TAX HEARINGS

Mississippi Tax Hearings 2024

One Voice

One Voice is an organization that was created to address the issues facing Mississippi's marginalized and vulnerable communities through effective policy analysis and a trained network of community leaders and non-partisan, community-based structures. Since its beginning, One Voice has leveraged its expertise in policy analysis and research, community and civic engagement, and leadership development to ensure an equal voice to traditionally silenced communities. We envision a Mississippi where we all THRIVE.

Mississippi's Regressive Tax System

The state's tax system plays an important role in the function of our government. The primary purpose of the tax code is to raise revenue, and taxes are a significant source of revenue for our state. Mississippi, like all states, needs to raise adequate revenue to fund our government and to pay for vital programs and services like the state's education, healthcare, transportation, and criminal justice systems. It should also want to raise enough revenue so that it can invest in the future of its communities and its people.

However, Mississippi's current tax system is regressive. According to the Institute on Taxation and Economic Policy's Tax Inequality Index, Mississippi's ranks 19th in most aggressive state and local tax systems in the country. Tax features that make Mississippi system regressive include:

- No refundable income tax credits to offset sales, excise, and property taxes
- No combined reporting as part of its corporate income tax
- All retirement income is exempted from the personal income tax
- No tax on estate or inheritances
- Personal income tax uses a flat rate
- Sales tax base includes groceries

As a result of our tax system, income disparities are larger in Mississippi after state and local taxes are collected than before. To put it another way, the state's top income earners pay a smaller share of all state and local taxes than their share of all income. Meanwhile, the bottom 80 percent of the state's income earners pay more.

In fact, in Mississippi, families earning less than $19,300 per year – who represent 20% of the population – paid 12.4% of their income in state taxes in 2023, according to ITEP. Those earning between $19,300 and $31,500 – also 20% of the population – paid 10.8% in state taxes. In contrast, the wealthiest, the top 1%, who earn more than $362,300, only paid 6.9%.

Continued Cuts to Mississippi's Income Tax System Only Exacerbate this Inequity

In 2022, state lawmakers passed House Bill 531, the "Mississippi Tax Freedom Act of 2022." When fully implemented, House Bill 531 will establish a 4% "flat tax" on incomes over $10,000 starting in 2026. According to ITEP, the impact of the bill will result in a $6,700 tax cut for the top 1% of Mississippians, or those earning $485,000, on average. In comparison, middle-income earners in the state would receive $240 in savings, on average. The state's lowest-income earners, or those earning $19,000, on average, would receive an average savings of $14—the cost of one adult movie ticket.

Less than 20% of all tax cut dollars will go towards families making less than $50,000. Also, the $25,500 tax cut the top 1% of Mississippians would get from eliminating the income tax is more money than over a third of Mississippi households make in a year.

Meanwhile, the tax cut would blow a hole in our state budget to the tune of approximately $535 million a year once fully phased in. This lost revenue would add to the more than 50 tax cuts totaling $577 million since 2012, according to Mississippi Today, that have mostly benefited Mississippi's wealthiest individuals and corporations.

The Impact of Income Tax Elimination or Continued Cuts to the Income Tax Will Hurt Mississippi

In all, the state's regressive tax system adversely affects its ability to raise revenue, contributes to the disinvestment of our local communities, and worsens existing inequalities amongst the state's residents. And these proposals combined with other fiscal policy decisions being considered in the state could only make matters worse.

For example, earlier this year, S&P Global Ratings lowered Mississippi's credit outlook from stable to negative as a result of our tax cut, slowing revenue growth, and debt held by the state's pension plan. Mississippi is currently the only state in the country with a negative outlook. Because these ratings determine the costs states pay to borrow for infrastructure needs, this negative rating could lead to higher borrowing costs, reduced infrastructure investments, strained public services, and economic uncertainty. To compare, it took Louisiana six years to raise its bond rating from bad to stable. The elimination of state revenue in the form of additional income tax cuts would have significant consequences on the state's economy and its communities.

In another example, Elementary and Secondary School Emergency Relief (ESSER) funds are set to end soon as states must commit the funds by September 2024. According to data from the Center on Budget and Policy Priorities (CBPP), Mississippi is one of several states that will feel the expiration of the ESSER funds most deeply. ESSER funds in Mississippi represent 17.16% of the state's education funding. These funds have been critical in helping to improve student outcomes, increase teacher salaries, and improve school infrastructure. This is especially true since 82% of the state's school districts have more than 20% of students living in poverty and 81% of students attending school in a district with more than 20% of students living in poverty.

The combination of the impending federal funding cliff for education, recent tax cuts, the threat of costly new school voucher programs that direct money away from public schools and toward private or home schools, inflation-driven cost increases, and an uncertain revenue outlook is likely to place additional pressure on state and local education budgets. This strain could reverse recent gains in the education system, such as increased teacher salaries and investments from the new school funding formula.

These are only a couple of examples of the potential fallout of more income tax cuts in Mississippi. And widespread tax cuts following the Great Recession of 2007-2009 already give us a glimpse into our future: These cuts will jeopardize funding for not only infrastructure and K-12 schools, but also other current public services like health care, economic development, community safety programs, emergency services, environmental protections, and childcare costs, just to name a few.

According to CBPP, some states are already feeling the effects of recent tax cut decisions.

Currently, Arizona is facing severe budget cuts due to the high costs of implementing a flat personal income tax and universal private school vouchers. These policies have created a nearly $1.6 billion deficit through fiscal year 2025, leading to significant financial strain on the state.

