced multi-million-dollar tax cuts in 2012, 2014, and 2016.[22] Most of these cuts benefited the state's wealthiest individuals and corporations and some are still in the process of being enacted. Still, there is no evidence that the state's economy or communities have fared better than they did prior to the tax cuts.[23] The experience of states that have eliminated state income taxes signals that this tax cut would be no different.

Forty-one states, including Mississippi, and the District of Columbia have some form of individual income tax. Eight states (Alaska, Florida, Nevada, South Dakota, Texas, Washington, Wyoming, and Tennessee) do not levy individual income taxes in their states.[24] New Hampshire taxes investment income derived from interest and dividends, only, as opposed to personal income. [25]
However, claims that states without individual income taxes have stronger economies than states with individual income taxes is a misnomer.

A 2017 report from the Institute on Taxation and Economic Policy ("ITEP"), which compared the economic performances of states without individual income taxes to states with the highest top tax rates, concluded the following: states without individual income taxes experienced slower economic growth, slower-growing average income for residents, little to no improvement on the economic outcomes of residents despite population growth, and higher tax burdens on the poor than states with the highest tax rates.[26]

Even more, four of the five states that cut income taxes most sharply in the 2010s (Kansas, Maine, North Carolina, Ohio, and Wisconsin) saw slower growth in jobs and personal income than other states in the nation in the years that followed the tax cuts.[27]

Also, Mississippi isn't Florida, Texas, or even Tennessee. Unlike states that have eliminated individual income taxes, Mississippi has no comparable, existing revenue source to account for lost revenue from the tax cut.[28] For example, Florida and Nevada's economies benefit from their thriving tourism industries.[29] Alaska, Washington, and Wyoming's economies benefit from their states' natural resources, such as revenue from oil, gas, and mineral extractions.[30] South Dakota, on the other hand, relies more heavily on federal aid than other states since it generates less revenue per capita than most states due, in part, to the elimination of revenue from individual income taxes.[31] The state's reliance on a highly regressive tax policy like sales tax increases and its reliance on one-time federal stimulus funds will not be enough to sustain the tax cut and grow our economy now or in the years to come.

Mississippi should look to Kansas's experiment with individual income tax elimination to determine the potential impact of income tax elimination on the state.
In 2012, Kansas enacted legislation to eliminate their state individual income tax. Key highlights of Kansas's law included a phasing-out of the state's individual income taxes, an elimination of the top income tax bracket of 6.45%, an elimination of income taxes for 330,000 Kansas businesses, and an elimination or reduction in tax credits for low-income families.[32]

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As a result of the tax cut, the state increased its sales and property tax rates, lawmakers issued nine rounds of spending cuts, the state experienced three negative credit ratings, and by 2016, the state lost $700 million in revenue.[33] Moreover, key Kansas programs and services suffered. Teachers experienced a freeze on their pay, schools closed, libraries lost funding, aid to local governments decreased, and support for community-based corrections declined. [34] In 2017—five years after the largest tax cut in the state's history—Kansas lawmakers reversed many of the 2012 tax policies, including the restoration of the state's income tax.[35] However, the impact of eliminating the state's income tax on public services, especially the state's education system, harmed communities for years to come.

CONCLUSION

The income tax is the only tax in Mississippi that makes the wealthy pay a larger share than the poor. Getting rid of it would make our tax code less fair— while robbing our state of the resources it needs to fund our future. The fact of the matter is that Mississippi already has the highest poverty rate in the nation. Our K-12 public education system has only been fully funded twice since 1997. Many of our rural health centers are underfunded or closed. There are approximately 200,000 Mississippians that are uninsured because the state has not expanded Medicaid. We need to invest in infrastructure and ensure that our communities are safe for everyone. Instead of prioritizing a tax cut that benefits the few, state lawmakers should make transformative investments that fully support the services we have and create better opportunities for all Mississippians, regardless of color or class.

