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Commentary: Mississippi Should Invest in Its People, Not Chase the False Promise of Tax “Competitiveness”

By Michael Mazerov

As it did in 2021, Mississippi is considering a deep cut in its personal income tax — a first step toward some policymakers’ goal of complete elimination — in a misguided attempt at boosting the state’s economy. Governor Tate Reeves and many state legislators are ignoring the dismal results in other states that have made similar cuts; a wealth of research showing that state tax levels and structures have little, if any, impact on income growth or job creation; and the state’s own chief economist, who has correctly cited the education and health status of Mississippi’s workforce as the most significant impediment to the state’s economic growth. A better approach for Mississippi would be to protect — and grow — its tax revenues to fuel stronger investment in schools, infrastructure, and vital services and amenities, and to prioritize improving its residents’ health by adopting the Affordable Care Act’s (ACA) Medicaid expansion.

Legislature Considering Damaging, Costly Tax Cut Proposals

Governor Reeves has ranked elimination of the personal income tax as his top legislative priority this year, offering improved state “competitiveness” as his main rationale.¹

The House recently approved a plan that eventually would eliminate the personal income tax with just two days’ consideration, no real debate, and no comprehensive analysis of its medium- or long-term impact on the state’s ability to finance its current level of services. The bill would immediately cut the income tax by \$1.1 billion annually via a large increase in personal exemptions, phase out the remaining personal income tax (the pace of which would be based on revenue-growth “triggers”), and partially offset the revenue loss through an increase in the sales tax rate from 7 percent to 8.5

¹ Governor Tate Reeves, 2022 State of the State Address, January 25, 2022, <https://us11.campaign-archive.com/?e=%5bUNIQID%5d&u=08cb3e52aa1308600f84d49ea&id=bea2fc2552>; Brent Addleman, “Mississippi Governor Seeks Income Tax Elimination, Legal Medical Marijuana with Caps,” *Sea Coast Echo*, January 3, 2022, https://www.seacoastecho.com/news/state/mississippi-governor-pushes-for-income-tax-elimination-medical-marijuana/article_3c12cf73-3a79-5598-b077-aac3e7044b01.html.

percent.² The bill would also phase down the sales tax on groceries from 7 percent to 4 percent and reduce the car tag tax that mostly goes to local governments.

On net, the House plan would cost almost \$1 billion in the first 1.5 years and close to \$700 million annually thereafter. And that doesn't even include the phase-out of the rest of the personal income tax and future reductions in the grocery tax.³ Reeves opposes any offsetting sales tax increase, which means adopting his approach would be even costlier.⁴

A more modest, yet still costly, tax cut plan that would eliminate the bottom tax bracket but leave the top bracket intact is also moving in the Senate.⁵

The personal income tax cuts in the House bill are sharply skewed toward the rich,⁶ while the sales tax increase will fall more heavily on low-income households — disproportionately people of color — taxing some deeper into poverty. Revenue losses of this size will also eventually deplete the state's reserves — though no one knows how quickly because neither the governor's nor the legislature's budget offices have projected the losses beyond the next two years. As a result, as other states that have also cut taxes deeply have experienced, the state will then begin requiring cuts in state services, aid to local schools, or both. If policymakers' true goal is to make the state more attractive as a place to raise a family, start a business, or expand corporate investment, prioritizing tax cuts is the wrong approach.

Mississippi Should Pursue Growth Through Targeted Investments

In hearings on state tax cut options last summer, a legislator asked State Economist Corey Miller “What would you say . . . is Mississippi's greatest impediment and/or need . . . for growth?”⁷ Miller replied:

I think it's absolutely human capital We typically think of that as education and training, and that is part of it. And Mississippi's percent of our population that are high school graduates, that is improved, but it's still a little below the national average.⁸ We're well below

² Mississippi Legislative Budget Office, “Fiscal Note for House Bill 531,” January 11, 2022, p. 6.

³ *Ibid.* The bill cuts the grocery tax from 7 percent to 5.5 percent immediately. The revenue losses from future reductions to 4.0 percent were not estimated in the fiscal note. The \$700 million annual cost cited also does not include the cost of a subsequent increase in the car tag credit from 35 percent to 50 percent included in the bill as enacted by the House.

⁴ Governor Tate Reeves, “FY23 Executive Budget Recommendation,” November 15, 2021, <https://governorreeves.ms.gov/wp-content/uploads/FY-2023-EBR-Final-Publish-2021.11.15.pdf#page=4>.

⁵ Geoff Pender, “Senate Unveils Income Tax Cut Plan, Signaling Battle Among Capitol Leaders,” *Mississippi Today*, February 1, 2022, <https://mississippitoday.org/2022/02/01/senate-unveils-income-tax-cut-plan-signaling-battle-among-capitol-leaders/>.

⁶ “Mississippi Deserves Better: Why Eliminating the State Income Tax Is Wrong for Mississippi,” One Voice, March 2021, <http://onevoicems.org/wp-content/uploads/2021/03/ITE-FACTSHEET-1-.pdf.pdf>.

