Fiscal and Economic Analysis of HB 1 and SB 3095

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This report presents URC's fiscal and economic analysis of two bills: HB 1, the "Build Up Mississippi Act," as passed by the Mississippi House of Representatives on January 16, 2025, and SB 3095, as passed in the Mississippi Senate on February 24, 2025. URC used the Tax-PI software, a dynamic fiscal and economic impact model produced by Regional Economic Models, Inc., to conduct this analysis. Importantly, this report makes no recommendations in support of or in opposition to HB 1 or SB 3095; rather, the goal of this report is to provide information on the expected fiscal and economic impacts of each bill if either were to become law.

Part I: Fiscal and Economic Analysis of HB 1

HB 1 primarily consists of the following provisions:

- Reduces the 4.0% individual income tax rate [as of tax year 2026] annually beginning with the 2027 tax year. The rate would fall to 3.0% in the 2027 tax year and then decrease by 0.3 percentage point each tax year thereafter until the rate reaches 0.0% beginning with the 2037 tax year.
- Reduces the state portion of the 7.0% sales tax rate on grocery items (non-prepared foods) to 4.5% effective July 1, 2026. The 4.5% rate is reduced by 0.2 percentage point on July 1 of each year thereafter until July 1, 2036, when the sales tax rate on groceries will equal 2.5%.
- Increases the 7.0% sales tax rate on non-grocery items to 8.5% in all municipalities effective July 1, 2026, unless a specific municipality elects to opt out of the increase before the effective date. Eliminates the current diversion of 18.5% of general sales tax revenue collected (at the current 7.0% rate) to municipalities. The 1.5% increase in the local sales tax rate will also apply to grocery items, which will bring the sales tax on these items to 4.0%.
- Enacts a 5.0% sales tax on gasoline sold in the state effective July 1, 2026. This sales tax is levied in addition to the current excise tax on gasoline of 18.4 cents per gallon.
- Transfers the first $100 million in annual net revenues from the Mississippi Lottery Corporation to the Public Employees' Retirement System. Transfers any remaining funds equally between the Education Enhancement Fund (EEF) and the Multi-Modal Transportation Improvement Fund, of which the latter is created by HB 1. Currently, the first $80 million of annual net revenues from the lottery are transferred to the State Highway Fund and any remaining revenues are transferred to the EEF.

Once fully implemented in 2037 the legislation will eliminate the individual income tax in Mississippi and set the state's portion of the sales tax rate on groceries sold in the state at 2.5%. For simplicity, URC's analysis assumes no municipality in the state will opt out of the local sales tax increase of 1.5%. Thus, in our computations the sales tax rate on non-grocery items sold in the state is 8.5% beginning in fiscal year (FY) 2026. The sales tax rate on grocery items in our analysis is 6.0% in FY2026 and decreases by 0.2 percentage point in each following year until FY2036, when the rate is 4.0%. Furthermore, we use an initial estimate of approximately $447 million from the Mississippi Department of Revenue (DOR) for the total amount of revenue generated by the 7.0% sales tax on groceries. We use no other estimates from DOR or other agencies beyond this initial estimate for the sales tax revenue collected on sales of groceries.

Revenue impacts of HB 1

In assessing how HB 1 affects revenues collected by the state, we acknowledge two points at the outset of our analysis. First, HB 1 directly impacts revenues transferred to the general fund through its reduction and ultimate elimination of the individual income tax, the reduction of the sales tax on grocery items, and its removal of the diversion of 18.5% of general sales tax revenue to municipalities. Second, the bill impacts revenues collected by the state *outside* of the general fund through various changes, such as enacting a 5.0% tax on sales of gasoline and allocating net revenues generated by the state lottery to multiple uses. We discuss these changes in the context of total revenues collected by the state, but these changes are not incorporated into our analysis of the impacts of HB 1 on general fund revenues. Similarly, because the 1.5% increase in the sales tax rate is a local tax and the revenue generated is retained by municipalities, we do not incorporate this change into our discussion of the impact of HB 1 on general fund revenues. However, we do incorporate the *indirect* effects of these changes as discussed below, because the tax on gasoline and the increased local sales tax will result in economic impacts on consumer spending, just as we include the economic effects of reductions in the individual income tax and the sales tax on grocery items.

