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Revenue Options for Mississippi's Fiscal Crisis

Key Takeaway

With over 58,000 jobs lost in Mississippi since the start of the recession the needs of working families are increasing, as the state is less able to meet their needs. For the state to be competitive when prosperity returns, Mississippi must take a balanced approach that includes raising revenues. Three options to raise revenue include updating sales and income taxes and temporarily reducing tax expenditures. These three options could generate an estimated \$159 million in additional revenue for the General Fund.

Recommendations for a Balanced Approach that Includes Raising Revenue

For the state to be competitive when prosperity returns, Mississippi needs to take a balanced approach that includes raising revenues. Table 1 provides a summary of the revenue recommendations outlined in this policy brief.

| Table 1: Summary of Revenue Recommendations | |
|---|--------------------------|
| Revenue Proposal | Estimated Annual Revenue |
| Update the Sales Tax Base | \$80 million |
| Update the Personal Income Tax Bracket by adding a 6% bracket | \$70 million |
| Temporarily Reduce Certain Tax Expenditures | \$9.4 million |
| Total | \$159.4 million |

A cuts-only strategy hurts working families, hurts the economy, and limits our ability to invest in the state's people. An overview of the revenue raising recommendations is found below.

Update the Sales Tax

ESTIMATED REVENUE: \$80 MILLION

Mississippi's sales tax was originally structured to capture the purchase of goods. As the economy has evolved, more Mississippians are also buying services.

- By expanding the sales tax to include more services, the state would generate additional revenue and spread out the tax burden on working families.
- Sales taxes in Mississippi are applied on all goods unless they are specifically exempt in law. Goods include items like food, clothing, motor vehicles, and household items. Services are only subject to the sales tax if they are specifically listed in law.
- In 2008, the Mississippi Tax Study Commission in 2008 recommended, in part, expanding the sales tax base on services by adding 21 services.

Update the Income Tax

ESTIMATED REVENUE: \$70 MILLION

As a percent of personal income, Mississippians pay the third least amount of personal income tax compared to other states with an income tax. By adding another bracket, the state would generate additional revenue while taking into consideration the ability of working families to pay the tax.

- The state's income tax brackets have not been updated in the last 25 years. The highest tax bracket of 5% starts at a low \$10,000 of taxable income. With standard exemptions and deductions for a family of four with two children, this would mean the top bracket starts when a family makes over \$29,600 of income.
- While income tax rates have remained the same, in the last two decades the top 20% of income earners have experienced over twice the rate of income growth of the bottom and middle 20% of earners in Mississippi.
- Adding a new state income tax bracket of 6% over \$45,000 of taxable income (total income of \$64,400 for a family of four with two children) would update the income tax to capture areas of growth in the state's economy while taking into account the ability of working families to pay the tax.

Temporary Tax Expenditure Reduction

ESTIMATED REVENUE TO REMAIN IN GENERAL FUND: \$9.4 - \$23.6 MILLION

Much like appropriations, tax incentives constitute another type of expenditure by reducing the money available for funding state services. Similar to budget cuts, tax incentives could be reduced by a percentage to increase money available in the General Fund.

- Mississippi provides a number of corporate income tax credits and franchise tax credits. The state does not provide any personal income tax credits. The most recent Tax Expenditure Report estimated that the state provided over \$94 million in income tax and franchise tax incentives for FY 2009.
- The Governor's Tax Study Commission of 2008 recommended a regular review process for tax incentives to monitor their effectiveness. Currently, for some of these tax incentives, outcome data are not readily available to the public, and in some cases to policy makers.
- In addition to a more long-term regular review of the effectiveness of tax expenditures, in the short term tax incentive expenditures could be considered in addition to budget reductions. This would entail "rolling back" tax incentives by a certain percent temporarily. A 10% reduction would provide an additional \$9.4 million for the state budget, while a 25% reduction would provide an estimated \$23.6 million.

For more information on other state budget issues, visit the Mississippi Economic Policy Center's website at www.mepconline.org