



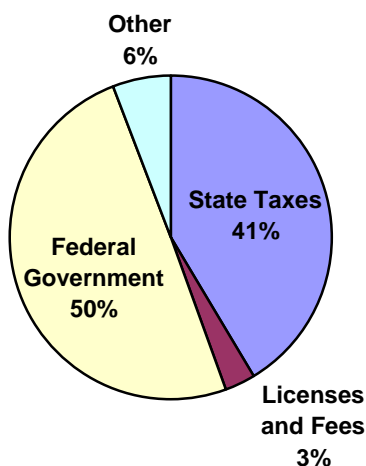
MISSISSIPPI TAX & REVENUE FACT SHEET

Just as families rely on monthly earnings to pay for food, shelter and clothing, Mississippi relies on the money it collects from taxes, fees and the federal government to maintain its roads, educate its children and keep its families safe from crime. In the absence of these funds, the state would be unable to pay for vital state services that Mississippi's residents depend on every day.

Mississippi Revenue Facts

Mississippi receives almost all of its revenue from state tax receipts and from the federal government. Chart 1 illustrates the breakout of Mississippi Revenues by source:

Chart 1
Share of Mississippi Revenues by Source (FY 2006)



Total = \$13.8 Billion

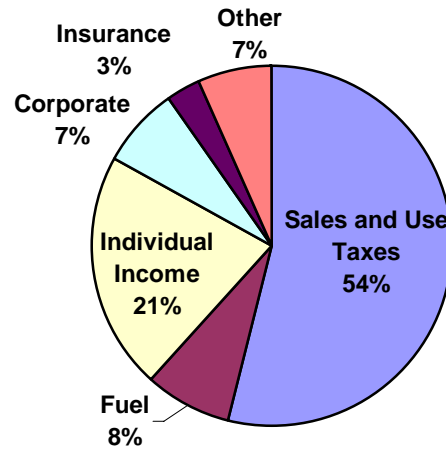
Source: Comprehensive Annual Financial Report FY 2006
MS Department of Finance and Administration

Essentially, 50 cents of every dollar that Mississippi received in FY 2006 came from the federal government. It should be noted that in previous years, the share of Mississippi revenue coming from the federal government hovered around 44%. However, in FY 2006, the state received a higher amount of federal funds than in previous years primarily due to federal assistance targeted for hurricane recovery efforts.

State Taxes

In Fiscal Year 2006, the state of Mississippi collected approximately \$5.7 billion dollars in state taxes. Over half of the state's tax dollars came from sales and use tax collections (Chart 2).

Chart 2
Mississippi State Tax Revenues by Type of Tax (FY 2006)



Total = \$5.7 Billion

Source: Comprehensive Annual Financial Report FY 2006 MS Department of Finance and Administration

Sales and Use Taxes

Sales and Use Taxes are the largest source of state tax revenue. Currently, the tax rate is 7% on many goods and some services that people purchase. The goods that are taxed include but are not limited to groceries, clothing and toiletries. Examples of taxed services include air conditioning installation and electrical work. In FY 2006, sales tax receipts were higher than in previous fiscal years due to heavy spending in the Gulf Coast counties as residents and business owners rebuilt property that was damaged by Hurricane Katrina.

Individual Income Taxes

About 1 in 5 state tax dollars are generated from the state's **Individual Income Tax**, which applies to individuals and families. The income tax is 3% on the first \$5,000 of taxable income, 4% on the second \$5,000 and 5% on income over \$10,000. Taxable income is total income minus a number of exemptions and deductions. For a typical two-parent family of four, exemptions and deductions shield about the first \$20,000 of income from the being taxed.

Corporate Income Taxes

The **Corporate Income Tax** is a tax on business profits. Mississippi's corporate income tax works much like the Individual Income Tax. A business's first \$5,000 of income is taxed at 3%, the next \$5,000 is taxed at 4% and any income over \$10,000 is taxed at 5%. Mississippi businesses may reduce their corporate income tax liability through one or a combination of tax credits.

