



Eliminating the State Income Tax

Mississippi Center for Public Policy

Executive Summary

Mississippi stands at a crossroads. To compete with thriving, tax-free states like Florida, Tennessee, and Texas, Mississippi must eliminate its individual income tax—a burden that stifles ambition and hampers economic growth. By abolishing the income tax entirely, Mississippi can put more money in the pockets of its citizens, attract businesses and workers, and simplify its tax code.

Legislation would make Mississippi the first state since oil-rich Alaska to pass a bill to eliminate the income tax.

The income tax, which generates approximately \$2.1 billion annually (28% of the general fund), penalizes productivity and drives talent to neighboring states with no income tax. Eliminating it would boost consumer spending, support small businesses, and signal that Mississippi is open for opportunity.

To ensure fiscal stability, we propose offsetting revenue losses through modest adjustments, such as redirecting existing sales tax diversions and increasing user-based fees like gasoline taxes for infrastructure. By pairing income tax elimination with spending restraint and pro-growth policies, Mississippi can build a vibrant, competitive economy for the future.

Introduction: A Vision for a Prosperous Mississippi

Mississippi's economy has struggled to keep pace with its neighbors, hampered by lower per capita income and stagnant population growth. States without income taxes, such as Florida, Tennessee, and Texas, consistently outperform Mississippi in job creation, business investment, and population growth. The 2022 tax reform (House Bill 531), which delivered the largest tax cut in state history by flattening and reducing the income tax rate,

was a step in the right direction. However, Mississippi must go further to unlock its full potential.

The individual income tax is a relic of an outdated system that punishes hard work and innovation. By eliminating it entirely, Mississippi can empower its citizens, simplify compliance, and compete with the nation's most dynamic economies. This paper makes the case for abolishing the state income tax, outlining its benefits, addressing revenue concerns, and recommending a balanced approach to implementation.

The Case for Elimination

- **Economic Competitiveness**

Mississippi competes directly with states that impose no personal income tax. From 2010 to 2020, Florida's population grew by 14.6%, Tennessee's by 8.9%, and Texas's by 15.9%, while Mississippi's grew by just 0.2%. These states attract businesses and workers with low-tax environments that reward success. Eliminating the income tax would position Mississippi as a magnet for investment, signaling to entrepreneurs and corporations that the state is serious about growth. A tax-free Mississippi would stand out in the Southeast, drawing talent and capital from across the region.

- **More Money for Workers**

The income tax reduces take-home pay, limiting families' ability to save, spend, or invest. For an individual with a taxable income of \$40,000, the current 4.7% flat rate (set to drop to 4.4% in 2025 under HB 531) takes approximately \$1,880 annually. Eliminating the tax would give every working Mississippian a pay raise, boosting local economies as families spend on goods, services, or education. This direct relief would benefit workers across income levels, from teachers to tradespeople.

- **Support for Small Businesses and Entrepreneurs**

Many Mississippi businesses, especially sole proprietorships and pass-through entities, report income on personal tax returns. The income tax reduces their ability to reinvest in operations, hire employees, or expand. By eliminating it, Mississippi would free up capital for small businesses—the backbone of the state's economy—fostering innovation and job creation. Unlike targeted corporate tax breaks, this reform would benefit all entrepreneurs, leveling the playing field for startups and family-owned firms.

- **Building on Previous Reform**

The 2022 tax reform (HB 531) reduced the income tax rate and eliminated lower

brackets, leading to revenue growth of 5.4% annually, outpacing spending growth of 4.2%. This demonstrates that tax cuts can stimulate economic activity without destabilizing the budget. States like Tennessee and Texas, which rely on sales and property taxes, maintain robust public services without income taxes, proving that Mississippi can follow suit with prudent fiscal management.

A Plan for Elimination

To eliminate the income tax responsibly, Mississippi must adopt a balanced approach that preserves funding for essential services like education, healthcare, and infrastructure. We propose the following framework:

- **Complete Phase-Out:** Abolish the individual income tax entirely, starting with immediate rate reductions and progressing to zero over a defined period, contingent on revenue performance.
- **Revenue Offsets:** Redirect the 18.5% sales tax diversion currently allocated to municipalities (approximately \$600 million annually) to the general fund, as municipalities can rely on local property taxes. Additionally, increase the gasoline excise tax, currently 18.4 cents per gallon, by 8-10 cents to fund roads and bridges, aligning costs with usage.
- **Spending Restraint:** Cap annual spending growth at 3-4%, below recent revenue trends, to ensure budget stability. Streamline government programs to eliminate waste, prioritizing high-impact investments.
- **Sales Tax Relief:** Reduce the 7% sales tax on groceries by 1-2 percentage points to provide relief for low-income households, offsetting any regressive effects of income tax elimination.

This plan ensures that Mississippi can eliminate the income tax while maintaining fiscal responsibility and addressing equity concerns.

Ensuring Affordability

Opponents argue that eliminating the income tax would reduce state revenue by \$2.1 billion annually, threatening funding for schools, hospitals, and roads. While this concern warrants attention, several factors mitigate the risk:

- **Economic Growth:** Tax-free states like Florida and Texas show that lower taxes attract businesses and residents, expanding the tax base. Mississippi's revenue growth after the 2022 tax cuts suggests similar potential. Increased consumer spending and business investment would boost sales and property tax collections.

- **Revenue Alternatives:** Redirecting sales tax diversions and increasing user fees, such as the gasoline tax, would generate hundreds of millions annually. Further reforms, like reducing corporate subsidies, could close remaining gaps.
- **Fiscal Discipline:** By capping spending growth and streamlining programs, Mississippi can live within its means. States like Tennessee fund robust services without income taxes, relying on efficient budgeting.
- **Regressivity:** Critics, such as the Institute on Taxation and Economic Policy, argue that income tax elimination benefits high earners disproportionately. However, reducing the grocery sales tax and maintaining progressive spending on education and healthcare would ensure broad-based benefits. All Mississippians would gain from a stronger economy and more take-home pay.

Skeptics may also claim that Mississippi's economy is too weak to support such a reform. Yet, the success of the 2022 tax cuts and the state's recent revenue surpluses demonstrate that bold reforms can work. With careful planning, Mississippi can join the ranks of tax-free states without sacrificing stability.

Recommendations

To achieve income tax elimination, Mississippi policymakers should:

- **Pass Legislation for Full Elimination:** Enact a clear plan to phase out the income tax, with rate reductions tied to revenue growth to ensure fiscal prudence.
- **Implement Revenue Offsets:** Redirect sales tax diversions and increase the gasoline tax to fund infrastructure, maintaining public support for reform.
- **Reduce the Grocery Sales Tax:** Lower the 7% grocery tax to provide relief for low-income households, addressing regressivity concerns.
- **Enforce Spending Limits:** Cap annual spending growth at 3-4% and eliminate wasteful programs to preserve budget stability.

About the Mississippi Center for Public Policy

The Mississippi Center for Public Policy is an independent, nonprofit organization dedicated to promoting free markets, limited government, and individual liberty. Through research, advocacy, and education, we work to empower Mississippians and strengthen the state's economy.