Our baseline scenario represents a continuation of current law. In this scenario general fund revenue increases by an average of 3.3% per year from FY2026 through FY2040. This overall growth rate in general fund revenue results from the annual growth rates we assume for major revenue sources, which include: 3.0% per year for sales tax revenue, 3.5% per year for individual income tax revenue, 3.1% per year for corporate income tax revenue, and 3.1% for use tax revenue. This scenario assumes that no additional laws that impact general fund revenue sources are enacted before 2040.

Our scenario for HB 1 reflects the *total* changes in general fund revenue each year from the provisions of HB 1 and captures both the direct and indirect effects of the reductions in taxes as estimated by the Tax-PI model. These values essentially capture the economic effects of changes in tax rates as mentioned above. Because of these effects, the total decreases in general fund revenues each year are less than the direct decreases in general fund revenues that result from changes in taxes. The changes in taxes under HB 1 that directly affect general fund revenue include the decreases in income tax rates, the decrease in the sales tax rate on grocery items, and the removal of the diversion of 18.5% of general sales tax revenues to municipalities.

The total decreases in general fund revenues are less than the decreases in taxes each year as spending by individual taxpayers increases due to 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 addition, the amount of sales tax revenue transferred to the general fund is reduced each year due to the economic effects of the additional 5.0% sales tax on gasoline and the 1.5% increase in the sales tax at the local level. That is, the model captures the decrease in revenue transferred to the general fund from residents who spend less overall because of the effective higher prices caused by the increase in the general sales tax and the increase in the gasoline tax. These impacts are relatively small, as in the Tax-PI model the decrease averages around $10 million per fiscal year from FY2026 through FY2040. URC estimates in FY2040 the state will collect approximately $2.4 billion less in general fund revenue compared to the current baseline because of the provisions of HB 1. In our analysis the average increase in general fund revenue from FY2026 to FY2040 under HB 1 is 1.1% per year.

In addition to the changes in general fund revenues we estimate, we recognize HB 1 generates additional revenue outside of the general fund. As listed in the bullet points above, the bill enacts a 5.0% tax on gasoline sales. The bill's authors estimate this tax will generate $300 million to $400 million annually. If this tax grows at an average annual rate of 3.0%, like other sales tax revenue, then by 2040 this tax could generate approximately $450 to $600 million per year. As we mention, the bill creates the Multi-Modal Transportation Improvement Fund and designates the revenue from the 5.0% tax on gasoline sales for this fund. Secondly, we acknowledge that as of January 2025, based on the recommendation of the Joint Legislative Budget Committee (JLBC), the state will have approximately $2.5 billion in reserve funds at the end of FY2026[1]. These funds could be used to offset the annual decreases in general fund revenues for several fiscal years following the implementation of HB 1, if legislators chose to do so. However, if these funds are used to offset the annual decreases in general fund revenue, they will likely be depleted by FY2031. In summary, under HB 1 the reduction and ultimate elimination

