Fiscal and Economic Implications of Changes to the Sales Tax and Individual Income Tax in Mississippi

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Executive Summary

This report examines the characteristics of the sales tax and individual income tax in Mississippi, how these taxes compare to those of other states, and the potential fiscal and economic implications of changes to these taxes. The sales tax and the individual income tax are the two primary sources of general fund revenue in Mississippi as together they account for approximately two thirds of annual revenues. Both sources and their shares of total revenues are similar to the average across all states. Mississippi's average statewide sales tax rate is relatively high and has few exemptions compared to other states; nevertheless, the average rate is over a percentage point below those of surrounding states when local sales taxes are incorporated. While the overall sales tax burden is relatively high compared to those of other states, this burden is not dissimilar to those of surrounding states. The individual income tax in Mississippi is slightly progressive and the overall burden is relatively low compared to other states. This burden is comparable to those of surrounding states.

URC used Tax-PI, a dynamic fiscal and economic impact model, to simulate the phase out of the 4 and 5 percent individual income tax brackets as proposed by Governor Tate Reeves in his Fiscal Year 2022 Executive Budget Recommendation. URC's analysis finds that total revenues collected by the state will decrease each year from 2022 to 2035. Total revenues collected will decrease by about $1,745,000,000 in 2035 and each year afterwards, slightly more than the revenue collected from the 4 and 5 percent tax brackets in 2019. The results from the Tax-PI model determine that real GDP, real personal income, and population for Mississippi will all decline slightly each year from 2022 to 2035. The elimination of the 4 and 5 percent income tax brackets according to the Tax-PI analysis will result in in decrease of 11,735 jobs in 2035 and following years. Most of these jobs are found in local government; private sector employment decreases slightly. As personal income and employment decrease, the analysis finds that the population of Mississippi will decrease by 33,382 residents in 2035.

Finally, URC used the Tax-PI model to simulate the phase out of the 4 and 5 percent income tax brackets as proposed by Governor Reeves and a simultaneous phase in of a 3.75 percentage point increase in the state sales tax rate, an increase in the rate that would mostly offset the decrease in revenues collected from the elimination of the individual income tax. The total change in revenues collected in 2035 and following years is an increase of $48,000,000.

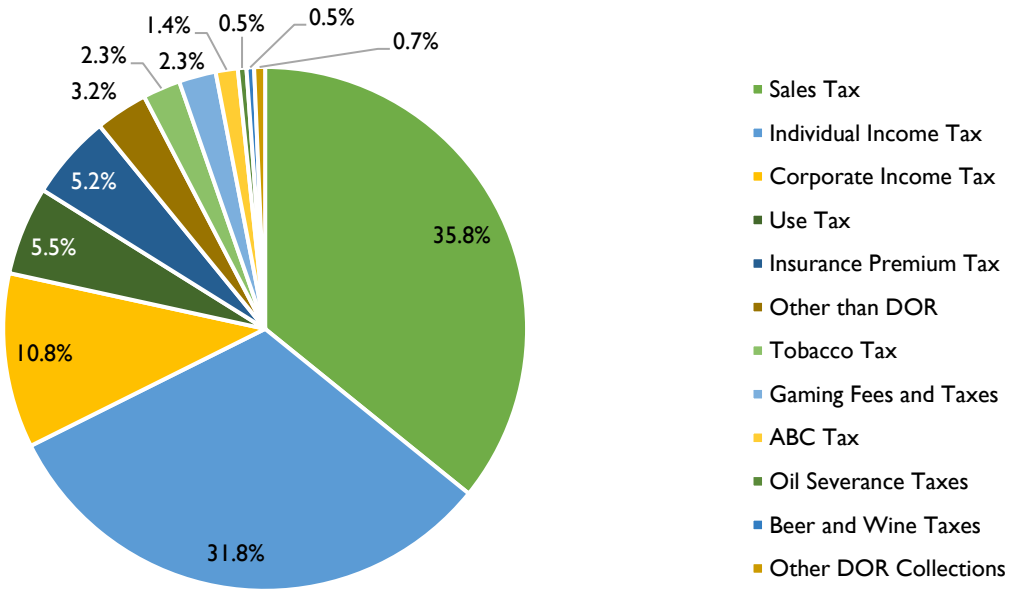
Similarly, URC finds the phase out of the 4 and 5 percent individual income tax brackets and a simultaneous phase in of a 3.75 percentage point increase in the state sales tax rate result in increases in real GDP, real personal income, nonfarm employment, and population each year from 2022 to 2035. Once the phase out of the 5 percent income tax bracket is completed, however, the total annual increase in each of the variables is relatively small.

Fiscal and Economic Implications of Changes to the Sales Tax and Individual Income Tax in Mississippi

The general fund revenue the state of Mississippi collects each fiscal year originates from a variety of sources, although the bulk of this revenue is generated from only a few items. Like many states, the two largest sources of revenue for Mississippi's general fund are the statewide sales tax and the individual income tax. This report discusses the characteristics of these two taxes, how the sales tax and individual income tax in Mississippi compare to other states, and the potential fiscal and economic implications of changes to these taxes.

Figure 1 depicts the share of general fund revenue for Mississippi by source for fiscal year 2019, which ended June 30, 2019. While 2020 is the most recently completed fiscal year for the state, 2019 is the most recent "typical" fiscal year in that it occurred prior to the 2020 pandemic and unlike 2020 included the usual tax filing deadline date of April 15. As Figure 1

Figure 1. Share of Mississippi general fund revenue by source, FY2019



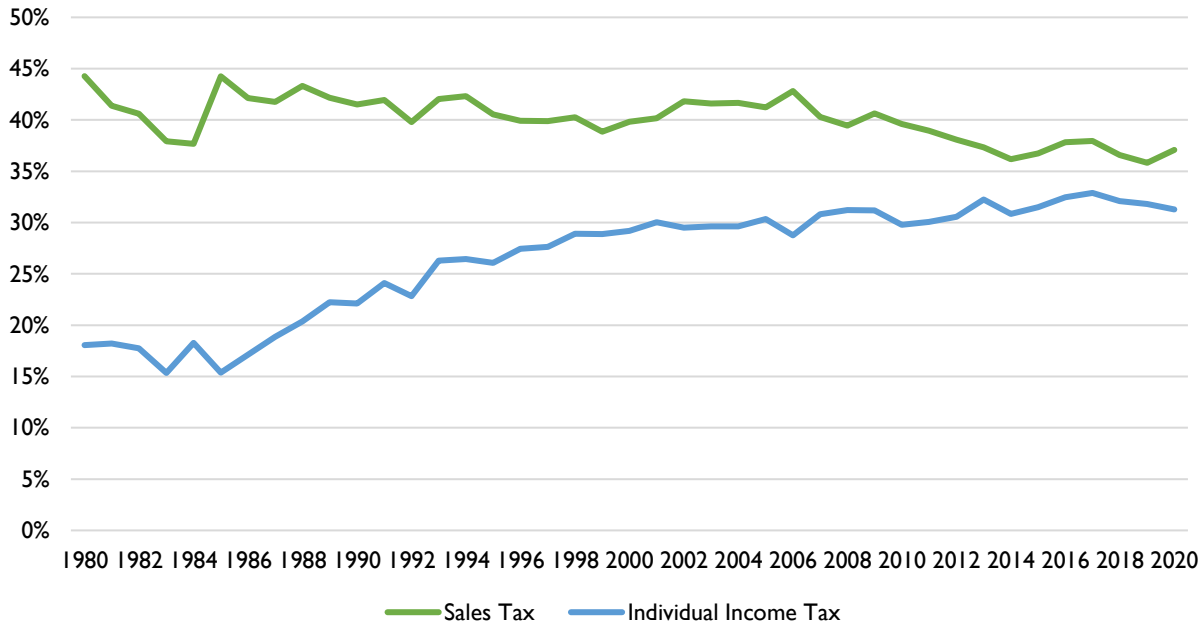
Source: Mississippi Department of Revenue.

