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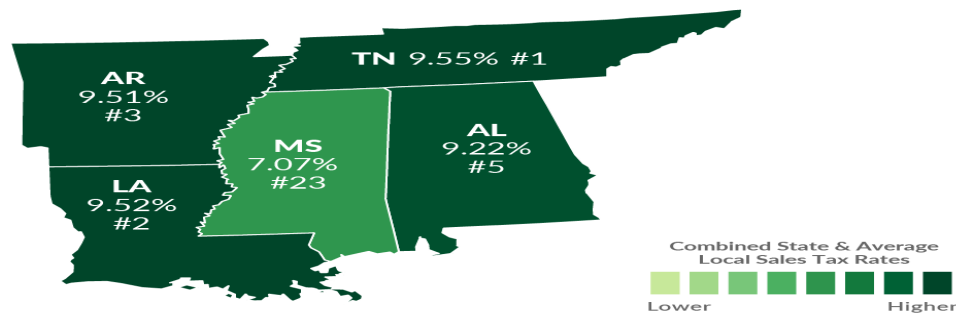
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## How does HB 1439 Impact the citizens of Mississippi?

### Mississippi has a Lower Combined Sales Tax Rate Than Its Neighbors

*Combined State & Average Local Sales Tax Rates and Rankings, January 2021*



Note: City, county, and municipal rates vary. These rates are weighted by population to compute an average local tax rate. National rankings shown. Sources: Sales Tax Clearinghouse; Tax Foundation calculations; State Revenue Department websites

TAX FOUNDATION

@TaxFoundation

Why does the governor want to eliminate the income tax for Mississippi? Governor Reeves is hoping to encourage more businesses to locate in Mississippi and attract new citizens. However, cutting income taxes hasn't boosted state economies in the past.

Research done on the impact of HB 1439 suggests that elimination of the income tax will have an adverse effect on those in the lower income brackets. As a matter of fact, eliminating the income tax will benefit those high-income earners more, making HB 1439 regressive in its impact on those in lower income brackets.<sup>1</sup>

Below is a review and evaluation of major points proposed by HB 1439 and its effect on consumers and businesses.

**Facts:** HB 1439 proposed MS income tax generates 27% of state tax revenue. Sales tax generates nearly 40%.

**Proposed:** HB 1439 seeks to raise general sales tax rate from 7% to 9.5%.

**Effect:** People in lower income tax brackets will pay more on goods and services.

**Proposed:** HB 1439 will reduce sales tax on groceries to 4.5% on July 1, 2021, to 4% on July 1, 2024 and to half its current rate (3.5 % starting July 1, 2026.)

<sup>1</sup> Wesley Tharpe, "Cutting State Income Taxes Counterproductive to Prosperity, Racial Justice," CBPP, January 14, 2021, <https://www.cbpp.org/research/state-budget-and-tax/cutting-state-income-taxes-counterproductive-to-prosperity-racial>

**Effect:** Presently, federal law excludes SNAP and WIC from sales tax. However, purchasing goods and services would be subject to a higher general sales tax.

**Proposed:** HB 1439 would raise sales tax on electric power associations' rate from 1% to 3.5%. Dairy producers, farm equipment, manufacturing, and certain sales to railroad operators will also feel the impact of an increase in the general sales tax.

**Effect:** These increased sales tax rates on businesses would be significant to those businesses forcing them to **raise** consumer prices or **reduce employee jobs** or wages in response. Additionally, Governor Reeves surmises that eliminating the income tax would encourage business growth. But, it could have the adverse effect on competitiveness<sup>2</sup>.

**Facts:** the per capita and medium household income for Mississippi is the lowest of each state that borders Mississippi. As per [www.census.gov/quickfacts](http://www.census.gov/quickfacts), the medium household income for MS is \$45,000 and \$24,369 respectively.

### 2019 data from [www.census.gov/Quickfacts](http://www.census.gov/Quickfacts)

State	Poverty Rate	Medium Household Income	Per Capita Income
Alabama	15.50%	\$50,536	\$27,928
Arkansas	16.20%	\$47,597	\$26,577
Louisiana	19.00%	\$49,469	\$27,923
<b>Mississippi</b>	<b>19.60%</b>	<b>\$45,081</b>	<b>\$24,369</b>
Tennessee	13.90%	\$53,320	\$29,859

**Proposed:** HB 1439 would increase the sales tax on cars, trucks, and other vehicles from 3% to 5.5%.

**Effect:** For people in Mississippi whose per capita income is the lowest compared to border states, increasing sales tax on the purchase of vehicles will negatively impact their ability to purchase. Lower income purchasers will pay more for a vehicle.

### Analysis:

According to the Tax Foundation, as of March 1, 2021, there are no public fiscal calculations of how much revenue will be generated from offsetting income tax with an increase in sales tax. Without this calculation, Mississippi legislators won't know the impact on the services depended on by the most marginalized communities. The sales tax falls on consumption. Without knowing the projected revenue collection, organizations attempting to assess the impact of eliminating the income tax are at a disadvantage.<sup>3</sup>

According to the Center on Budget and Policy Priorities, cutting state income taxes can worsen racial inequities by disproportionately benefiting taxpayers who are top wage earners, most of whom are white.