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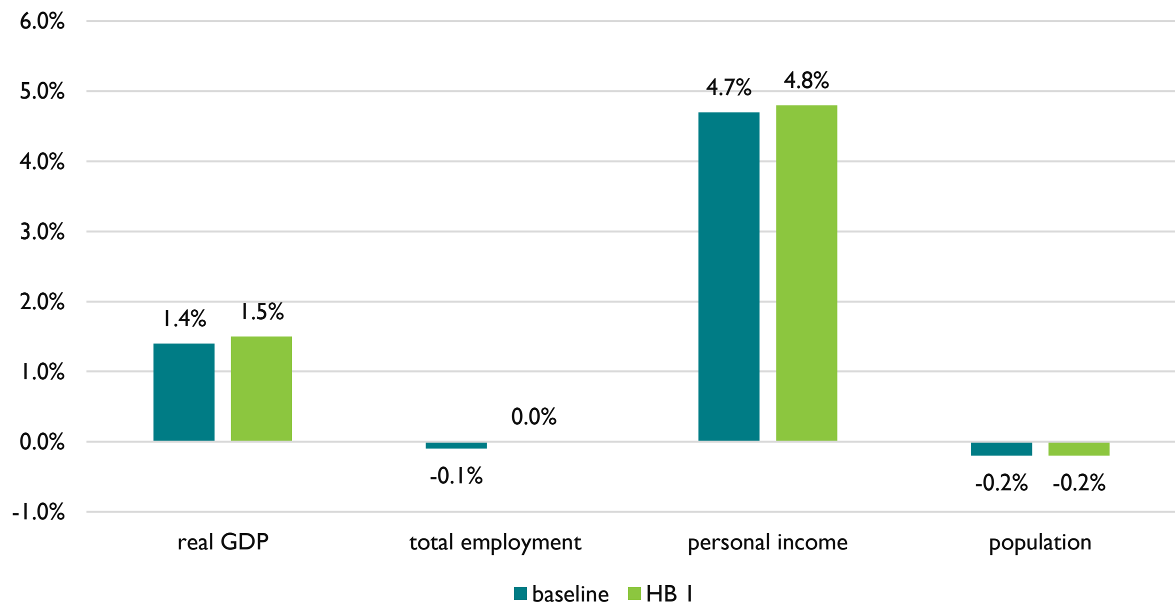
[1] See "FY 2026 Mississippi Legislative Budget Recommendation Report," page 9, available at: https://www.lbo.ms.gov/PublicReports/GetBudgetRequestDetailReport/0?report=Intro&fiscalYear=2026.

of the individual income tax results in a decrease in general fund revenue that is partially offset by changes to other revenue sources, including sales taxes.

Economic impacts of HB 1

URC estimated economic impacts to the Mississippi economy from the provisions of HB 1 for calendar years 2026 through 2040. These changes are in addition to or on top of the baseline changes expected each year and reflect the changes that occur solely due to HB 1. The economic variables we estimate using the Tax-PI model include real[2] gross domestic product (GDP), total payroll employment, personal income, and population. Figure 1 below depicts the average annual growth of each of these variables in the baseline scenario and under HB 1.

Figure 1. Estimated average annual percent change, 2026-2040.



Source: URC estimates.

In the baseline scenario, real GDP for Mississippi grows by an average of 1.4% per year from 2026 through 2040. Under HB 1, the average growth over this period is 1.5% per year. In 2040, real GDP for Mississippi is 0.5% higher under HB 1 compared to the baseline scenario of the Tax-PI model.

Total payroll employment for Mississippi changes by an average of -0.1% per year from 2026 through 2040 in the baseline scenario. Over this same period under HB 1, the average annual change in total payroll employment for the state is 0.0%. The Tax-PI model projects that in 2040, total payroll employment for Mississippi is 0.6% higher under HB 1 compared to the baseline scenario.

In the baseline scenario, personal income for Mississippi grows by an average of 4.7% per year from 2026 through 2040. Under HB 1, the average growth over this period is 4.8% per year. In 2040, personal income for Mississippi is 0.5% higher under HB 1 compared to the baseline scenario of the Tax-PI model.

[2] The GDP values are expressed in 2017 dollars, which means they are real values that have been adjusted for inflation using 2017 as a base year.

Finally, the total population of Mississippi changes by an average of -0.2% per year from 2026 through 2040 according to the baseline scenario. The average annual change in the state's population over this same period is also -0.2% under HB 1. However, in 2040 the total population for Mississippi is 0.8% higher under HB 1 compared to the baseline scenario.