indicates sales tax and the individual income tax were the largest sources of general fund revenue, together accounting for just over two thirds of total general fund revenues in fiscal year 2019 at 67.6 percent. The corporate income and franchise tax was the third-largest source at 10.8 percent and the shares of all other sources were well below 10.0 percent. The combined share of sales and income taxes was relatively stable for most of the last twenty-five years as the annual share of total revenues from the two taxes fell into a relatively narrow range of 67.0 percent to 71.8 percent from 1996 to 2020. While the combined share of these two revenue sources has changed relatively little since the mid-1990s, Figure 2 indicates the individual shares of sales and individual income tax revenues for the state have converged over time. The share of total general fund revenues from sales taxes declined from just under 45.0

percent in 1980 to below 40.0 percent by 2010. Conversely, individual income tax revenue climbed from less than a 20.0 percent share of total general fund revenue in 1980 to over 30.0 percent by 2010. Since 2013, the share of sales tax revenue has exceeded the share of individual income tax revenue by less than 6.0 percentage points.

The share of total revenues from sales taxes and individual income taxes in Mississippi appears comparable to those of other states. According to the U.S. Census Bureau (2018, 2019), for the four quarters equivalent to the state's 2019 fiscal year the average combined share of total revenues from sales taxes and individual income taxes across all states was 68.8 percent. The average share from sales taxes was 30.8 percent while the average share from individual income taxes was 38.0 percent. The modestly larger share of total revenues from sales taxes in Mississippi likely reflects the state's higher than average sales tax rate, as well as its general lack of exemptions.

Figure 2. Share of Mississippi general fund revenues by selected source



Source: Mississippi Department of Revenue.

Sales Tax

The current statewide sales tax rate in Mississippi is 7.00 percent, a rate unchanged for nearly thirty years. Some municipalities levy an additional sales tax within their jurisdictions up to a maximum of 1.00 percent. Local governments require approval from the legislature before they can impose an additional sales tax and to date only a select few municipalities have received this authority. As a result, the effective average statewide sales tax rate in Mississippi incorporating local sales tax rates is 7.07 percent according to the Tax Foundation, only slightly higher than the overall state rate (Cammenga 2021). As mentioned above a limited number of exemptions to the state sales tax are permitted (Mississippi Department of Revenue 2021a). These include agricultural products, such as retail sales of livestock, feed, seed, and food items produced in Mississippi and sold at farmers' markets. Sales to the federal government, state and municipal

governments, and public schools are exempt from state sales taxes. A number of industrial materials sold to manufacturers and wholesalers, such as raw materials, chemicals, machinery, and tools are exempt from the state sales tax. The other category of exemptions to sales tax is utilities, which includes electricity and gas sold for fuel to residential consumers as well as drinking water sold to consumers. Unlike in many states, food sold from grocery and food stores is not exempt from sales tax in Mississippi. In addition to the statewide sales tax rate, Mississippi levies an excise tax of $0.1879 per gallon on gasoline and an excise tax of $0.68 per pack on cigarettes. Mississippi also began to collect use taxes on internet purchases by residents from sellers outside the state in 2018 and as of 2020 the use tax is imposed on most online purchases. The use tax is assessed at 7.00 percent on such purchases and serves as a *de facto* sales tax on these items. However, while the use tax is expected to grow over time as online purchases increase, the amount that will be added to the state's general fund is limited because of provisions passed by the legislature that will phase in diversions to local governments up to a maximum of 35 percent.

Individual Income Tax

Mississippi's individual income tax currently consists of three brackets: a 3 percent rate, a 4 percent rate and a 5 percent rate (Mississippi Department of Revenue 2021b). The 3 percent rate, which is a tax on the first $5,000 of annual income, is in the process of being phased out. Tax year 2021 will be the last year any portion of the 3 percent bracket is levied; beginning with tax year 2022 the state will only collect revenue from the 4 percent and 5 percent income tax brackets. The 4 percent tax bracket is a tax on the second $5,000 of income earned, effectively annual income between $5,000 and $10,000. The 5 percent bracket applies to all income earned over $10,000. According to the Tax Foundation (2021) individual income tax collections per person in Mississippi were $614 in the 2017 fiscal year. Exemptions and deductions to Mississippi's individual income tax generally follow those of the federal tax code. The current individual exemption is $6,000 and the married filing jointly exemption is $12,000. The head of household exemption with at least one dependent is $8,000. Exemptions for dependents, taxpayers over sixty-five years old, or blind are all $1,500 each. The Mississippi individual income tax code allows taxpayers to claim the standard deduction or to itemize deductions. The standard deduction for a single taxpayer is $2,300 and the deduction for married filing jointly is $4,600. The head of household deduction is $3,400. The itemized deductions for Mississippi are the same as those for the federal income tax with the exception that Mississippi income taxes are not deductible (Mississippi Department of Revenue 2021b).

Comparing Mississippi's Sales Tax to Other States

Mississippi is one of forty-five states along with the District of Columbia that levy a statewide sales tax as of 2019. However, Alaska allows local governments to charge sales taxes, albeit at a relatively low rate, and Delaware charges a small gross receipts tax that effectively may be passed on to consumers. Thus, in only three states do consumers effectively pay no sales tax of any type. In thirty-eight states local governments also levy sales taxes. The Tax Foundation reports Mississippi's statewide sales tax rate of 7.00 percent is the second highest in the country, tied with Indiana, Rhode Island, and Tennessee (Cammenga 2021). However, when state and local sales taxes are combined, Mississippi's effective sales tax rate of 7.07 percent ranks twenty-second among all states. In its calculations of a combined rate, the Tax Foundation weights local rates by population to compute an average local rate. Notably, the four states that

border Mississippi have four of the highest effective combined sales tax rates among all states. Tennessee has the highest combined state and local sales tax rate in the country of 9.55 percent. The next highest combined rates are those for Arkansas and Louisiana, which are essentially the same at 9.53 percent and 9.52 percent, respectively. Not far behind is the combined rate of 9.22 percent in Alabama, which ranks fifth among all states. Alabama and Louisiana have the highest and second highest average local sales tax rates in the country of 5.22 percent and 5.07 percent, respectively, according to the Tax Foundation.

