

MEMO

Legislative Budget Office
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From: Misti Munroe, Chief Revenue Officer
Re: Fiscal Note for Senate Bill 2971 (Sections 11-69)
Date: March 17, 2021

We have provided a fiscal note for Senate Bill 2971 (Sections 11-69). The information presented below represents the estimated fiscal impact to state revenue collections should a state income tax elimination be implemented as outlined in SB 2971, as passed by the House 3/16/2021. The fiscal note also outlines the decrease of the tax on groceries as well as increases in tobacco, sales, and use tax.

General Summary

Section 11: 27-7-21 – Income Tax

- Beginning CY 2022, the single personal exemption will increase from \$6,000 to \$37,700 (\$2,300 standard deduction), married exemption will increase from \$12,000 to \$75,400 (\$4,600 standard deduction), and head of household will increase from \$9,500 to \$36,600. The total estimated cost for exemptions for CY 2022 is \$1,067,000,000.
- The exemptions will begin 1/1/2022 and will reduce the taxpayer's monthly withholdings and quarterly estimated payments. This will be spread across the calendar year.
- On or before 10/1/2022 (FY 2023) the Legislative Budget Office will provide the total general fund revenue growth/decline comparing FY 2022 General Fund revenue collections to FY 2021 General Fund revenue collections and an inflation factor (CPI-U) calculation. This calculation will be provided to the Commissioner of Revenue.
- On or before 12/1/2022 (FY 2023) the Commissioner of Revenue will calculate the amount of the increases in exemptions that will produce a reduction in revenue equal to the tax reduction growth amount calculated. This will be the calculation regarding revenue growth/decline above/below CPI-U to determine if the exemption will be increased for CY 2023.

Section 12: 27-65-17 – General Sales/Use Tax Rates

- Increase in sales/use tax rate by 2.5% from 7.0% to 9.5%.
- Increase in sales/use tax for aircraft, automobiles, trucks, truck-tractors, semitrailers and manufactured or mobile homes from 3.0% to 5.5% (total tax rate on automobiles and light trucks is now 7.5%).
- Increase the sales/use tax for materials for use in track and track structures from 3.0% to 5.5%.
- Increase the sales/use tax for sales of tangible personal property to electric power associations from 1.0% to 3.5%.
- Increase the sales/use tax rate for sales of modular homes from 3.0% to 5.5%.
- Increase the sales/use tax rate for sales of materials for use in facilities by dairy producers from 3.5% to 6.0%.
- Grocery tax decrease from 7.0 cents to 4.5 cents beginning July 1, 2021
- Grocery tax decrease to 4.0 cents beginning July 1, 2024
- Grocery tax decrease to 3.5 cents beginning July 1, 2026

Section 13: 27-65-19 – Public Utilities

- Every person selling to consumers electricity, current, power, potable water, steam, coal, natural gas, liquefied petroleum gas or other fuel increase from 7.0% to 9.5%.
- Telecommunications services.
- Gross income from all charges for products delivered electronically, including, but not limited to, software, music, games, reading materials or ring tones.
- Revenue impact included in total sales/use tax revenue increase.

Section 14: 27-65-20 – Selling Machinery

- Gross proceeds of selling machinery, machine parts and/or equipment to an operator or lessee of any structures, facilities and lands acquired and operated or leased, which machinery, machine parts and/or equipment is to be located on and used exclusively and directly in the operation of such structures, facilities and lands. Tax increases from 1.5% to 4.0%.

Section 15: 27-65-22 - Amusements

- Increases from 7.0% to 9.5%. Revenue impact included in total sales/use tax revenue increase.

Section 16: 27-65-23 - Miscellaneous Businesses

- Increases from 7.0% to 9.5%. Revenue impact included in total sales/use tax revenue increase.
- Services for electric power associations of their generating or distribution systems. Increases from 1.0% to 3.5%.
- Income from services for use in track or track structures to a railroad whose rates are fixed by the Interstate Commerce Commission or MS PSC. Increases from 3.0% to 5.5%.

Section 17: 27-65-25 - Sales of Alcoholic Beverages

- Tax on gross proceeds of a business selling alcoholic beverages.
- Increases from 7.0%-9.5%. Revenue impact included in overall sales tax calculation.

Section 18: 27-65-26 – Selling, renting, or leasing specified digital products

- Gross proceeds from a business selling, renting, or leasing specified digital products. The sale of a digital code that allows the purchaser to obtain a specified digital product shall be taxed in the same manner as the sale of a specified digital product. The tax is imposed when:
 - (a) The sale is to an end user;
 - (b) The seller grants the right of permanent or less than permanent use of the products transferred electronically; or
 - (c) The sale is conditioned or not conditioned upon continued payment.
- Increases from 7.0% to 9.5%. Revenue impact included in overall sales tax calculation.

Section 19: 27-65-201- Casual Auto Sales

- Tax on sales other than at wholesale within or outside of the state of motor vehicles required to be registered or licensed with the tax collector.
- Increases tax from 5.0% to 7.5%.

Section 20: 27-65-75 – Sales/Use Tax Diversions

- Adjusts diversions to the municipal corporations in correlation with the reduction of sales tax on groceries to ensure the municipal corporations diversion remains equitable.
- Adjusts diversions to the Capitol Complex Improvement District Project Fund in correlation with the reduction of sales tax on groceries to ensure the diversion remains equitable.