To the extent that state lawmakers want to reform the tax code, they should consider the following more equitable, revenue-raising tax policies. Effective revenue-raising tax policies include the following:

- Taxing wealth to ensure that the state's wealthiest individuals pay what they owe;
- Strengthening, not eliminating, the state income tax;
- Reinstating the corporate tax and estate tax;
- Expanding the sales tax base to include internet businesses and travel companies; and
- Implementing tax credits, including the creation of a refundable state earned income tax credit and child tax credit.

There are also related tax and budget policies that can help lift up Mississippi, including:

- Providing refundable tax credits for workers, renters, and families with children;
- Raising the minimum wage;
- Fully funding education;
- Expanding Medicaid;
- Eliminating fines & fees collections based on one's ability to pay; and
- Passing a state equal pay law.

[1] The Mississippi Tax Freedom Act of 2022, H.B. 531, 2022 Reg. Sess. (Miss. 2022). http://billstatus.ls.state.ms.us/2022/pdf/history/HB/HB0531.xml.
[2] Data produced by the Institute on Taxation and Economic Policy and provided to One Voice upon request, 1/11/22.
[3] H.B. 531.
[4] Data produced by the Institute on Taxation and Economic Policy and provided to One Voice upon request, 1/11/22.
[5] Id.
[6] Id.
[7] "Mississippi: Who Pays? 6th Edition." Institute on Taxation and Economic Policy, 17 Oct. 2018, https://itep.org/whopays/mississippi/.
[8] Data produced by the Institute on Taxation and Economic Policy and provided to One Voice upon request, 1/11/22.
[9] Id.
[10] Id.
[11] Id.
[12] Id.
[13] Id.
[14] H.B. 531.
[15] Id.
[16] Pender, Geoff. "Business leaders oppose Gunn's income tax elimination—sales tax increase." Mississippi Today, 26 Aug. 2021, https://mississippitoday.org/2021/08/26/business-leaders-oppose-mississippi-income-tax-elimination/.
[17] "State of Mississippi Budget Bulletin Fiscal Year 2023." Mississippi Legislative Budget Office, 4 Jan 2022, http://www.lbo.ms.gov/PublicReports/GetBudgetRequestDetailReport/0?report=Complete&fiscalYear=2023.
[18] Id.
[19] Id.
[20] Id.
[21] Ganucheau, Adam. "How much have tax cuts cost Mississippi? $577M since 2012." Mississippi Today, 2 May 2017, https://mississippitoday.org/2017/05/02/how-much-have-tax-cuts-cost-mississippi-577m-since-2012/.
[22] Id.
[23] Harrison, Bobby. "Not all statistics back up Reeves' bold claim about state economy." Mississippi Today, 28 July 2019, https://mississippitoday.org/2019/07/28/not-all-statistics-back-up-reeves-bold-claim-about-state-economy/.
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[27] Tharpe, Wesley. "Commentary: States Should Reject Baseless Claims for Tax Cuts." Mississippi Today, 18 Jan. 2022, https://www.cbpp.org/research/state-budget-and-tax/states-should-reject-baseless-claims-for-tax-cuts.
[28] Stebbins, Samuel and Michael B. Sauter. "Tourism, energy and other industries help offset lack of income taxes in these states." USA Today, 17 March 2020, https://www.usatoday.com/story/money/2020/03/17/taxes-2020-states-with-no-income-tax/111413466/.
[29] Id.
[30] Id.
[31] Id.
[32] "A Guide to Comprehensive Tax Reform in Kansas." Kansas Center for Economic Growth, Dec. 2016, http://realprosperityks.com/wp-content/uploads/2013/02/KCEG_booklet_FINAL.pdf.
[33] Id.
[34] "Tax Cuts Taking Toll on Kansas Communities." Kansas Center for Economic Growth, April 2015, http://realprosperityks.com/wp-content/uploads/2013/02/tax_cuts3.pdf.
[35] "Senate Bill 30: The Legislature Sets Kansas on the Road to Recovery." Kansas Center for Economic Growth, realprosperityks.com/wp-content/uploads/2017/06/KCEG_OnePager_SenateBill30.pdf.

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