As we noted previously, based on the recommendation of the JLBC as of January 2025 the state will have approximately $2.5 billion in reserve funds at the end of FY2026; if legislators chose these funds could be used to offset decreases in general fund revenues in the first few fiscal years following the implementation of HB 1. If the Mississippi legislature chose to use these additional funds to partially offset the decrease in individual income tax revenues that results from implementation of HB 1, then the economic impacts of each variable in Figure 1 would increase by relatively small amounts. The largest increases likely would occur in total payroll employment if more of the decreases in the state's expenditures were offset.

Welfare impacts of HB 1

A complete evaluation of individual welfare impacts is beyond the scope of this analysis; however, we highlight a few aspects of HB 1 regarding tax incidence. First, as other URC publications have noted, despite the move to a single rate as of tax year 2024 the individual income tax in Mississippi remains slightly progressive. The elimination of the 3% and 4% tax brackets means no tax is levied on annual taxable income of $10,000 and below. Furthermore, as of tax year 2024 the personal exemption of $6,000 and the standard deduction for an individual of $2,300 mean an individual pays no income tax on the first $18,300 of taxable income. The gradual elimination of the individual income tax under HB 1 removes this progressivity from the tax code. Second, economists consider sales taxes as well as excise taxes regressive because, by definition, the share of income paid in sales taxes decreases as an individual's income increases. The reduction of the sales tax rate on groceries mitigates some of this regressivity. However, the 1.5% increase in the sales tax rate on all other items subject to the sales tax increases this regressivity. Furthermore, the legislation adds a 5.0% sales tax to gasoline sales, which also increases the regressivity of the sales tax. We do expect most individuals who file individual income taxes in Mississippi will pay less in total taxes under HB 1. However, we anticipate that individuals who are not currently subject to the state's individual income tax, such as low-income residents and some retirees, will likely pay more in sales taxes under HB 1 and therefore more in taxes overall. Thus, in our judgment the regressivity of the individual tax code in Mississippi is likely to increase slightly under HB 1.

Summary of HB 1

In conclusion, URC's analysis of HB 1 finds that, compared to a baseline scenario, general fund revenue on average grows less per fiscal year from FY2026 through FY2040. Under HB 1, general fund revenue grows by an average of 1.1% per fiscal year from FY2026 through FY2040, compared to an average of 3.3% per year in our baseline scenario. The decline in revenue growth results primarily from the reduction and ultimate elimination of the individual income tax. The decrease is partially offset by changes to other revenue sources, including sales taxes. Our analysis projects that in FY2040, the final year of our analysis, general fund revenue will be approximately $2.4 billion less under HB 1 compared to the baseline scenario. HB 1 will also generate additional revenues outside of the general fund that should be accounted for when considering its net impact on revenues.

In terms of economic impacts, we find real GDP for the state under HB 1 increases by an average of 1.5% per year from 2026 through 2040, compared to an average of 1.4% per year in the baseline scenario. Real GDP for Mississippi in 2040 is 0.5% larger under HB 1 compared to the baseline scenario. Similarly, total payroll employment on average is unchanged each year from 2026 through 2040 under HB 1, whereas in the baseline scenario payroll employment decreases by an average of -0.1% per year over the same period. Total payroll employment in the state is 0.6% higher in 2040 under HB 1 compared to the baseline scenario. URC finds personal income in the state will increase by an average of 4.8% per year from 2026 through 2040 under HB 1, compared to an average of 4.7% per year in the baseline scenario. In 2040, personal income in Mississippi is 0.5%

higher under HB 1 compared to the baseline forecast. Finally, our analysis finds the population of Mississippi decreases by an average of -0.2% per year from 2026 through 2040 under HB 1, the same as in the baseline scenario. The state's population in 2040 is 0.8% higher under HB 1 than in the baseline scenario.

