



MISSISSIPPI CENTER FOR
PUBLIC POLICY

AXE THE TAX

The case for abolishing the state income tax in Mississippi

Introduction

Mississippi has a graduated state income tax. The first \$2,000 of taxable income is not taxed at all. The next \$3,000 is taxed at 3 percent, the next \$5,000 at 4 percent, and anything over \$10,000 is taxed at 5 percent.

A Mississippi worker earning over \$10,000 will therefore be paying \$1 in state income tax out of every \$20 they earn over \$10,000.

The 2021 Tax Freedom plan

In the 2021 legislative session, a bill to abolish the state income tax, the Mississippi Tax Freedom Act (HB 1439), was passed by the House of Representatives. The House Speaker, Philip Gunn, was one of the chief architects behind the bill.

The bill aimed to abolish the state income tax by exempting any individual from paying income tax on earnings of up to \$47,700 (\$95,400 for a married couple). Initially, those earning above that amount would still be paying income tax.

The exemption rate would be increased each year, in line with increases in the state tax revenue, until the state income tax even on high earners was phased out entirely. The plan that the House considered envisaged this happening within a decade.

The Tax Freedom plan involved a tax swap. In order to make up the lost revenue for raising the income tax exemptions, the bill proposed:

- Increasing the sales tax on most goods to 9.5%, up from 7%.
- Increasing liquor sales tax to 9.5%, up from 7%
- Adjusting farm equipment sales tax: a 4% tax, including for equipment used for logging, up from 1.5%

- Sales taxes on cars, trucks, planes, and mobile homes would increase to 5.5%, up from 3%
- Sales taxes on manufacturing machinery would increase to 4%, up from 1.5%

However, as part of the tax swap package, the bill also included a reduction in the state's grocery tax:

- Food would be taxed at 4.5% through June 2024, down from 7% now
- Those taxes would be further reduced to 4% through June 2026
- After that, the grocery sales taxes would stand at 3.5%

Opposition to the 2021 bill

The bill failed to pass the Senate, and opposition to it came from several sources.

Firstly, there were those opposed to the tax increases that the bill envisaged through the tax swaps. Most notable was opposition from those that feared an increase in the sales tax. If the bill had passed and Mississippi's sales tax had risen from 7.0 percent to 9.5 percent¹, the state would have had one of the highest sales taxes of any state in America. There was also significant opposition from those that feared increases in taxes on farm equipment, cars and alcohol.

The second source of opposition came from those that favored income tax abolition, but preferred that it be done by using the current budget surplus and allocating increases in future tax revenue. The Governor, Tate Reeves, is most prominent in calling for income tax elimination via this more incremental route.

At the same time, there are a number of politicians on either side of the aisle that seem unconvinced about the need for income tax abolition. Several, including Lieutenant Governor Delbert Hosemann, have expressed concerns about the loss of state revenue.

In August this year, the legislature held hearings on income tax abolition. Both the Governor and the Speaker remain committed to income tax abolition.

In his budget recommendations, the Governor proposes exempting anyone paying 4 percent income tax by 2023, and committing revenue growth over 1.5 percent to future income tax elimination.

¹ <https://www.usnews.com/news/best-states/mississippi/articles/2021-02-23/mississippi-house-proposes-several-changes-to-state-taxes>

It is, therefore, likely that the issue of income tax abolition will feature prominently in the 2022 legislative session.

The purpose of this paper is to reiterate the key arguments in favor of abolishing the state income tax.

The case for income tax abolition

- **A tax break for families:** Abolishing the state income tax would boost the incomes of almost every Mississippi worker, meaning more money for their families.

According to the United States Census Bureau, the median household income in Mississippi is \$45,081.² Under Mississippi's current income tax structure, such a household would have approximately \$1,600 in state income taxes to pay.³ According to the Governor's executive budget recommendations, an individual with a taxable income of \$40,000 would be \$1,850 better off if income tax was eliminated.⁴

- **It's fair:** Abolishing income tax by raising the exemption rates would give a tax break to every Mississippi worker – and would assist those on a lower-income relatively more.
- **Shifting the tax burden from income to consumption:** An income tax is levied on people when they earn. Taxing people on consumption instead encourages saving and investment and makes the economy more efficient, while income taxation penalizes savers and rewards spenders.
- **Income tax = less income:** Ronald Regan once said that “if you want less of something, tax it.”⁵ This principle is understood by state policy makers when they routinely tax tobacco to discourage cigarette consumption. So why tax income and labor if doing so means less of both?
- **Making Mississippi more competitive:** Over the past thirty years, many states in the south have flourished economically. Mississippi, however, has done less well, losing population, and growing less rapidly. Abolishing the state income tax would make our state more competitive. Neither Florida, Tennessee, nor Texas has state income taxes, and all three have prospered.