As mentioned above, the statewide sales tax rate in Mississippi of 7.0 percent is charged on purchases of food from grocery stores. As of 2020 the only other states that levy the full statewide sales tax rate on purchases of food are Alabama and South Dakota. The states of Hawaii, Idaho, Kansas, and Oklahoma charge the full sales tax rate but provide tax credits that partially offset the tax. Alabama imposes a 4.0 percent rate while South Dakota levies a rate of 4.5 percent. In terms of the other states that border Mississippi, Arkansas levies a reduced sales tax rate on food purchases of 0.125 percent. Louisiana exempts food purchases from its statewide sales tax but does allow local governments including parishes to levy sales taxes on food. Tennessee charges a reduced sales tax rate of 4.0 percent on food purchases.

The Tax Foundation (2021) reports state and local sales tax collections in Mississippi were $1,191 per person in 2019, which ranked tenth among all states. In terms of surrounding states, state and local sales tax collections in Alabama were $570, which ranked fortieth among all states. In Arkansas state and local sales tax collections per person were $1,161, which ranked thirteenth among all states. State and local sales tax collections per person in Louisiana were $927, which ranked twenty-seventh. Finally, in Tennessee state and local sales tax collections per person were $1,103, which ranked sixteenth among all states. Thus, Mississippi collects more sales tax revenues per person than each of the surrounding states according to the Tax Foundation, slightly more than Arkansas and Tennessee and considerably more than Alabama and Louisiana. While the above comparison of rates is instructive, each state has its own specific exemptions and provisions that complicate direct comparisons of sales tax structure. In order to provide a more straightforward comparison of sales taxes across states, some organizations have calculated measures of total sales tax burden for an individual in a particular state. The following paragraphs discuss how Mississippi compares in some of these measures.

In 2020 the personal finance web site WalletHub.com computed an overall measure of tax burden by state for the most recent tax year. This measure calculates the share of total personal income residents of a state pay in total sales and excise taxes. According to WalletHub's measure, Mississippi's sales tax burden is 4.63 percent, which ranks seventh among all states (McCann 2020). The second column of Table 1 lists these rates and rankings for Mississippi and surrounding states; while Mississippi's sales and excise tax burden is relatively high according to WalletHub, importantly it is not that dissimilar to those of surrounding states.

A 2019 study by the Idaho State Tax Commission using data from fiscal year 2017 ranked the taxes of states according to tax burden in proportion to personal income as well as population (Dornfest 2019). In this method a national average tax rate is computed and assessed on a given state's personal income and a national average amount per capita for a tax is assessed on a particular state's population. These measures are known as the tax capacity for

a given state. A state's actual tax is compared to these amounts to determine if it is overutilizing or underutilizing its tax capacity, which is a measure known as tax effort. The average actual sales tax in Mississippi as a share of personal income was 3.26 percent and ranked ninth among all states and the District of Columbia in fiscal year 2017. The third column of Table 1 lists these rates and ranks for Mississippi and surrounding states. The sales tax in Mississippi under the per capita basis ranked twenty-first with a tax effort of 98.6 percent; the fourth column of Table 1 lists these measures and rankings for Mississippi and surrounding states. The measures by the Idaho Tax Commission using total personal income rank the sales tax of Mississippi and surrounding states relatively high, in part because personal income in these states is relatively low. The rankings for Mississippi and surrounding states are similar when the per capita basis is used, except Alabama ranks somewhat lower.

Table 1. Sales tax burdens and ranks for Mississippi and surrounding states.

State	WalletHub sales and excise tax burden (rank)*	Idaho State Tax Commission average actual tax rate (rank)†	Idaho State Tax Commission per capita tax capacity index (rank)†
Alabama	4.05% (13)	2.60% (17)	86.9% (32)
Arkansas	4.93% (6)	3.75% (6)	126.4% (9)
Louisiana	5.65% (4)	4.28% (3)	154.8% (4)
Mississippi	4.63% (7)	3.26% (9)	98.6% (21)
Tennessee	4.18% (11)	3.12% (10)	116.5% (13)

Sources: WalletHub and Idaho State Tax Commission. * Tax year 2019. † Fiscal year 2017.

Comparing Mississippi's Income Tax to Other States

Mississippi is one of forty-three states and the District of Columbia that impose an individual income tax. Of these states, New Hampshire and Tennessee levy taxes on dividend and interest income. Tennessee is phasing out its income tax on interest and dividends and tax year 2020 will be the final year this tax is imposed. Mississippi is also one of thirty-two states with a graduated rate income tax structure, while the other nine states use a single-rate tax on all income.

As mentioned above, the top individual income tax rate in Mississippi is 5 percent, which applies to all annual income over $10,000. In Alabama, the top rate is also 5 percent which applies to all income above $3,000. The top tax rate in Arkansas is 6.6 percent, which applies to all annual income over $80,800. However, Arkansas also has separate tax brackets for incomes under $75,000 per year and $21,000 per year. In Louisiana, the top tax rate is 6.0 percent and applies to all annual income above $50,000. Tennessee, as previously noted, only taxes dividend and interest income and beginning with the 2021 tax year will impose no individual income tax. While the above comparison of rates is instructive, like the sales tax each state has its own specific exemptions and deductions that complicate direct comparisons of income tax structure. The burden measures discussed above for sales tax were also calculated for income tax for an individual in a particular state. These calculations account for differences in rate brackets, exemptions, and deductions. The following paragraphs discuss how Mississippi compares in some of these measures.

As with sales tax the personal finance web site WalletHub.com in 2020 computed an overall measure of tax burden by state for the most recent tax year. This measure calculates the share of total personal income residents of a state pay toward individual income tax. Under WalletHub's measure, Mississippi's individual income tax burden is 1.65 percent, which ranks thirty-sixth among all states. The second column of Table 2 lists these rates and rankings for Mississippi and surrounding states.

The Idaho State Tax commission used the same methodology discussed above for sales tax to rank states according to individual income tax burden. The individual income tax in Mississippi under this methodology ranked thirty-seventh among all states and the District of Columbia in fiscal year 2017 based on total personal income, with an average actual tax rate of 1.70 percent. In Table 2 the third column lists these rankings for Mississippi and surrounding states–the rates and rankings of the Idaho State Tax Commission are nearly identical to those of WalletHub in the second column. On a per capita basis in fiscal year 2017 the individual income tax in Mississippi ranked fortieth among all states and the District of Columbia, with a tax effort of 52.0 percent. These tax efforts and rankings for Mississippi and surrounding states are listed in the fourth column of Table 2.

Table 2. Individual income tax burdens and ranks for Mississippi and surrounding states.

State	WalletHub individual income tax burden (rank)*	Idaho State Tax Commission average actual tax rate (rank)†	Idaho State Tax Commission per capita tax capacity index (rank)†
Alabama	1.88% (34)	1.93% (35)	65.1% (37)
Arkansas	2.24% (27)	2.28% (28)	78.0% (32)
Louisiana	1.44% (39)	1.46% (40)	53.5% (39)
Mississippi	1.65% (36)	1.70% (37)	52.0% (40)
Tennessee	0.08% (42)	0.08% (44)	3.2% (44)

Sources: WalletHub and Idaho State Tax Commission. * Tax year 2019. † Fiscal year 2017.