Part II: Fiscal and Economic Analysis of SB 3095

SB 3095 consists of the following primary provisions:

- Reduces the 4.0% individual income tax rate [as of tax year 2026] annually beginning with the 2027 tax year. The rate would fall to 3.75% in the 2027 tax year, to 3.5% in tax year 2028, to 3.25% in tax year 2029, and then to 2.99% beginning with the 2030 tax year.
- Reduces the 7.0% sales tax rate on grocery items (non-prepared foods) to 5.0% as of July 1, 2025.
- Increases the current diversion of 18.5% of sales tax revenue collected on grocery items (at the current 7.0% rate) to municipalities to 25.9% effective September 15, 2025.
- Increases the current excise tax on gasoline of 18.4 cents per gallon to 21 cents per gallon effective July 1, 2025, to 24 cents per gallon effective July 1, 2026, and to 27 cents per gallon effective July 1, 2027. Effective July 1, 2029, SB 3095 also adjusts the excise tax on gasoline for inflation according to the National Highway Construction Cost Index (NHCCI) produced by the U.S. Federal Highway Administration. This adjustment is limited to 1 cent per gallon per year and takes effect every other year. Transfers 74% of the additional revenue generated from the increase in the excise tax to the Mississippi Department of Transportation, 23.25% to the Office of State Aid Road Construction, and 2.75% to the Strategic Multi-Modal Investments Fund, the latter of which is created by the bill.

Once fully implemented in 2030, SB 3095 sets the Mississippi individual income tax rate at 2.99%, sets the sales tax rate on grocery items at 5.0%, and sets the excise tax on gasoline at 27 cents per gallon, subject to future adjustments for inflation.

Revenue impacts of SB 3095

As with HB 1, in assessing the impact of SB 3095 on revenues collected by the state, we acknowledge two points at the outset of our analysis. First, SB 3095, like HB 1, directly impacts revenues transferred to the general fund through its reduction of the individual income tax rate to 2.99% and its reduction of the sales tax on grocery items to 5%. Second, the bill impacts revenues collected by the state outside of the general fund through its increase of the excise tax on gasoline to 27 cents per gallon. As we did with HB 1, we discuss this latter increase in the context of total revenues collected by the state, but we do not include any direct effects in our analysis of the impacts of SB 3095 on general fund revenues. However, we do incorporate the *indirect* effects of this change as discussed below, because the increased tax on gasoline will result in economic impacts on consumer spending, just as we include the economic effects of reductions in the individual income tax and the reduction in the sales tax on grocery items.

The baseline scenario for our comparative analysis of SB 3095 is the same as for HB 1, a continuation of current law. As with HB 1, our scenario for SB 3095 reflects the *total* changes in general fund revenue each year from the bill's provisions and captures both the direct and indirect effects of the reductions in taxes as estimated by the Tax-PI model. The changes in taxes under SB 3095 that directly affect general fund revenue include the decreases in income tax rates, the decrease in the sales tax rate on grocery items, and the increase in the share of general sales tax revenues collected that is diverted to municipalities from 18.5% to 25.9%.

As is the case under HB 1, under SB 3095 the total decreases in general fund revenues are less than the decreases in taxes each year as spending by individual taxpayers increases due to 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 and the reduction in the sales tax on grocery items. Furthermore, the amount of sales tax revenue transferred to the general fund is reduced each year due to the economic effects of the increase in the excise tax on gasoline, which reaches 9 cents per gallon in FY2028. Much like under HB 1, these impacts are relatively small, as in the Tax-PI model the decrease averages around $5 million per fiscal year from FY2026 through FY2040. Compared to the current baseline, URC estimates in FY2040 the state will collect approximately $1.4 billion less in general fund revenue because of the provisions of SB 3095. We find that under SB 3095 the average increase in general fund revenue from FY2026 to FY2040 under HB 1 is 2.0% per year.