To address this deficit, nearly every state agency will need to cut its budget by 3.5 percent. This includes reductions in funding for colleges, universities, teacher recruitment programs, and adult education initiatives. Additionally, the state plans to cut funding for water system upgrades and delay road work and highway construction projects.

Kentucky Speaker of the House acknowledged in late May that their plan to eliminate the personal income tax is financially unsustainable. Tax cuts are already costing the state $1.3 billion annually—more than the entire budget for public colleges and universities. The wealthiest Kentuckians have reaped most of the benefits, with 65% of the cuts going to the richest 20%. Meanwhile, the expansion of the state sales tax has not come close to compensating for the lost revenue from the income tax cuts.

In Ohio, revenue is down by half a billion dollars and the Governor there said that a series of tax cuts are one of the factors behind lower-than-projected revenue collections in the state.

Mississippi Needs Higher Revenue to Help Create Better Communities, Better Opportunities, and a Better Mississippi for All

Instead of cutting more taxes for the wealthy, Mississippi should choose a different course: protect and raise adequate revenues to fulfill our current responsibilities—schools, hospitals, and roads—and take on new challenges to achieve a brighter future for all residents. There are other common-sense, effective tax policies that would raise revenue, help working families, and promote equity in Mississippi. They include:

- 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

In addition to raising state revenue, a more equitable tax and budget system that helps protect state finances for long-term economic growth and opportunity and that advances the shared priorities of all Mississippians is an achievable goal.

Reducing the grocery tax is an equitable tax policy

Mississippi imposes a 7% sales tax on groceries, the highest in the nation, and is one of only approximately eleven states that still tax groceries. Despite differences in income, everyone pays the same grocery tax rate, causing people with lower incomes and families of color to spend a larger proportion of their income on food compared to higher-income households. Eliminating the state food tax would reduce food insecurity and lower taxes for all income groups. A significant majority of Mississippians (68%) support reducing or eliminating the state's grocery tax. Lawmakers could have almost eliminated the grocery tax for less than half the cost of House Bill 531. Other viable policy options include cutting the tax in half or providing a grocery tax rebate.

Creating a state Earned Income Tax Credit Would Help Build a Better Mississippi for All

Currently, Washington, D.C., Guam, Puerto Rico, some municipalities, and thirty-one states, offer state Earned Income Tax Credits (EITC) to complement the federal EITC. According to the IRS, in 2022, approximately 23 million eligible workers and families nationwide claimed EITCs, totaling $57 billion in credits. In Mississippi alone, 319,000 families filed for federal EITC, receiving a combined $961 million, with an average credit amount of $3,010 per family. By implementing a state EITC, Mississippi can build on the federal program's success in keeping families working, helping families pay for basic needs, and improving the lives of children.

By implementing a state EITC, Mississippi can enhance the federal program's success in supporting working families, helping them cover basic needs, and improving children's lives. A state EITC set at 10% of the federal credit and made refundable would benefit nearly 400,000 households, providing an average of $288 to each working family. Additionally, a refundable Mississippi EITC would reduce state individual income taxes for many Mississippians earning up to $200,000 on average. The cost of implementing a refundable state EITC would be significantly lower than recent tax cut proposals, representing an investment of approximately $100 million.

Create a state Child Tax Credit to Expand Children's Opportunities

The Child Tax Credit (CTC) supports working families with children by reducing families' tax bills or increasing their refund checks up to $2,000 per eligible child. Currently, 11 states have a state CTC. Recently, a new report published by ITEP concluded that a well-designed Child Tax Credit could help hundreds of thousands of Mississippians and lift tens of thousands of children out of poverty. The report's key findings for Mississippi are as follows:

- A refundable state Child Tax Credit of $3,000 with a 20 percent credit boost for young children under six could cut Mississippi's child poverty rate in half and lift 59,000 kids out of poverty. This would benefit between 498,000 and 632,000 Mississippi children – or 75 and 95 percent of all kids, depending on the credit's design
- A smaller $1,400 refundable Child Tax Credit – with the same credit boost for young kids - could reduce the state child poverty rate by 25 percent and lift 29,000 kids out of poverty. This would benefit between 456,000 and 610,000 Mississippi children – or 69 and 92 percent of all kids, depending on the credit's design.
- The total cost of such a bold, robust state Child Tax Credit would be between $658.9M and $1.9B.

Across the country, CTCs vary, but a Mississippi Child Tax Credit could significantly expand children's opportunities if it were designed with the following features:

- Refundability
- Extended per child
- A bonus for young children
- Eligibility for all residents
- Indexing to prevent erosion over time
- Monthly advance payments

To note, a CTC designed to cut child poverty in half would cost the state $1 billion less than eliminating the income tax.

Conclusion

Yes, Mississippi needs bold, new tax and budget policies to improve the quality of life of all residents and strengthen its communities. But tax policy alone will not provide the economic advantages that we hope to see in Mississippi. And proposals that include the elimination of or further cuts to the state individual income tax will certainly hinder any meaningful progress we can make at this moment.

A more equitable tax and budget system requires balancing Mississippi's current regressive tax system with more equitable tax policies, as well as ensuring the wealthy pitch in commensurate with their incomes, just like working families. Instead of cutting the state income tax, state lawmakers should consider revenue-raising tax policies that protect the services we all want and need and help create a better future in Mississippi for all.

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ONE VISION
ONE VOICE

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