² <https://www.census.gov/quickfacts/fact/table/MS/BZA115219>

³ <https://smartasset.com/taxes/mississippi-tax-calculator#ZWDHTyClzn>

⁴ https://mcusercontent.com/08cb3e52aa1308600f84d49ea/files/517d8eb6-5fc1-6649-e4aa-5a2798f36588/FY_2023_EBR_Final_Publish_2021.11.15.pdf

⁵ <https://www.quotetab.com/quote/by-ronald-reagan/if-you-want-more-of-something-subsidize-it-if-you-want-less-of-something-tax-i>

- **Good for growth:** People are better at spending their own money than the government. Leaving Mississippi workers to keep more of their own earnings to spend on their priorities, preferences and families, will make the Mississippi economy more efficient.

Private consumer spending usually increases economic activity. Higher government spending usually makes an economy less competitive. According to the Bureau of Economic Research, government spending usually has a dampening effect on consumer spending and investment, since government spending is usually tied to higher taxes that reduce the available funds of the private sector.⁶

- **Good for business:** While income tax is a tax on what people earn, it also has the effect of adding to the costs of employing people since companies have to offer higher wages to off-set what people lose from their pay package. Abolishing the state income tax would make Mississippi more business-friendly.
- **Good for entrepreneurs:** Mississippi has a long history of giving tax cuts to big businesses. According to a database maintained by Good Jobs First, big corporations in our state have received more than \$4.3 billion in publicly disclosed tax breaks, grants, and other subsidies from 2000 to 2018.⁷ Income tax abolition is a tax break that helps ordinary businesses – not just those that are well-connected in Jackson.
- **Mississippi can afford it:** Mississippi’s state budget has approximately a \$1 billion surplus in 2021. There is a record amount of money in state coffers, over and above spending commitments. Rather than waiting for politicians to figure out new ways to spend that surplus, we should be giving families a tax break by letting them keep more of their own earnings.
- **“But what would it mean for public services!”:** Some have suggested that abolishing the state income tax would cause a crisis in the provision of public service. Michael Leachman, vice president at the Center for Budget and Policy Priorities, claims that if we abolish the state income tax, “the state’s policymakers would face two unattractive options: sharply cut funding for schools” or raise taxes elsewhere. Lieutenant Governor Delbert Hosemann has been quoted claiming that removing income tax would “eliminate the ability of people to get educated.”

It is worth noting that Tennessee, Florida, and Texas, none of which have state income taxes, are able to provide public education. By many measures, they provide a better standard of public education than Mississippi manages. The notion that abolishing income tax incrementally would lead automatically cause a crisis in public service is ridiculous. If done incrementally, the tax can be eliminated, the books balanced, and essential public services maintained.

⁶ <https://www.nber.org/digest/jan00/how-government-spending-slows-growth>

⁷ https://subsidytracker.goodjobsfirst.org/prog.php?statesum=MS&order=sub_year&sort=desc

It is not a shortage of tax revenue that accounts for the failure to fund public education in our state properly. It is rather a failure to allocate what such revenues effectively. As the Mississippi Fat Cat report⁸ showed, money is there, but the education bureaucracy spends much of it on itself.

Improvement upon the 2021 proposal?

We believe that the 2021 proposal could be improved by:

- Keeping non-income tax rates the same and initially allocating Mississippi's current \$1 billion in excess revenues to cut down on income tax revenues
- Allocating 50 percent of all budget surpluses to replacing income tax revenues until the income tax has been completely eliminated
- Putting a cap on state general fund budget increases that prohibits increases above 1.5 percent annually

Such measures would accomplish a balance that did not raise non-income tax rates and sustainably maintains state revenues. These practical steps would also have the added benefit of ensuring that the state maintains a responsible budget while staying focused on a goal. In this way, the principles of fiscal responsibility and lower taxes would be accomplished at the same time.

Conclusion

Repealing the income tax is a moral and economic imperative for Mississippi. Repealing the income tax would lead to higher incomes, more state competitiveness, and increased prosperity for citizens across the state. By implementing a plan for repeal that does not increase other taxes, while proactively eliminating the income tax itself, the state will see real success. It's time to "Axe the Tax."

⁸ <https://mspolicy.org/wp-content/uploads/2021/08/Fat-Cat-Report-2021-Final.pdf>