As in our analysis of HB 1, we recognize SB 3095 generates additional revenue outside of the general fund. SB 3095 enacts a 3 cents-per gallon tax on gasoline in FY2026, FY2027, and FY2028. The bill's authors estimate this tax will generate $212 million annually. If this tax grows at an average annual rate of 3.0%, like sales tax revenue, then by 2040 this tax could generate approximately $310 million per year. This revenue could experience modest additional growth in future years since the increase in the excise tax is adjusted for inflation, as noted in the bullet points above. The bill transfers 74% of this increase in the excise tax to the Mississippi Department of Transportation. Secondly, as before we note the state is expected to have approximately $2.5 billion in reserve funds at the end of FY2026; these funds could be used to offset the annual decreases in general fund revenues for several fiscal years following the implementation of SB 3095 if legislators chose to do so. However, if these funds are used to offset the annual decreases in general fund revenue, they will likely be depleted by FY2030. In summary, the reduction of the individual income tax and the sales tax on groceries under SB 3095 results in a decrease in general fund revenue.

Economic impacts of SB 3095

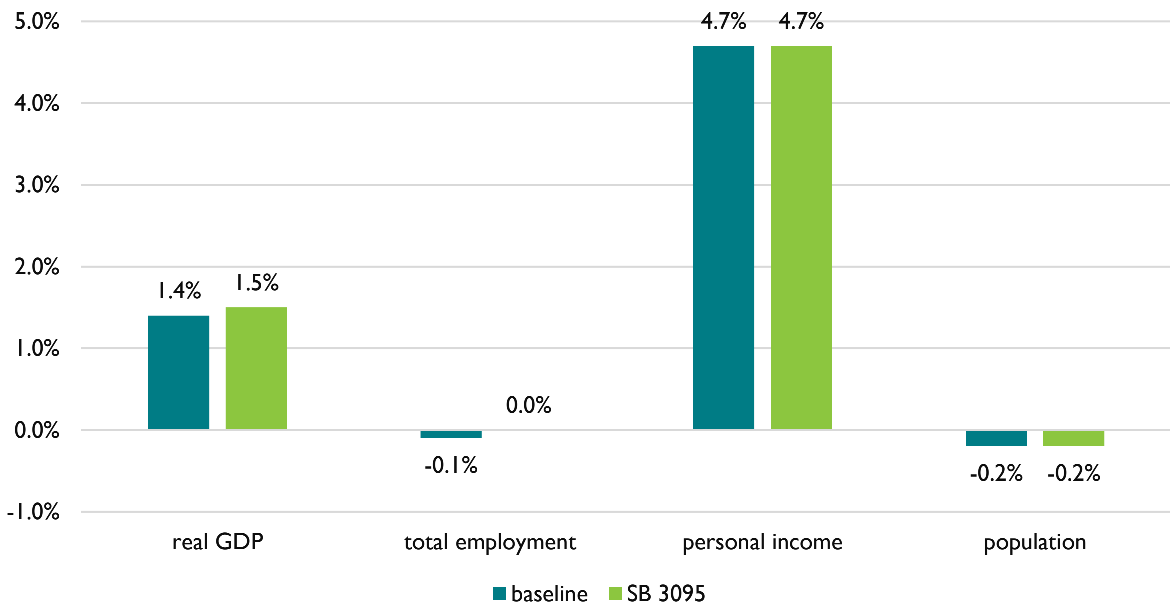
We estimate impacts to the Mississippi economy from the provisions of SB 3095 for calendar years 2026 through 2040. Like in our analysis of HB 1, these changes are in addition to or on top of the baseline changes expected each year and reflect the changes that occur solely due to SB 3095. The economic variables we estimate using the Tax-PI model include real GDP, total payroll employment, personal income, and population. Figure 2 below depicts the average annual growth of each of these variables in the baseline scenario and under SB 3095.