The individual households who didn't pay an income tax because she/he was exempt would not personally feel any real financial benefit from eliminating the income tax. When goods and services are taxed at a higher rate

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<sup>2</sup> Katherine Loughhead and Jared Walczak Evaluating Mississippi Plan to Phase Out the Individual Income Tax: Details & Evaluation, November 24, 2020. <https://taxfoundation.org/Mississippi-income-tax-phase-out/>.

<sup>3</sup> Wesley Tharpe and Michael Leachman, "Cutting State Income Taxes Counterproductive to Prosperity, Racial Justice, CBPP, January 14, 2021, <https://www.cbpp.org/research/state-budget-and-tax/cutting-state-income-taxes-counterproductive-to-prosperity-racial>

this can have a direct and real impact on an individual's household budget. For instance, a car purchase would realize higher sales tax.

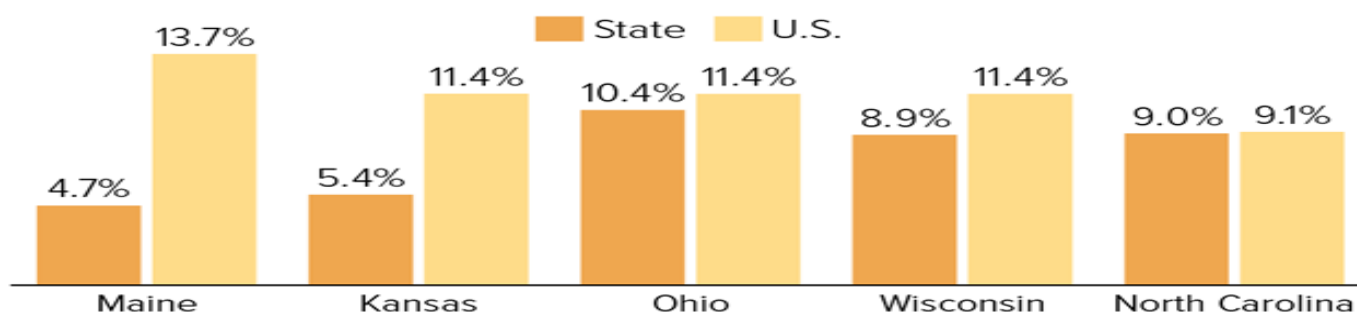
Comparison of Effects of Sales Taxes		
	Low-Income Family	High-Income Family
Income	\$15,000	\$150,000
Housing costs	7,200	48,000
Taxable purchases	7,800	36,000
Sales taxes @ 9%	702	3,240
Percentage of income spent on sales taxes	4.68%	2.16%

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Data studied and collected from 2013 to 2017 indicated that some of the biggest tax-cutting states didn't see economies take off. The nine states with the highest top marginal income tax rates over the last decade saw their economies grow slightly faster, on average, than the nine states without income taxes, for example.<sup>5</sup> The graph below demonstrates how five of those state's elimination of income tax affected the growth in economies.

## Biggest Tax-Cutting States Didn't See Economies Take Off

Growth in private state and national gross domestic product during period the tax cuts have been in effect



Note: Effective dates for tax cuts are Jan. 2012 for Maine, Jan. 2013 for Kansas, June 2013 for Ohio and Wisconsin (retroactive to Jan. 2013), and Jan. 2014 for North Carolina. In June 2017, Kansas restored some but not all of its tax cuts; the figures above for Kansas reflect the period between enactment and repeal of the majority of the January 2013 tax cuts.

Source: Chained, quarterly private GDP from Bureau of Economic Analysis, February 2018

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The most egregious decision the Mississippi state legislature is making, by rushing through HB 1439 without knowing the future prospective general sales revenue of 9.5%, significantly calls the question of the propriety of this move.

The Center of Budget and Policy Priorities recommends raising taxes on high-income earners rather than eliminating income tax, that could have a disproportionate outcome on social services, education and other services needed by the most marginalized and lower income earners.

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[https://www.google.com/search?xsrf=ALeKk03cTpnrZ2uNMCqe4Wr7jx4OkYJrRQ:1614925337669&source=univ&tbm=isch&q=images+of+regressive+taxes&sa=X&ved=2ahUKEwjRoNzYwZjvAhXfQjABHd33A5wQ7AI6BAgBEDw&biw=1366&bih=625#imgsrc=OKAxx\\_mqP-AmlM](https://www.google.com/search?xsrf=ALeKk03cTpnrZ2uNMCqe4Wr7jx4OkYJrRQ:1614925337669&source=univ&tbm=isch&q=images+of+regressive+taxes&sa=X&ved=2ahUKEwjRoNzYwZjvAhXfQjABHd33A5wQ7AI6BAgBEDw&biw=1366&bih=625#imgsrc=OKAxx_mqP-AmlM)

<sup>5</sup> Wesley Tharpe, "Cutting State Income Taxes Counterproductive to Prosperity, Racial Justice," CBPP, January 14, 2021, <https://www.cbpp.org/research/state-budget-and-tax/cutting-state-income-taxes-counterproductive-to-prosperity-racial>

**Conclusion:** Eliminating individual income tax shifts the tax burden to lower-and middle-income earners and it worsens inequities within the state. Given that Mississippi has one of the highest poverty rates and lowest per capita incomes, HB 1439 passage can have nothing other than a negative economic impact on lower income, and the most vulnerable families.