⁷ Joint Tax Study Committee hearing, August 25, 2021, at 2:22:10, https://www.youtube.com/watch?v=iBAW3M_yH_c&t=8528s.

⁸ Mississippi ranks third from the bottom among states in the share of its population that has graduated high school. See rankings generated from U.S. Census Bureau American Community Survey data here: https://en.wikipedia.org/wiki/List_of_U.S._states_and_territories_by_educational_attainment.

the national average in terms of college graduates.⁹ And, also, human capital includes factors like health. Sick people can't work . . . or can't work as much.¹⁰ So that's a problem. You have a very high rate of disability. You have a high rate of obesity.¹¹ Diabetes and all sorts of other diseases.¹² I think that would be our biggest impediment to economic growth in the state.

Addressing these impediments to growth calls for greater state investment, *not* tax cuts. The state could ensure that more low-income adults get the medical care they need by expanding Medicaid under the ACA.¹³ It could also broaden Mississippians' access to nearby areas for physical activity by investing in the development of parks, running and walking paths, public pools, and other public facilities.¹⁴

Mississippi's schools also desperately need more investment. The state's teachers are paid the least of any state,¹⁵ and the Governor called for a salary increase in his State of the State address. However, in the same speech, the Governor touted the record number of Mississippi passing grades on high school Advanced Placement exams, while failing to note that the state still ranks lowest among all states on that measure.¹⁶ And while standardized reading test scores have improved for fourth graders, Mississippi continues to rank among the lowest states in eighth graders scoring

⁹ Mississippi ranks second from the bottom among states in the share of its population that has earned at least a bachelor's degree. See rankings generated from U.S. Census Bureau American Community Survey data here: https://en.wikipedia.org/wiki/List_of_U.S._states_and_territories_by_educational_attainment.

¹⁰ Mississippi ranks third from the bottom in the share of its adult population that is in the labor force. See "Fiscal 50: State Trends and Analysis," Pew Research Center, December 22, 2021 (Choose, "Latest rates" from menu), <https://www.pewtrusts.org/en/research-and-analysis/data-visualizations/2014/fiscal-50#ind3>.

¹¹ Mississippi has the highest rate of adult obesity among the states. See "Mississippi Summary 2021 – America's Health Rankings," United Health Foundation, https://www.americashealthrankings.org/explore/annual/measure/Overall_a/state/MS.

¹² Mississippi ranked 46th in the incidence of arthritis, 48th in the incidence of diabetes, and 49th in the incidence of high blood pressure. See "Mississippi Summary 2021 – America's Health Rankings," United Health Foundation, https://www.americashealthrankings.org/explore/annual/measure/Overall_a/state/MS.

¹³ Mississippi ranks seventh from the bottom among states in the share of the population that is covered by health insurance. See rankings derived from the Census Bureau's Current Population Survey 2020 data in "Health Insurance Coverage of the Total Population (CPS)," Kaiser Family Foundation, <https://www.kff.org/other/state-indicator/health-insurance-coverage-of-the-total-population-cps/?currentTimeframe=0&selectedDistributions=uninsured&sortModel=%7B%22colId%22:%22Uninsured%22,%22sort%22:%22desc%22%7D>.

¹⁴ Mississippi ranks at the bottom of all states in the share of the population with access to adequate locations for physical activity. University of Wisconsin Population Health Institute, "County Health Rankings & Roadmaps: Mississippi, 2021 State Level Data and Ranks," https://www.countyhealthrankings.org/sites/default/files/media/document/CHR2021_MS_0.pdf. Aggregate state data used to determine Mississippi's ranking available at https://www.countyhealthrankings.org/sites/default/files/media/document/analytic_data2021.csv.

¹⁵ "Rankings of the States 2020 and Estimates of School Statistics 2021," National Education Association, April 2021, https://www.nea.org/sites/default/files/2021-04/2021%20Rankings_and_Estimates_Report.pdf#page=24.

¹⁶ College Board, "AP Cohort Data Report – Graduating Class of 2020," April 2021, <https://reports.collegeboard.org/pdf/2020-ap-cohort-data-report.pdf#page=16>.

“proficient” or above in standardized reading and math exams.¹⁷ Moreover, some schools in Jackson have had to close because the city’s infrastructure is so dilapidated it can’t provide them with safe drinking water.¹⁸

State’s Tax System Already Competitive With Neighboring States

A 2014 survey of what entrepreneurs look for in deciding where to start a business reported that “31% of founders cited access to talent as a factor in their decision on where to launch their company. . . . A number of founders also highlighted the link between the ability to attract talented employees and a city’s quality of life. . . . Only 5% of entrepreneurs cited low tax rates as a factor in deciding where to launch their company.”¹⁹

In line with those findings, Mississippi policymakers should first consider the state’s education and health standings, and how attractive they make Mississippi to nascent entrepreneurs with families. Yet in calling for income tax repeal, Governor Reeves said, “The only way to make Mississippi a magnet for the entrepreneurs of our nation is to show them our unmatched culture — married to an unbeatable tax code.”²⁰

