Mississippi Economic Policy Center

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Tax Incidence Analysis: Tools for Strengthening Mississippi's Tax System

Tax Incidence analysis would provide the capacity to evaluate our current state tax system and any proposed changes to the tax system.

Completed by the State Tax Commission, tax incidence analysis would provide sophisticated economic analysis to answer two important questions about tax proposals:

- How much does revenue does a tax generate or does a tax cut cost?
- Which groups of Mississippians will pay more (or less) because of the change?

Many other states have produced tax incidence analysis studies and three states, Texas, Maine, and Minnesota require regular studies of their tax systems. Those three states also require incidence analysis of proposed tax changes.

Benefits of Tax Incidence Analysis

- Would allow members of the legislature to make more informed decisions about tax proposals.
- Would allow citizens greater access to information about the implications of our tax system and tax proposals.
- Mississippi already has part of the capability needed to implement tax incidence analysis[1].

An Example of Tax Incidence Analysis from Texas

The table below shows an example of how tax incidence analysis is used in Texas to evaluate proposed revenue changes. It shows the projected effects of Texas House Bill 4 from 1997 which would have repealed Texas' corporate franchise tax, exempted business inventories from property taxes, and increased the homestead exemption by $20,000. The revenue loss from these provisions would

[1] Mississippi has a personal income tax micro-simulation model which can be used to determine incidence for the personal income tax.

have been recouped by increasing the sales tax rate by 0.5 percentage points and instituting a 1.25 percent Business Activity Tax. The tax incidence analysis provides a comparison of current law to the proposed law by family income group and shows the percent change that each income group would experience should the proposal become law.

Tax Incidence by Income Group
Current Law vs. [Texas] House Bill 4
Fiscal Year 1999

Family Expanded Income Group $Dollars	Current Law Tax Incidence $Millions	H.B. 4 Tax Incidence $Millions	Change in Tax Incidence $Millions	Percent Change in Tax Incidence
0 < 10,000	$1,712.9	$1,666.4	($46.5)	-2.7%
10,001 < 20,000	$2,737.2	$2,689.2	($48.0)	-1.8%
20,001 < 30,000	$1,751.3	$1,714.6	($36.7)	-2.1%
30,001 < 50,000	$5,492.0	$5,359.4	($132.5)	-2.4%
50,001 < 75,000	$6,001.1	$5,812.2	($188.9)	-3.1%
75,001 < 100,000	$3,826.4	$3,682.0	($144.5)	-3.8%
100,001 < 200,000	$3,956.6	$3,810.6	($146.0)	-3.7%
Over 200,000	$2,393.3	$2,319.7	($73.6)	-3.1%
Total	$27,870.9	$27,054.1	($816.8)	-2.9%

Source: Texas Legislative Budget Board, Tax Equity Note Analysis of House Bill 4, February 17, 1997, Table 3, page 6. Table published in the Center on Budget and Policy Priorities "Developing the Capacity to Analyze the Distributional Impact of State and Local Taxes: Issues and Options for States" by Michael Mazerov, 2002