

Fiscal and Economic Analysis of HB 531

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The following paragraphs summarize URC’s analysis of HB 531, the “Mississippi Tax Freedom Act of 2022,” as passed by the Mississippi Legislature and signed into law by Governor Tate Reeves on April 5, 2022. URC used the Tax-PI software, a dynamic fiscal and economic impact model produced by Regional Economic Models, Inc., to conduct this analysis. The primary provisions of HB 531 are as follows:

- Eliminates the 4.0% individual income tax bracket effective with the 2023 tax year.
- Reduces the 5.0% individual income tax bracket to 4.7% effective with the 2024 tax year.
- Reduces the 4.7% individual income tax bracket to 4.4% effective with the 2025 tax year.
- Reduces the 4.4% individual income tax bracket to 4.0% effective with the 2026 tax year.

Thus, once the legislation is fully implemented in 2026 the individual income tax in Mississippi will consist of a single 4.0% rate on taxable income above \$10,000 annually. URC estimated the forgone revenue from the reduction of individual income tax rates that occurs in HB 531 based on data from the Department of Revenue (DOR). We use these estimates as the starting point for our analysis of the fiscal and economic impacts of HB 531. We used no other inputs from DOR or other agencies beyond these initial estimates.

Table I. Tax-PI model estimates of annual changes in revenues collected by Mississippi under HB 531.

Fiscal year	Direct change in revenues	Total change in revenues
2023	\$198,590,516	-\$89,788,719
2024	\$312,499,962	-\$226,394,337
2025	\$433,065,244	-\$323,308,289
2026	\$598,758,523	-\$438,151,106
2027	\$616,721,279	-\$505,337,881
2028	\$635,222,917	-\$509,878,935
2029	\$654,279,605	-\$514,981,407
2030	\$673,907,993	-\$520,476,372
2031	\$694,125,233	-\$526,188,369
2032	\$714,948,990	-\$531,715,409

Current dollars. Source: URC calculations using data from Mississippi Department of Revenue.

The second column of Table I above lists URC’s estimates of the annual changes in revenue according to the provisions of HB 531 from FY2023 through FY2032. These are the reductions in revenue solely due to decreases in income tax rates. We assume total individual income tax revenues increase at an average rate of 3.0% per year. The value for FY2023 is therefore the current estimate of revenue from the 4.0% individual income tax bracket increased by 3.0%. Thus, in the remaining rows of Table I, income tax revenue foregone from prior year(s) is assumed to increase 3.0% annually. The third column of Table I lists the total changes in revenue each year from the provisions of HB 531 and captures both the direct and indirect effects of the reductions in taxes as estimated by the Tax-PI model. The total decreases in revenues in the third column are less than in the second column each year as spending by individual taxpayers increases because of the increase in income from the reductions in taxes. The state collects sales and use tax revenue on this additional spending on taxable goods, and these additional sales and use tax revenues partially offset the decrease in revenues from the

income tax reductions. In FY2032, URC estimates the state will take in almost \$532 million less in general fund revenue due to the provisions of HB 531. This analysis assumes no additional laws that reduce individual income tax rates are enacted before 2032.

Table 2. Tax-PI model estimates of annual changes in real GDP, personal income, employment, and population of Mississippi due to HB 531.

Year	Real GDP*	Private employment	Total employment	Personal income†	Population
2023	\$66,270,847	1,161	770	\$35,536,076	720
2024	\$118,636,505	1,937	1,377	\$65,900,675	1,684
2025	\$167,841,087	2,656	1,919	\$97,571,903	2,831
2026	\$227,248,952	3,549	2,553	\$136,692,364	4,256
2027	\$240,513,681	3,625	2,674	\$154,689,214	5,432
2028	\$236,449,316	3,519	2,580	\$165,777,308	6,378
2029	\$229,892,391	3,397	2,452	\$172,590,609	7,169
2030	\$218,350,036	3,237	2,272	\$178,608,828	7,800
2031	\$208,314,067	3,100	2,109	\$184,256,445	8,311
2032	\$202,777,641	3,020	1,999	\$189,874,339	8,745

* 2020 dollars. †Current dollars.

Table 2 above lists URC’s estimated economic impacts to the Mississippi economy from the provisions of HB 531 for calendar years 2023 through 2032. The changes in the variables listed in the table are in addition to or on top of the baseline changes expected each year and are the changes that occur solely due to HB 531.

The second column of Table 2 lists the projected changes in real gross domestic product (GDP) for Mississippi that occur each year from 2023 to 2032 following the enactment of HB 531. The Bureau of Economic Analysis (BEA) defines GDP for a state as “A measurement of a state’s output; it is the sum of value added from all industries in the state.” The values of GDP in Table 2 are expressed in 2020 dollars, which means they are “real” values that have been adjusted for inflation using 2020 as a base year. The changes in real GDP are positive each year and the average annual increase is nearly \$192,000,000 from 2023 through 2032. The largest increase of almost \$240,000,000 occurs in 2027, equal to approximately 0.2% of real GDP for Mississippi in 2021.