Revenue Variability

One way to better understand the potential impacts to changes in the sales tax or individual income tax is to analyze the characteristics of these taxes. A measure known as an elasticity is the most common method economists use to compare how one economic variable responds to changes in another. The formative work of Groves and Kahn in 1952 established the income elasticity of tax revenue as the regression of aggregate income on the tax base, or on tax revenues. The coefficient on the aggregate income variable represents how revenues from the tax in question respond to a change in income. These measures are calculated for sales and individual income taxes in Mississippi using historical data.

A simple ordinary least squares regression is performed on the natural logarithms of Mississippi sales tax revenues and personal income for the years 1980 to 2020. This regression is statistically significant and the *t*-statistic of the coefficient on personal income is significant at the 5 percent level. The value of the coefficient on the personal income variable equals 0.88 and, because the equation took the form of natural logs, represents the income elasticity of

sales tax revenues in Mississippi. The value means a 1 percent change in personal income in the state results in a 0.88 percent change in sales tax revenues. Because the value is less than 1, sales tax revenues are therefore considered slightly income inelastic–a change in income results in a slightly smaller change in sales tax revenues. This value makes intuitive sense from an economic perspective in that when people experience an increase in income, most of it is spent but some portion is saved. Secondly, because the sales tax in Mississippi includes food, the value is expected to be relatively inelastic as the inclusion of food means sales tax revenues are less likely to be affected by a change in income.

When the regression is performed on personal income and individual income tax revenues, it is also statistically significant and the *t*-statistic of the coefficient on personal income is significant at the 5 percent level. The value of the coefficient on the personal income variable equals 1.32 and as with sales taxes, because the equation took the form of natural logs, represents the income elasticity of individual income tax revenues in Mississippi. The value means a 1 percent change in personal income results in a 1.32 percent change in individual income tax revenues. Unlike the income elasticity for sales tax revenues, because the value of the elasticity exceeds 1, individual income tax revenues are therefore income elastic–a change in income results in a larger change in individual income tax revenues. This elastic value makes intuitive sense from an economic perspective as well; the individual income tax is levied directly against income and thus is expected to vary more with changes in income than sales tax, particularly a sales tax with relatively few exemptions.

While the calculation of the above estimates is consistent with Groves and Kahn, Sobel and Holcombe (1996) argue that such estimates apply only to the long run relationship between a tax base or tax revenues and income. They maintain that these estimates do not capture the fluctuations of the tax bases to the business cycle. Therefore, two taxes could have the same income elasticity value over the long run but vary considerably in their responses to changes in income in the short run. Sobel and Holcombe propose modifying the ordinary least squares estimation by using the *change in* the value of the independent and dependent variables. These ordinary least squares estimates are also calculated for sales tax revenues and individual income tax revenues in Mississippi.

Like the previous estimates, a simple ordinary least squares regression is performed on the natural logarithms of the change in Mississippi sales tax revenues and personal income for the years 1981 to 2020, as one year of observations is lost in taking the differences. This regression is statistically significant and the *t*-statistic of the coefficient on personal income is significant at the 5 percent level. The value of the coefficient on the personal income variable equals 0.79 and is thus essentially the same as in the previous long run income elasticity estimate. As before, this estimate makes sense intuitively for revenues from a sales tax without an exemption for food, which this elasticity indicates will vary less than a change in income.

A simple ordinary least squares regression also is performed on the natural logarithms of the change in Mississippi individual income tax revenues and personal income for the years 1981 to 2020. This regression is also statistically significant and the *t*-statistic of the coefficient on personal income is significant at the 5 percent level. The value of the coefficient on the personal income variable equals 3.22 and is much more elastic compared to the previous long run income elasticity estimate. The value means a 1 percent change in personal income will

result in more than a 3 percent change in individual income tax revenues. The intuition behind this estimate is that because the individual income tax is directly levied on personal income, changes in the business cycle result in fluctuations in income that are reflected in personal income tax revenues. In contrast, changes in income over the long run result in fewer variations in individual income tax revenues compared to the short run. The elasticity estimates are summarized in Table 3 that follows.[1]

The elasticity estimates can generate several implications for revenues. Regarding sales tax revenues, the inelastic values of the income elasticities indicate sales taxes are a relatively reliable source of revenue for Mississippi, even during periods of economic downturn. While the lack of an exemption for food from grocery stores clearly makes the sales tax more regressive, it also improves the stability of sales tax revenues. At the same time, the relatively inelastic income elasticity value means sales tax revenues likely have a limited potential for growth compared to revenues from other taxes.

Table 3. Estimated income elasticities for sales tax and individual income revenues, Mississippi.

	Long run income elasticity	Short run income elasticity
Sales tax revenues	0.88	0.79
	(60.05)	(2.85)
Individual income tax revenues	1.32	3.22
	(55.11)	(3.85)

Sources: Mississippi Department of Revenue and U.S. Bureau of Economic Analysis. URC calculations. *t*-statistics in parentheses.

The relatively elastic values of the income elasticities for individual income tax revenues indicate they will fluctuate more than sales tax revenues, particularly in the short run. However, the difference between the long-run elasticities is relatively modest, which means over time variations in revenues from the two taxes will differ little. In the short run, individual income tax revenues are more subject to declines from downturns in the economy than sales tax revenues. Conversely, the growth potential of individual income tax revenues is considerably greater than sales tax revenues in the short run, but only moderately better over the long term.

These estimates appear consistent with an assessment of sales tax and individual income tax revenues in the state over time. Figure 3 depicts real or inflation-adjusted values of sales tax and individual income tax revenues in Mississippi over the last forty years, converted to 2012 dollars. Neither graph is adjusted for changes to tax rates. While both revenue sources generally experience the same ebbs and flows as the business cycle, individual income tax revenues clearly demonstrate a higher rate of growth and somewhat more variability relative to sales tax revenues. The average annual change in real sales tax revenues from 1980 to 2020 was an increase of 1.5 percent; the average annual change in real individual income tax revenues

[1] The estimates in Table 3 have not been corrected for any potential asymptotic bias. However, as Sobel and Holcombe (1996) note, their estimates differed little from those of previous studies that did not perform error correction. Thus, as the estimates in Table 3 are of an expected direction and magnitude, any bias that might be present likely would have little impact on the policy implications, as per Sobel and Holcombe.

over the same period was an increase of 5.9 percent. More recently, from 2008 to 2010, the height of the Great Recession, real sales tax revenues fell 9.7 percent. Over the same period individual income tax revenues fell 14.2 percent. Similarly, from 2011 to 2019 real sales tax revenues increased a total of 19.4 percent while individual income tax revenues increased a total of 37.3 percent, despite the partial phase out of the 3 percent tax bracket that occurred from 2017 to 2019.

Figure 3. Mississippi real general fund revenues by selected source

Sources: Mississippi Department of Revenue and U.S. Bureau of Labor Statistics. URC calculations.

