<u>**FACTS ON AMENDED MISSISSIPPI TAX FREEDOM ACT (ORIGINALLY HB1439, AS AMENDED IN SB2971)**</u>

- **Plan Highlights**

  - The House amended HB1439 and put it in the bond bill from the Senate, SB2971. That is the version we will use as our starting point for negotiations with the Senate going forward.

  - **For tax year 2022**, **we exempt the first $40,000 (single)/$80,000 (married). So, in the first tax year of the plan, 50% of current Mississippi taxpayers would no longer pay a personal income tax.**

  - **After this initial cut, we use revenue growth triggers to gradually increase the exemptions. Annual revenue growth up to 1.5% goes to the normal budget; everything over 1.5% goes to the "buy down" the personal income tax. General fund revenues have grown at 3.2% per year the past decade. If we grow at just 2.5%, the exemptions will increase to $100,000 (single)/$200,000 (married) by year 8 of the plan, meaning 83% of current Mississippi taxpayers would pay no income tax. And the personal income tax would be totally eliminated in approximately 12 years – automatically with no further action by the legislature. If we grow faster, it'll be eliminated quicker. If growth is slower, it will take a few more years. Bottom line: If this plan is passed, a day is coming soon when no Mississippian will pay a personal income tax.**

  - **So, through controlling spending and devoting excess growth to the income tax cut, we are providing <u>a $740M income tax cut – *by far the largest tax cut in Mississippi history*</u>.**

  - **And, we cut the grocery tax in half, from 7 cents on the dollar to 3.5 cents -- 2.5 cent cut up front and the remaining 1 cent by FY2027. Cutting the grocery tax in half is another $198M tax cut for Mississippi families, on top of the income tax cut.**

  - **Both the state economist and two independent Ole Miss economists found the plan is revenue neutral,** meaning we replace all the lost revenue with a combination of additional consumption tax revenue, spending restraint and growth. So, **it won't hurt needed programs like education.**

  - **This is a conservative plan that** caps spending at 1.5%, which is the strongest spending cap of any state in the United States. That's why we've gotten support from **Art Laffer, President Reagan's economist**; **Stephen Moore, President Trump's economist**; and the **two Ole Miss economists, who found the plan would increase the state GDP by $371M, an increase of wealth for the average MS tax filer of over $8,000**. And that's not the direct tax benefit, that's simply the wealth effect benefitting everyone because of the increase in the size of the state economy.

  - **This amended plan does <u>not</u> increase the sales/use tax on farm equipment, logging equipment or manufacturing machinery.**

  - **This plan will not hurt retirees.** Their additional cost from the 2.5 cent sales tax increase is largely offset by cutting the grocery tax in half. Your **mortgage**, **rent**, **resident utilities (gas, electric, water), insurance, gasoline, medicine – all are <u>not</u> subject to the 2.5 cent sales tax increase.**

    - Federal gov't data shows the **average Mississippi senior** 65 years old and over household spends about $10,000 per year on goods subject to the sales tax, so the **extra 2.5 cent** sales tax will **cost** them about **$250** extra dollars per year. Most senior couples spend about $100/week or $5,200 per year on groceries, so the **3.5 cent grocery tax cut will save them about $183 dollars – for a net increase of only about $70 per year.** When seniors we talk to understand this, they're more than willing to bear that cost to give their children and grandchildren a lifetime gift of no state income taxes.

- **More Tax Freedom Act details**

    - Total cost of raising exemptions to $40,000 (single)/$80,000 married is $1.067 B.
    - Total cost of cutting grocery tax in half = $254 M ($198M revenue loss to cut grocery tax in half + $56M cost of replacing diversion to cities, education enhancement, school ad valorem and infrastructure funds)
    - Replacement revenue
        - 2.5 cent sales and use tax increase = $1.0B
        - $98M tobacco (50 cents per pack cigarette increase – still leaving us lower than 35 other states on cigarettes – as well as increasing other tobacco products to 25% of manufacturer's suggested retail and taxing vaping at same amount)
        - Increasing sales/use tax on auto sales and casual auto sales from 1.5% to 4% = $150M

    - **So up front there is $1.25B in tax cuts in tax year 2022 and $1.25B in replacement revenue. So, right out of the gate the plan is in balance. We replace all the lost income tax revenue through the added consumption taxes. In tax circles this is called a "revenue neutral" plan. And you don't have to take our word for it. Both the state economist and the two Ole Miss economists who independently reviewed this plan found that it was revenue neutral. So, we will have enough funds for critical needs like education, law enforcement, etc.**

- **Growth alone is not a realistic method of eliminating the income tax within a reasonable time.**

    - There are $1,735 Million ($1.735 B) dollars produced by the 4% and 5% brackets (3% already phased out per current law). If we assume a 3% annual general fund revenue growth rate (approximately what it has been since 2011); assume further that the individual income tax grows at 4% until eliminated (the same it's been since 2011); and assume, finally, that we will reduce the individual income tax revenue each year by the amount the prior year's general fund revenue growth exceeded 1.5%. With those assumptions, then, **with <u>3</u>% annual general fund revenue growth it will take until <u>2051</u> to eliminate the individual income tax using growth alone**.
    - With the same assumptions, **with <u>2.5</u>% annual general fund revenue growth it will take until <u>2085</u> to eliminate the individual income tax using growth alone.**
    - You may hear the claim that we are already exceeded last year's sine die estimate by **$1 Billion**, so "we have plenty of money to eliminate the individual income tax without raising other taxes."
    - But about **$230M of that is a one-time blip** because we **delayed the deadline to pay taxes** last year due to COVID and last years' money fell in this fiscal year.
    - **A lot of the remaining revenue growth represents one-time stimulus money** because we had revenue growth arising from federal stimulus. Well over $4 Billion of federal unemployment, CARES Act money and PPP loans were dumped into MS. **We can't count on that level of revenue being there year over year.**
    - **You may also have heard the claim that general fund revenue has grown 30% in the last 10 years. <u>But that doesn't account for inflation</u>. <u>Adjusting for inflation, general fund revenue has grown about 10% in 10 years.</u>**
    - **Bottom line: <u>Growth alone cannot replace the personal income tax revenue.</u> It takes a responsible combination of revenue replacement, growth and spending control. <u>That's our plan.</u>**