Section 21: 27-67-31 – Sales/Use Tax Diversions

- On or before September 15, 2021 through February 15, 2022 the 2.5% from the sales/use tax increase from 7.0 to 9.5% is diverted to the Budget Stabilization Fund.
- On or before March 15, 2022 and thereafter, the total additional sales/use tax collected from the 2.5% increase will be deposited into the General Fund without diversion.
- Sales and use tax increases on all other rates go to the General Fund without diversion.

Section 23: 27-69-3 – Definition of Tobacco Products

- All diverted to General Fund currently.
- Adds vaporized nicotine and electronic cigarettes to the definition of tobacco products.
- Section 97-32-51 defines e-cigarettes.

Section 24: 27-69-13 – Tobacco Tax

- Increases tax on cigarettes from 3.4 cents to 5.9 cents on each cigarette sold.
- Other tobacco products except cigarettes, increase tax from 15% to 25% of the manufacturer's list price. This includes e-cigarettes and vaporized nicotine.

Section 25: 27-69-75-Tobacco Tax

- All revenue collected goes to the General Fund now.
- On or before September 15, 2021 through February 15, 2022, the revenue generated from the increase in the tax will be deposited into the Budget Stabilization Fund.
- On or before March 15, 2022 and thereafter, all taxes collected will be deposited into the General Fund.

Section 26: Budget Stabilization Fund

- Creates the Budget Stabilization Fund (BSF).
- Retains its own interest. Fund balance remaining at the end of the fiscal year does not lapse into General Fund.
- Monies in the BSF shall only be appropriated by the Legislature to further the purposes of Sections 11 through 69.

Section 27: 27-70-5 – Tobacco Tax for Manufacturers not participating in the tobacco settlement.

- In addition to the tax in Section 24 (27-69-13) of the bill, tax now is \$0.0135 increases to \$0.039 per cigarette. Known as the tobacco equity tax. Diversion is the same as all tobacco products as outlined in previous sections.

Section 28: 27-7-5 – Corporate Income Tax Collection Authority

- 27-7-21 - Certification of the reduction of revenue mandated by such section. The Commissioner of Revenue certifies revenue equals or exceeds the remaining revenue produced by the individual income tax.
- Leaves resident corporations or associations as subject to the current income tax and diversions. Removes individuals, partnerships, trusts or estates.

Sections 29 – 68:

- Brought forward several sections regarding various tax credits and definitions of tax withholdings.

Section 69:

- Sections 11-69 of the act shall be known as the “Mississippi Tax Freedom Act of 2021”

Section 70: Act takes effect July 1, 2021

Revenue Summary

After consulting with the Department of Revenue, the estimated total cost of providing the income tax elimination outlined in Senate Bill 2971 (Sections 11-69) is included below. The figures were estimated by taking the reported tax collections from the FY 2020 Department of Revenue Annual Report, the University Research Center Annual Tax Expenditure Report of January 2021, and other estimates provided by the Department of Revenue. The increases and decreases outlined in SB 2971 (Sections 11-69) were applied to the estimates while factoring in the pro-rata percentages across FY 2019 to calculate the estimated cash flow for FY 2022 and FY 2023. Assumptions or calculations were not presented in the fiscal note for future years of implementation of the income tax elimination due to the unknown revenue generation and CPI-U. Senate Bill 2971 (Sections 11-69) addresses the required growth to implement the next phase of further levels of income tax elimination. Total elimination of income tax is estimated to impact General Fund revenue by approximately \$1.8 billion.

SB 2971 (Sections 11-69) Cash Flow Summary

SOURCE

Income Tax Reduction 40/80 Elimination	(1,067,000,000)
Sales/Use Tax 2.5% Increase	1,001,444,387
Grocery Tax Reduction of 2.5% (FY 2022)	(141,428,571)
Various Sales/Use Taxes 2.5% Increase	172,021,105
Tobacco Tax Increases	<u>92,712,683</u>
Total	57,749,604

Diversions

	<u>FY 2022*</u>	<u>FY 2023*</u>
Budget Stabilization Fund		
Sales/Use Tax 2.5% Increase	500,561,262	0
Tobacco Tax Increases	<u>46,356,342</u>	<u>0</u>
Total Budget Stabilization Fund	546,917,603	0
General Fund		
Income Tax Reduction 40/80 Elimination	(658,232,300)	(408,767,700)
Sales/Use Tax 2.5% Increase	326,193,070	174,690,055
Grocery Tax Reduction of 2.5% (FY 2022)	(136,284,763)	(5,143,808)
Various Sales/Use Taxes 2.5% Increase	165,764,635	6,256,470
Tobacco Tax Increases	<u>30,904,228</u>	<u>15,452,114</u>
Total General Fund	(271,655,129)	(217,512,870)
Total Diversions	275,262,474	(217,512,870)

*FY 2022 estimates represent the time period of July 1, 2021 through June 30, 2022. FY 2023 estimates represent the time period of July 1, 2022 through December 31, 2022.

Should you need any additional information, please contact the Legislative Budget Office.