Implications of Changes to Sales and Individual Income Taxes

Up to this point the paper has concentrated on the structure and characteristics of the sales tax and individual income tax in Mississippi and how these taxes compare to those of other states. The remainder of the paper is devoted to assessing the effects of potential changes to the structure of the sales tax and the individual income tax in Mississippi.

To conduct an evaluation of changes to the tax structure, URC uses a dynamic fiscal and economic impact model known as Tax-PI. This model includes elements of input-output and general equilibrium models, among others, and is an appropriate tool to assess the effects of a potential tax policy change as it provides results at a statewide level. Tax-PI, calibrated specifically to the economic and fiscal environment in Mississippi, is produced by Regional Economic Models, Inc. (2021), which claims Tax-PI "captures the direct, indirect, and induced fiscal and economic effects of taxation and other policy changes over multiple years." The *direct* effect is the change the user specifically enters into the model, while the *indirect* and *induced* effects are those forecast by the model that occur as a result of the direct effect. Tax-PI also provides results on an annual basis for a specified number of years into the future. Essentially the model will evaluate the economic and revenue effects from a policy change relative to a baseline scenario that assumes a continuation of current policies.

The change to the individual income tax analyzed is the proposal by Governor Tate Reeves in his Fiscal Year 2022 Executive Budget Recommendation. Governor Reeves' proposal–broadly defined as is the case with many proposals from the executive branch–is to (1) eliminate the 4 percent rate on taxable income over five years and (2) eliminate the 5 percent rate on all taxable income above $10,000 by 2030 (Reeves 2020). The only other stipulations to the proposal are the inclusion of unformulated revenue triggers that will allow Mississippi to "maintain enough funds to maintain the important functions of state government." With this general outline in mind, URC has chosen to represent the elimination of the 4 and 5 percent tax brackets in the Tax-PI model in a straightforward manner. In 2022 within the Tax-PI model expected individual income tax revenue from the 4 percent bracket is reduced by 20 percent.[2] Expected revenue from the individual income tax for 2023 is reduced by 20 percent, and this process continues within the model through 2026. In 2026 the 4 percent bracket is effectively eliminated, and no individual income tax is levied on the first $10,000 of taxable income. Similarly, the 5 percent tax bracket is eliminated within the Tax-PI model by reducing expected individual income tax revenue from the 5 percent bracket by 20 percent in 2027. This process of reducing income tax revenue from the 5 percent bracket by 20 percent continues each year through 2031. Therefore, beginning in fiscal year 2032 within the Tax-PI model the state of Mississippi no longer receives any individual income tax revenue. While the timetable for eliminating the 5 percent tax bracket differs slightly from Governor Reeves' proposal, the procedure outlined above allows for a uniform reduction in tax revenues.

URC obtained the total revenues the state received from each individual income tax bracket for tax year 2019 from the Mississippi Department of Revenue, which were payable in calendar year 2020. These revenues were used as the starting point for modeling the scenarios previously described within Tax-PI. In fiscal year 2019 Mississippi collected $176,445,101 in individual income tax revenue from the 4 percent bracket and $1,552,001,858 from the 5 percent bracket. Within the model from 2022 to 2031 a share of these values is assumed to be phased out and the value for each year from 2032 to 2035 represents the total amount of individual income tax revenue directly forgone by the state for that year.

The elimination of the individual income tax generates several direct effects simultaneously. First, as mentioned the state loses the revenue previously collected from the tax. This scenario assumes the state employs no alternative revenue sources. Therefore, state government must reduce spending to compensate for the loss of individual income tax revenue, discussed in more detail below. At the same time, individual income increases as the income tax is eliminated. The elimination of the 4 percent tax bracket generates a maximum of $200 more income per year per taxpayer. As the 5 percent tax is levied against all annual taxable income above $10,000, the maximum amount of additional income a taxpayer will receive from the elimination of the 5 percent bracket will depend on his or her total annual income. Stated differently, the elimination of the 5 percent bracket will result in an additional $500 of income per year for a taxpayer for every $10,000 in annual taxable income above $10,000. Thus, the elimination of the 4 and 5 percent tax brackets will provide a taxpayer with an annual taxable

[2] Reducing total revenue received from a particular bracket by 20 percent is equivalent to reducing the rate by 20 percent.

income of $20,000 with an additional $700 in income per year; a taxpayer with an annual taxable income of $40,000 will receive an additional $1,700 in income per year.

The direct effects described above in turn lead to several indirect effects. When taxpayers' income rises, they will spend most of the additional income on more goods and services. They will likely save a portion of this additional income as well. The increased spending on goods and services will lead to more jobs in the private sector. The additional spending also generates an increase in sales tax revenues and temporarily produces additional individual income tax revenues during the phase out period. These additional tax revenues partially offset the loss of individual income tax revenues during the phase out period. Table 4 depicts the change in revenues to the state by year from fiscal year 2022 to fiscal year 2035 from the elimination of the 4 and 5 percent tax brackets.

Table 4. Tax-PI model estimates of cumulative annual changes in revenues collected by Mississippi from elimination of 4 and 5 percent individual income tax brackets.

Year	Decrease due to income tax reduction*	Total change in revenue*
2022	-$18,000,000	-$17,000,000
2023	-$53,000,000	-$52,000,000
2024	-$88,000,000	-$87,000,000
2025	-$124,000,000	-$122,000,000
2026	-$159,000,000	-$157,000,000
2027	-$332,000,000	-$329,000,000
2028	-$642,000,000	-$636,000,000
2029	-$952,000,000	-$945,000,000
2030	-$1,262,000,000	-$1,254,000,000
2031	-$1,573,000,000	-$1,566,000,000
2032	-$1,728,000,000	-$1,726,000,000
2033	-$1,728,000,000	-$1,732,000,000
2034	-$1,728,000,000	-$1,738,000,000
2035	-$1,728,000,000	-$1,745,000,000

* 2012 dollars. Rounded totals. Source: Mississippi Department of Revenue. URC calculations.

The second column of Table 4 lists the decrease in individual income tax revenues collected by the state each year due to the phase out of the 4 and 5 percent brackets. In the first row, the decrease of $18,000,000 in fiscal year 2022 results from reducing expected revenue from the 4 percent bracket. Each fiscal year reflects a further reduction in expected revenue from the decrease in the 4 percent bracket; the reductions continue each fiscal year through 2026, which reflects the decrease in revenue from eliminating 100 percent of the 4 percent tax bracket. Years 2027 to 2031 reflect the same process for the 5 percent bracket and include the decrease from the elimination of the 4 percent bracket. Thus, the value in the second column of Table 4 for fiscal year 2032 is a decrease of $1,728,000,000, roughly the sum of the individual income tax revenues collected from the 4 and 5 percent tax brackets in fiscal year 2019 as discussed on page 12. This amount is therefore the total amount of revenue the state no longer directly receives from the individual income tax in 2031 and all subsequent years, including years after 2035 assuming no other tax changes.