The third column of Table 2 lists the estimates of the changes to private payroll employment that occur each year from 2023 to 2032 following the enactment of HB 531. These changes are positive each year and the average annual increase is 2,920 jobs from 2023 through 2032. The largest increase in private employment of 3,625 jobs occurs in 2027, equal to 0.4% of total private payroll employment in Mississippi in 2021.

The estimated changes in total payroll employment in Mississippi that occur each year from 2023 to 2032 because of the enactment of HB 531 are listed in the fourth column of Table 2. These changes are positive each year and the average annual increase in total payroll employment is 2,070 jobs from 2023 through 2032. The largest increase of 2,674 jobs occurs in 2027 and equals approximately 0.2% of total payroll employment in Mississippi in 2021. As seen in Table 2 the changes in total employment each year are less than the changes in private employment. The difference is roughly 1,000 jobs annually from 2026 through 2032. The reason is the changes in state government employment are negative each year following the enactment of HB 531, due to the way the Tax-PI software models the decrease in revenues to the state. The model decreases state expenditures to offset the decrease in revenues. When these decreases are large enough the Tax-PI software reduces state

government employment, which accounts for the majority of state government expenditures. We also note that these reductions in state government employment do not necessarily indicate the elimination of existing state employees but could represent the removal of open or unfilled positions in state government.

The fifth column of Table 2 lists the projected changes in personal income for Mississippi that occur each year from 2023 to 2032 following the enactment of HB 531. Personal income is defined by BEA as “Income received by persons from all sources.” The values of personal income in Table 2 represent current dollars or dollars unadjusted for inflation. All of the changes in personal income are positive and increase each year from 2023 through 2032 and average slightly more than \$138,000,000 per year. The largest increase in personal income of almost \$190,000,000 in 2032 represents 0.1% of total personal income in Mississippi in 2021.

Finally, the last column of Table 2 lists the estimated changes in the population of Mississippi that occur each year following the enactment of HB 531. Like the changes in personal income, these changes are positive and increase each year from 2023 through 2032. The average annual increase in the state’s population from 2023 through 2032 is 5,333 residents. The largest increase in 2032 of 8,745 residents represents 0.3% of the population of Mississippi in 2021.

The changes to the variables in Table 2 that occur from 2023 through 2032 due to the enactment of HB 531 appear relatively small compared to their total annual values. However, we note how these changes compare to the recent growth in some of these variables. For example, between 2011 and 2021 real GDP for Mississippi increased an average of 0.6% per year. Thus, an additional 0.2% growth per year in real GDP represents a sizable improvement given this recent history. This situation is similar for total payroll employment in the state, which increased an average of 0.4% per year from 2011 to 2021. An additional 0.2% in annual growth would represent a considerable improvement in employment compared to the previous decade, much like the state’s real GDP. Nominal personal income in Mississippi increased an average of 3.8% per year from 2011 to 2021; thus, an additional 0.1% increase in personal income estimated to occur from 2023 to 2032 due to HB 531 would represent little change in the growth rate. The average annual change in the population of Mississippi from 2011 to 2021 was nearly flat, about -0.02%. Thus, if the trend of the past decade continues, an average addition of 5,333 residents per year as occurs under HB 531 would translate to positive—if very slight—population growth for the state.

Before concluding our analysis of the fiscal and economic impacts of HB 531, we note that at the start of the 2022 legislative session the state had over \$1,000,000,000 in the capital expense fund. Furthermore, as of the date of this analysis general fund revenues are projected to exceed FY2022 appropriations by several hundred million dollars. If the Mississippi legislature chose to use these additional funds to partially offset the decrease in individual income tax revenues that result from implementation of HB 531, then the economic impacts of each variable in Table 2 would increase. The largest increases likely would occur in total payroll employment if more of the decreases in the state’s expenditures were offset.

In conclusion, URC’s analysis finds the total change in general fund revenues in Mississippi that results from HB 531 will equal an average decrease of almost \$419,000,000 per fiscal year from FY2023 through FY2032. We find real GDP for the state under the bill will increase each year from 2023 through 2032. The average annual increase in real GDP will equal almost \$192,000,000. Similarly, private payroll employment and total payroll employment will increase each year under HB 531 according to our analysis. Private employment will increase by an average of 2,920 jobs per year and total employment will increase by an average of 2,070 jobs per year. URC finds personal income in the state will increase each year from 2023 to 2032 under HB 531. We project the average annual increase in personal income will equal just over \$138,000,000. Finally, our analysis finds the population of Mississippi will increase each year under HB 531. We estimate the state’s population will increase by an average of 5,333 residents per year.