For the economic variables seen in Figure 2, the average annual change from 2026 through 2040 under SB 3095 is nearly identical to the average annual change under HB 1. The one difference between Figures 1 and 2 is personal income under SB 1 grows an average of 4.7% per year, the same as in the baseline scenario. We find personal income grows an average of 4.8% per year from 2026 through 2040 under HB 1. The following bullet points list the difference between the value of each economic variable in 2040 under SB 3095 compared to the baseline forecast.

- Real GDP: 0.4% higher
- Payroll employment: 0.4% higher
- Personal income: 0.4% higher
- Population: 0.7% higher

The difference between the values of each economic variable in 2040 under SB 3095 and the baseline scenario is slightly less compared to the difference under HB 1. As we noted previously, based on the recommendation of the JLBC as of January 2025, the state will have approximately $2.5 billion in reserve funds at the end of FY2026. Legislators could use these funds to offset decreases in general fund revenues in the first few fiscal years following the implementation of SB 3095. If the Mississippi legislature chose to use these additional funds to partially offset the decrease in individual income tax revenues and sales tax revenues that results from implementation of SB 3095, then the economic impacts of each variable in Figure 2 would increase by relatively small amounts. As with HB 1, the largest increases likely would occur in total payroll employment if more of the decreases in state expenditures were offset.

Figure 2. Estimated average annual percent change, 2026-2040.



Source: URC estimates.

Welfare impacts of SB 3095

A complete evaluation of individual welfare impacts of SB 3095, like those of HB 1, is beyond the scope of this analysis. However, we highlight a few aspects of SB 3095 regarding tax incidence. First, as we discussed previously, the Mississippi individual income tax remains slightly progressive. The reduction of the single rate from 4.0% to 2.99% under SB 3095 does little, if anything, to impact this progressivity. Second, the reduction of the sales tax rate on grocery items mitigates some of the regressivity of the sales tax. However, the 9 cent-per gallon increase in the excise tax on gasoline—a tax that is also regressive—increases the regressivity of the individual tax code. Nevertheless, the decrease in the sales tax on grocery items and the increase in the excise tax on gasoline represent relatively small changes. We expect for most individuals in the state the changes in welfare caused by the changes in these two taxes will likely offset one another. As we mentioned, we believe the decrease in the individual income tax rate has essentially no impact on the progressivity of the individual income tax. Therefore, in our judgment SB 3095 likely has little to no impact on the regressivity of the individual tax code in Mississippi.

Summary of SB 3095

In conclusion, URC's analysis of SB 3095 finds that, like HB 1, general fund revenue on average grows less per fiscal year from FY2026 through FY2040 compared to a baseline scenario. General fund revenue grows by an average of 2.0% per fiscal year from FY2026 through FY2040 under SB 3095, compared to an average of 3.3% per year in our baseline scenario. URC projects that in FY2040, the final year of our analysis, general fund revenue will be approximately $1.4 billion less under SB 3095 compared to the baseline scenario. Like HB 1, SB 3095 will also generate additional revenues outside of the general fund that should be accounted for when considering its net impact on revenues.

URC's analysis of economic impacts under SB 3095 finds real GDP for the state increases by an average of 1.5% per year from 2026 through 2040, compared to an average of 1.4% per year in the baseline scenario. In 2040 real GDP for Mississippi is 0.4% larger under SB 3095 compared to the baseline scenario. Payroll employment on average is unchanged each year from 2026 through 2040 under SB 3095; in the baseline scenario payroll employment decreases by an average of -0.1% per year over the same period. Total payroll employment in the state under SB 3095 is 0.4% higher in 2040 compared to the baseline scenario. URC finds personal income in the state will increase by an average of 4.7% per year from 2026 through 2040 under SB 3095, the same average annual change as in the baseline scenario. Personal income in Mississippi in 2040 is 0.4% higher under SB 3095 compared to the baseline forecast. Finally, we find the population of Mississippi decreases by an average of -0.2% per year from 2026 through 2040 under SB 3095, the same as in the baseline scenario. The state's population in 2040 under SB 3095 is 0.7% higher than in the baseline scenario.