The third column of Table 4 lists the *total* change in revenue each year from 2022 to 2035 due to the phase out of the 4 and 5 percent brackets and includes the indirect effects. Each year reflects a decrease in total revenues because, as noted previously, the decrease in revenues from the elimination of the 4 and 5 percent brackets is partially offset by increases in sales tax revenues and individual income tax revenues during the phase out period. During the phase out of the 4 percent bracket these effects are relatively small, no more than $2,000,000 in any year through 2026. These effects remain relatively small but positive from 2027 through 2032, as the total change in revenue is less than the direct change in revenue in each of these years. However, beginning in 2032 the total decrease in revenues is larger than the direct decrease in revenues. Some of the larger decrease is because the state no longer collects any additional individual income tax revenues once the 5 percent bracket is completely phased out in 2031. However, government continues to reduce the number of employees in the public sector because of the decrease in revenues. As discussed in the following paragraph, eventually the overall reduction in spending causes the private sector to no longer add jobs, which leads to total decreases in revenues that exceed the amount collected from the 4 and 5 percent brackets. The total change in revenues continues to decrease after 2035, assuming no other tax changes.

Within the context of the model as noted above, state government reduces spending because of the reduction in revenues from the elimination of the 4 and 5 percent tax brackets. Initially the state reduces its spending, which leads to a reduction in public sector jobs. Initially these decreases in public sector jobs are partially offset by the jobs that are added in the private sector due to the increase in private sector spending that results from the increase in individual taxpayer income. Over time the decrease in state spending on goods and services leads to the reduction of employment in the private sector. Table 5 below depicts the total change in employment from 2022 to 2035 that results from the elimination of the 4 and 5 percent tax brackets. The second column of Table 5 lists the annual change in state government

Table 5. Tax-PI model estimates of cumulative annual changes in employment in Mississippi from elimination of 4 and 5 percent individual income tax brackets.

Year	State government	Local government	Private non-farm	Total
2022	-72	-170	87	-156
2023	-142	-335	168	-310
2024	-211	-496	227	-479
2025	-278	-652	252	-678
2026	-343	-804	255	-892
2027	-908	-2,138	722	-2,324
2028	-1,465	-3,450	1,082	-3,833
2029	-2,010	-4,728	1,356	-5,382
2030	-2,541	-5,974	1,367	-7,149
2031	-3,064	-7,196	1,234	-9,026
2032	-3,062	-7,172	553	-9,682
2033	-3,055	-7,139	-224	-10,417
2034	-3,042	-7,096	-980	-11,118
2035	-3,024	-7,042	-1,669	-11,735

Note: Totals may not sum due to rounding.

employment from 2022 to 2035 and is negative each year. As with revenues in Table 4, each row lists the decrease in employment that results from the portion of the tax bracket phased out in that year. Initially the reduction in employment is relatively small but increases each year until a maximum is reached in 2031, the first year the 4 and 5 percent brackets are entirely eliminated. From 2032 to 2035 the decreases become slightly smaller as state government spending adjusts. The third column of Table 5 lists the annual change in local government employment from 2022 to 2035 and, like the change in state government employment, is negative each year. The decreases in local government employment follow the same pattern as those of state government, becoming larger each year until a maximum is reached in 2031, the year the 5 percent tax bracket is eliminated. The decreases also become slightly smaller each year from 2032 to 2035 as spending adjusts. The changes in employment in local government are more than twice as large as those of state government each year as much of the revenue received from the individual income tax is transferred from the state to local governments.[3]

The fourth column of Table 5 lists the total change in nonfarm private sector employment each year from 2022 to 2035. Because of the increase in disposable income taxpayers receive, their spending on goods and services increases, which leads to slight increases in private sector employment each year from 2022 to 2032. However, the total number of jobs added reaches a maximum in 2030 and declines each year thereafter and becomes negative in 2033. The reason for the decrease in employment in the last three years listed in Table 5 is the reduction in state government spending once the individual income tax is eliminated, which compounds the decrease in revenues depicted in the last years of Table 4. The last column of Table 5 lists the total change in employment across the public and private sectors from 2022 to 2035. Each year results in a decrease in employment. The changes in private sector employment each year, both positive and negative, are relatively small and do not change the overall decreases in employment in the public sector each year, most of which occur in local government.

The total change in nonfarm employment that occurs in 2035 from the elimination of the individual income tax as seen in Table 5 is a decrease of 11,735 jobs, or 1.0 percent of total nonfarm employment in the state in 2019. This decrease in employment occurs despite the fact the same amount of revenue removed from the public sector is added to the private sector. The reason is approximately 84 percent of all state government expenditures is devoted to labor costs, compared to only about 31 percent of all private sector spending (URC 2016). Therefore, a considerable decrease in overall employment occurs once individual income tax revenues are no longer sent to the public sector from the private sector. A much smaller share of consumer spending and business investment is dedicated to labor costs in the private sector compared to the expenditures of the public sector in Mississippi.

The final portion of the analysis of the implications of the elimination of the individual income tax investigates the effects on the overall Mississippi economy. Table 6 reports the results of the Tax-PI analysis of the changes in Mississippi real gross domestic product (GDP),

[3] According to employment data from the U.S. Bureau of Labor Statistics, in 2019 local government employees accounted for about 65 percent of government employment in Mississippi. Furthermore, in 2019 about 52 percent of local government employees worked in local government educational services, which consists mostly of employees at elementary and secondary educational institutions.

real personal income, and total population that occur each year from 2022 to 2035 during and following the phase out of the 4 and 5 percent brackets. The second column of Table 6 lists the changes in the state's real GDP each year. From 2022 to 2026 these changes are modest as the decrease in output in 2026 from the elimination of the 4 percent tax bracket is $46,000,000. By 2035 the total change in real GDP is a decrease of $709,000,000, which equals about 0.7 percent of real GDP for Mississippi in 2019. As in previous tables, real GDP will continue to decrease in years after 2035, assuming no other tax changes. Thus, the elimination of the individual income tax results in a relatively small decline in the state's real GDP. As indicated in the discussion of previous tables, state government spending is largely employment-centered, which produces a greater value of output than the private sector. Once the individual income tax revenue is transferred to the private sector, fewer people are hired and on average earn less than state government employees. For example, according to the Quarterly Census of Employment and Wages released by the U.S. Bureau of Labor Statistics (2020), in 2019 annual wages per employee across all industries in the private sector in Mississippi were $39,897, compared to annual wages per employee of $49,429 across all areas of state government. Furthermore, while most of this income is spent on goods and services in the private sector, some of this income is spent in other states and therefore "leaks" outside of the Mississippi economy. And as noted previously some portion of this income is saved by taxpayers. For these reasons, the total output for the state's economy is slightly less following the elimination of the individual income tax.

Table 6. Tax-PI model estimates of cumulative annual changes in real GDP, real personal income, and population of Mississippi from elimination of 4 and 5 percent individual income tax brackets.

Year	Real GDP*†	Real personal income*, †	Population
2022	-$8,000,000	-$10,000,000	-163
2023	-$15,000,000	-$22,000,000	-457
2024	-$24,000,000	-$37,000,000	-859
2025	-$34,000,000	-$56,000,000	-1,357
2026	-$46,000,000	-$78,000,000	-1,935
2027	-$118,000,000	-$190,000,000	-3,734
2028	-$194,000,000	-$331,000,000	-6,542
2029	-$276,000,000	-$492,000,000	-10,140
2030	-$375,000,000	-$695,000,000	-14,453
2031	-$484,000,000	-$925,000,000	-19,360
2032	-$536,000,000	-$1,075,000,000	-23,571
2033	-$597,000,000	-$1,229,000,000	-27,252
2034	-$655,000,000	-$1,381,000,000	-30,503
2035	-$709,000,000	-$1,530,000,000	-33,382

* 2012 dollars. †Rounded totals.