Even if interstate differences in tax levels and tax structures *did* meaningfully affect relative rates of economic growth and job creation — they don’t,²¹ as State Economist Miller himself noted²² — Mississippi’s tax structure is already in line with other states, or what Governor Reeves might consider “competitive.” The state’s top income tax rate is a modest 5.0 percent, lower than or equal to that of 28 other states.²³ The Governor and lawmakers repeatedly note that Texas, Florida, and Tennessee don’t levy personal income taxes, but Mississippi’s overall tax levels are comparable. Per-

¹⁷ The Nation’s Report Card, “State Achievement-Level Results – Grade 8,” <https://www.nationsreportcard.gov/reading/states/achievement/?grade=8>.

¹⁸ Julia James, “Jackson Water Crisis Again Impacts Schools,” *Mississippi Today*, January 27, 2022, <https://mississippitoday.org/2022/01/27/jackson-water-crisis-again-impacts-schools/>. See also Griff Witte, “Nobody Should Have to Live Like This’: Black Residents Hope Infrastructure Bill Will Fix City’s Water Woes – If State Allows It,” *Washington Post*, November 6, 2021, https://www.washingtonpost.com/national/a-mississippi-citys-water-system-is-collapsing-the-federal-infrastructure-bill-could-help-save-it-but-only-if-the-state-cooperates/2021/11/06/db291b16-3669-11ec-9a5d-93a89c74e76d_story.html.

¹⁹ Endeavor Insight, “What Do the Best Entrepreneurs Want in a City?” February 3, 2014, <https://issuu.com/endeavorglobal1/docs/what-do-the-best-entrepreneurs-want>.

²⁰ Reeves, 2022 State of the State Address.

²¹ Carl Davis, “Another Reason to Tax the Rich? States with High Top Tax Rates Doing as Well, if Not Better, than States Without Income Taxes,” Institute on Taxation and Economic Policy, September 23, 2020, <https://itep.org/another-reason-to-tax-the-rich-states-with-high-top-tax-rates-doing-as-well-if-not-better-than-states-without-income-taxes/>.

²² Corey Miller, “Comments before the Joint Tax Study Committee Hearing,” University Research Center, August 25, 2021, http://www.mississippi.edu/urc/downloads/taxstudycomments_210825.pdf#page=2.

²³ “2022 State Individual Income Taxes,” Federation of Tax Administrators, January 1, 2022, https://www.taxadmin.org/assets/docs/Research/Rates/ind_inc.pdf.

capita combined state and local taxes in Mississippi in 2019 were \$3,949, compared to \$3,422 for Tennessee, \$3,985 for Florida, and \$4,710 for Texas.²⁴

Mississippi's corporate tax structure is competitive with that of other states, too. A 2021 Tax Foundation study looked at the total effective state and local tax rate that would be imposed on eight types of business facilities newly located in each state (for example, a corporate headquarters or a data center). It found that the tax rate on new businesses would be lower in Mississippi than in Florida and Texas for all eight of the business types (in several case substantially lower), and lower than in Tennessee for six of the eight.²⁵

In proposing to repeal the income tax, the Governor and lawmakers are ignoring the lessons of the disastrous 2012-2017 Kansas tax cuts.²⁶ Kansas repealed its income tax on small businesses and sharply cut its income tax on wage and salary earners. (It partially offset the revenue loss with a sales tax increase, as the Mississippi House bill proposes.) The cuts caused a severe fiscal squeeze, forced substantial service reductions, nearly drained the state's financial reserves, and led to a downgrade in its bond rating. They did nothing for the state's economy; Kansas continued to underperform nearly all its neighbors in job creation, small business starts, and income growth. A Republican-controlled legislature repealed most of the tax cuts in 2017.

Repealing Mississippi's income tax is not a prescription for a healthier state economy and a better standard of living for the state's residents. If the state aims to be where people want to start families and businesses and where national corporations want to expand, it needs to prioritize investments over tax cuts. It needs to expand Medicaid; fix its capital city's crumbling water and sewer system; and invest in better education, public health, parks and recreational facilities, and roads and bridges. Those all require adequate revenue, which the state won't have if it eliminates its income tax.

²⁴ Tax Policy Center, "Rankings of State and Local Per Capita General Revenue," <https://www.taxpolicycenter.org/file/187773/download?token=diOKYBV4>.

²⁵ Jared Walczak *et al.*, "Location Matters 2021: The State Tax Costs of Doing Business," Tax Foundation, May 5, 2021, <https://taxfoundation.org/publications/location-matters/>.

²⁶ Michael Mazerov, "Kansas Provides Compelling Evidence of Failure of 'Supply-Side' Tax Cuts," Center on Budget and Policy Priorities, January 22, 2018, <https://www.cbpp.org/research/state-budget-and-tax/kansas-provides-compelling-evidence-of-failure-of-supply-side-tax>.