The third column of Table 6 lists the annual changes in real personal income from 2022 to 2035 that result from the elimination of the 4 and 5 percent income tax brackets. These changes follow a similar pattern to those of real GDP. Relatively small decreases in personal income occur from 2022 to 2026 as the 4 percent bracket is phased out. These declines

become larger as the 5 percent bracket is phased out, reaching a maximum of $1,530,000,000 in 2035. As with real GDP, assuming no other tax changes real personal income will continue to decrease in years after 2035. While the idea that a decline in personal income occurs following a decrease in the individual income tax may appear counterintuitive, personal income as measured by the U.S. Bureau of Economic Analysis consists largely of wages and salaries, supplements to these wages and salaries, transfer receipts, and dividend and interest income.[4] The decrease in employment by state government as well as the smaller annual wages received from private sector employment result in larger declines each year as the individual income tax is phased out.

The last column in Table 6 lists the estimated annual changes in the population of Mississippi from 2022 to 2035 that follow from the phase out of the 4 and 5 percent income tax brackets. As with previous variables discussed, the changes are negative each year and relatively small in the first years through about 2027. The total decrease in population becomes somewhat larger after 2028 and by 2035 the total reduction in population reaches 33,382 residents, about 1.1 percent of the population of Mississippi in 2019. The declines in population will continue in years after 2035, assuming no policy changes. The overall decrease in employment in the state, coupled with the corresponding decrease in personal income, are responsible for much of the loss of population following the elimination of the 4 and 5 percent brackets.

Finally, the last scenario analyzed by URC involves the elimination of the 4 and 5 percent individual income tax brackets as proposed by Governor Tate Reeves with a simultaneous increase in the statewide sales tax rate from 7 percent to a rate that results in an overall "revenue neutral" or nearly revenue neutral change. That is, the scenario increases the sales tax rate to a level where the decrease in revenues collected from the elimination of the individual income tax is just offset, or almost offset, by the increase in sales tax revenue. The analysis is conducted in the Tax-PI model as discussed previously and within the model the phase out of the 4 and 5 percent brackets occurs the same as described before. To determine the change in sales tax to enter in the model, the total amount of individual income tax collected in 2019 was used, which equaled $1,728,446,959. Within the model sales tax revenues were increased by one-tenth of this amount each year over the period from 2022 to 2031. This increase in revenues amounted to a roughly 0.375 percentage point increase in the sales tax rate each year from 2022 to 2031. Thus, within the model in 2031 and each subsequent year the effective statewide sales tax rate is 10.75 percent.[5] None of the current exemptions to the state sales tax rate are altered in this scenario. URC obtained from the Mississippi Department of Revenue

[4] An additional consequence of the elimination of the individual income tax in Mississippi is some taxpayers likely will face higher federal income tax payments. Those taxpayers who itemize their deductions will no longer be able to claim Mississippi individual income tax payments among those deductions. While these taxpayers may still claim Mississippi sales tax payments among their federal deductions, these payments likely will total less than their previous individual income tax payments. According to the Mississippi Department of Revenue, almost one third of state taxpayers itemized deductions in their 2019 returns.

[5] According to the Tax Foundation a sales tax rate of 10.75 percent would exceed the highest combined state and local sales tax rate among all states as of 2020, which is the 9.55 percent rate in Tennessee. Additionally, while a sales tax rate of 10.75 percent would render the elimination of the individual income tax essentially revenue neutral, the regressivity of the of the state sales tax rate would increase substantially compared to the current rate.

the total sales tax revenues the state received for tax year 2019, which equaled $3,201,632,640. This value served as the starting point for modeling the sales tax scenario within Tax-PI as described below.

Table 7 lists the change in revenues to the state by year from 2022 to 2035 from the elimination of the 4 and 5 percent tax brackets and the increase of the sales tax rate from 7 to 10.75 percent. The second column of Table 7 indicates the decrease in individual income tax revenues collected by the state each year and these values are identical to those of the second column of Table 4. The third column of Table 7 lists the total change in sales tax revenues due to an increase in the rate from 2022 to 2031; thus, as in Table 4 each row lists the change in revenues from the total sales tax rate increase phased in that year. The annual change in sales tax revenue is positive each year and continues to rise until the phase in of the rate increase is completed in 2031. The total increase in sales tax revenue reaches a maximum of $1,715,000,000 in 2032 and each year thereafter.

Table 7. Tax-PI model estimates of cumulative annual changes in revenues* collected by Mississippi from elimination of 4 and 5 percent individual income tax brackets and increase of sales tax rate to 10.75 percent.

Year	Decrease due to income tax reduction	Increase due to sales tax rate increase	Total direct change in revenue	Total change in revenue
2022	-$18,000,000	$86,000,000	$68,000,000	$70,000,000
2023	-$53,000,000	$257,000,000	$204,000,000	$210,000,000
2024	-$88,000,000	$429,000,000	$341,000,000	$350,000,000
2025	-$124,000,000	$600,000,000	$477,000,000	$490,000,000
2026	-$159,000,000	$772,000,000	$613,000,000	$631,000,000
2027	-$332,000,000	$943,000,000	$611,000,000	$637,000,000
2028	-$642,000,000	$1,115,000,000	$472,000,000	$507,000,000
2029	-$952,000,000	$1,286,000,000	$334,000,000	$377,000,000
2030	-$1,262,000,000	$1,458,000,000	$196,000,000	$247,000,000
2031	-$1,573,000,000	$1,629,000,000	$56,000,000	$115,000,000
2032	-$1,728,000,000	$1,715,000,000	-$13,000,000	$49,000,000
2033	-$1,728,000,000	$1,715,000,000	-$13,000,000	$49,000,000
2034	-$1,728,000,000	$1,715,000,000	-$13,000,000	$48,000,000
2035	-$1,728,000,000	$1,715,000,000	-$13,000,000	$48,000,000

* 2012 dollars. Rounded totals. Source: Mississippi Department of Revenue. URC calculations.

The fourth column of Table 7 lists the total annual change in revenues collected solely due to the tax changes; the values equal the sum of the second and third columns. The annual direct change in revenues is positive from 2022 through 2031. The change becomes negative in 2032 and reaches a maximum decrease of $13,000,000 in 2032 and each year thereafter once the tax changes are fully implemented. The fifth column of Table 7 lists the total annual change in state revenues as a result of the tax changes and captures the direct and indirect effects of the tax changes. The total annual change in revenues collected is positive each year from 2022 to 2035. In each year of this period the *total* change in revenue exceeds the total *direct* change in revenue by a relatively small amount.

The first portion of the 5 percent income tax bracket is eliminated in 2027, which is also the year the total change in revenue reaches a maximum. As more of the 5 percent income tax bracket is phased out through 2031, the change in revenues becomes smaller, offsetting more of the increase in the sales tax rate of 0.375 percentage point each year. Since the state is able to mostly maintain its expenditures–including those on employment–due to the increase in sales tax revenues, the positive indirect effects add slightly to the direct increase in revenues from 2022 to 2031. In contrast to the results in Table 4, these positive indirect effects added to the slightly negative direct change in revenues in 2032 and following years result in a small positive total change in revenues. As the last two columns of Table 7 indicate, in 2032 and in each following year–with or without the indirect effects–phasing out the individual income tax while simultaneously phasing in a 3.75 percentage point increase in the sales tax becomes essentially revenue neutral.

Table 8. Tax-PI model estimates of cumulative annual changes in real GDP, employment, and population of Mississippi from elimination of 4 and 5 percent individual income tax brackets and increase of sales tax rate to 10.75 percent.

Year	Real GDP*,†	Real personal income*,†	Total employment	Population
2022	33,000,000	41,000,000	666	667
2023	65,000,000	92,000,000	1,326	1,863
2024	100,000,000	153,000,000	2,038	3,489
2025	140,000,000	227,000,000	2,811	5,469
2026	187,000,000	315,000,000	3,673	7,760
2027	180,000,000	329,000,000	3,412	9,176
2028	175,000,000	336,000,000	3,170	9,878
2029	170,000,000	327,000,000	2,905	10,028
2030	152,000,000	306,000,000	2,459	9,659
2031	129,000,000	270,000,000	1,949	8,877
2032	128,000,000	267,000,000	1,915	8,247
2033	120,000,000	262,000,000	1,794	7,707
2034	109,000,000	255,000,000	1,642	7,223
2035	98,000,000	248,000,000	1,485	6,774

* 2012 dollars. †Rounded totals.

The effects on the overall Mississippi economy from the elimination of the individual income tax and increasing the sales tax rate to 10.75 percent follow a similar pattern to revenues as seen in Table 8. The second column of Table 8 lists the changes in the state's real GDP each year from 2022 to 2035. The changes are relatively small but positive each year and reach a maximum of $187,000,000 in 2026. Because the increase in sales tax revenues exceeds the decrease in income tax revenues from fiscal year 2022 to fiscal year 2026, state government can marginally increase its expenditures each year on goods and services and, most significantly, employment, which leads to the growth in real GDP. However, the increase in real GDP becomes smaller each year from fiscal year 2027 to fiscal year 2035 as the 5 percent income tax bracket is phased out, but remains positive due to the increase in sales tax revenues.

The annual change in real personal income, listed in the third column of Table 8, follows a similar pattern. The changes in real personal income are positive each year from 2022 to 2035

and reach a maximum increase of $336,000,000 in 2028. The annual change in real personal income is smaller each year from 2029 to 2035. The fourth column of Table 8 lists the annual change in total employment in the state from 2022 to 2035 following the tax changes. The state observes a small increase in jobs each year that reaches a maximum of 3,673 jobs in 2026. From 2027 through 2035 the increase in employment is smaller each year and the increase in employment in 2035 is 1,485 jobs. The total change in the state's population from 2022 to 2035 from the tax changes is listed in the fifth column of Table 8. The population of Mississippi increases marginally each year from 2022 to 2035 and reaches a maximum increase of 10,028 people in 2029. By 2035 the total increase in population is 6,774 people. In summary, within the Tax-PI model real GDP, real personal income, employment, and population for the state all experience slight increases from 2022 to 2035 when modeling the phase out of the 4 and 5 percent individual income tax brackets and the phase in of a 3.75 percentage point increase in the state sales tax rate. Thus, for the period the essentially revenue neutral combined changes in income taxes and sales taxes result in relatively small total impacts on each of these variables.

Summary and Conclusions

This paper has examined the characteristics of the sales tax and individual income tax in Mississippi, how these taxes compare to those of other states, and the potential fiscal and economic implications of changes to these taxes. The sales tax and the individual income tax are the two primary sources of general fund revenue in Mississippi as together they account for approximately two thirds of annual revenues. Both sources and their shares of total revenues are similar to the average across all states. Mississippi's average statewide sales tax rate is relatively high and has few exemptions compared to other states; nevertheless, the average rate is over a percentage point below those of surrounding states when local sales taxes are incorporated. While the overall sales tax burden is high compared to those of other states, this burden is not dissimilar to those of surrounding states. The individual income tax in Mississippi is slightly progressive and its overall burden is relatively low compared to other states. This burden is comparable to those of surrounding states and ranks only modestly higher than that of Tennessee, which only taxes dividend and interest income and is phasing out this tax.

URC used Tax-PI, a dynamic fiscal and economic impact model produced by Regional Economic Models, Inc., to simulate the phase out of the 4 and 5 percent individual income tax brackets as proposed by Governor Tate Reeves in his Fiscal Year 2022 Executive Budget Recommendation. URC's analysis finds that total revenues collected by the state will decrease each year from 2022 to 2035. Total revenues collected will decrease by about $1,745,000,000 in 2035 and each year afterwards, slightly more than the revenue collected from the 4 and 5 percent tax brackets in 2019. The results from the Tax-PI model determine that real GDP, real personal income, and population for Mississippi will all decline slightly each year from 2022 to 2035. Real GDP will contract by a total of $709,000,000 in 2035, or about 0.7 percent of the value of real GDP in 2019. Real personal income will decrease by $1,530,000,000 in 2035, or about 1.2 percent of real personal income in Mississippi in 2019. The elimination of the 4 and 5 percent income tax brackets according to the Tax-PI analysis will result in in decrease of 11,735 jobs in 2035, about 1.0 percent of total nonfarm employment in the state in 2019. Most of these jobs are found in local government; private sector employment decreases slightly. As personal income and employment decrease, the analysis finds that the population of Mississippi

will decrease by a total of 33,382 residents in 2035, about 1.1 percent of the state's population in 2019.

Finally, URC used the Tax-PI model to simulate the phase out of the 4 and 5 percent income tax brackets as proposed by Governor Reeves and a simultaneous phase in of a 3.75 percentage point increase in the state sales tax rate. This increase in the sales tax rate would mostly offset the decrease in revenues collected from the elimination of the individual income tax; i.e., the increase is essentially revenue neutral. The total change in revenue each year exceeds the direct change in revenue from 2022 to 2035; the increase in sales tax revenue allows state government to largely maintain its expenditures. The total change in revenue collected in 2035 is an increase of $48,000,000, which indicates a 10.75 percent sales tax rate essentially offsets the elimination of the 4 and 5 percent income tax brackets.

Similarly, URC finds the phase out of the 4 and 5 percent income tax brackets and a simultaneous phase in of a 3.75 percentage point increase in the state sales tax rate result in slight increases in real GDP, real personal income, nonfarm employment, and population from 2022 to 2035. Much like revenues, each of these variables increases each year during the phase out of the 4 percent income tax bracket. However, once the phase out of the 5 percent income tax bracket begins in fiscal year 2027, the total change in each of the variables by 2035 only slightly positive.

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