Evaluating Mississippi's Tax System

Two important criteria for evaluating Mississippi's tax system are fairness and adequacy. Fairness is associated with the "ability to pay principle," which holds that persons with more

ability to pay should pay more in taxes than those of less means. With this principle in mind, taxes can be classified into three categories:

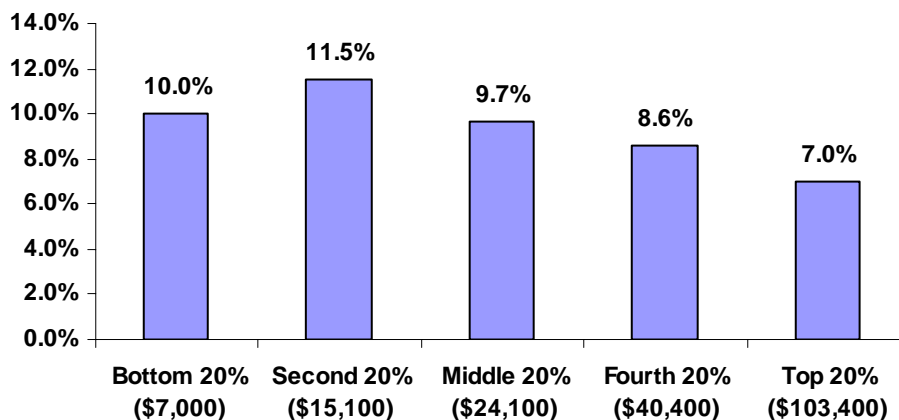
- **Progressive**—a tax system is progressive if persons with higher income pay a higher percentage of their income in taxes than those with a lower income. Most income taxes, including the federal income tax, are designed to be progressive.
- **Proportional**—a tax system is progressive if all persons, regardless of income level, pay the same percentage of their income in taxes.
- **Regressive**—a tax system is regressive if persons with lower income pay a higher percentage of their income in taxes than those with a higher income. Sales taxes are generally regressive because families with lower income tend to spend a larger fraction of their income on taxed goods than do higher-income families.

The adequacy of a tax system is also important. A tax system is considered adequate if it collects enough revenue – both short-term and long-term – to pay for the services the state’s residents need. One threat to the adequacy of a tax system is a **structural deficit**. In states with a structural deficit, revenues do not grow as quickly as the costs of providing government services. Each year, providing the same level of government services becomes more expensive as the costs of goods and labor increase and the population grows and changes. If revenues do not keep up with these increased costs, the state most either raise taxes or cut services.

Mississippi’s Taxes

Mississippi’s bundle of taxes has some progressive elements and some regressive elements. As a whole, Mississippi’s state tax policies are regressive: the top 20% of income earners pay the lowest percent of their income towards state taxes and local taxes while the bottom 40% pay the highest percent of their income towards state taxes (Chart 3).

Chart 3
Total taxes paid as a percent of income by income group - 2002
(Average income is in parenthesis)



Source: Institution on Taxation and Economic Policy and MEPC Analysis

An analysis of Mississippi's income and sales taxes illustrates some of the strengths and weaknesses of Mississippi's tax system.

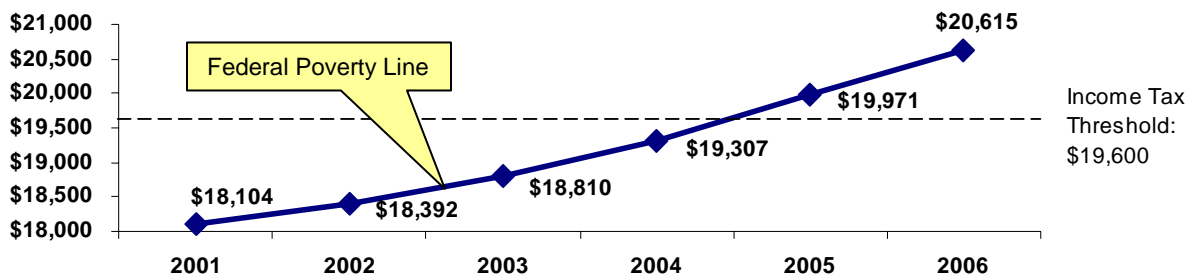
Mississippi Sales Tax

As seen in Chart 2, Mississippi sales and use tax represents over half of state tax revenues. States with a strong emphasis on a sales tax tend to have more regressive tax systems because people with low incomes pay a higher proportion of their income towards the tax than people with high incomes. Sales taxes can be made more or less regressive depending on what goods or services are taxed. Mississippi's sales tax is more regressive than in other states because Mississippi taxes food at the full 7%. Once Arkansas reduces its sales tax on groceries in July of 2007, Mississippi will be 1 of only 2 states to fully tax food without any offsets. According to an analysis of U. S. Census data, Mississippi ranks 9th in the country in the amount of sales taxes paid per resident of the state.

Mississippi Personal Income Tax

Mississippi's individual income tax is progressive, but only slightly so. The top tax rate of 5% starts at \$10,000 of taxable income or \$29,600 of gross income for a family of four. Thus a family of four earning less than \$30,000 pays the same marginal tax rate as a family of four earning \$250,000. In essence, the income tax operates more like a proportional, or flat, tax than a progressive tax. Additionally, since 2005 Mississippi has taxed the income of families below the poverty line. See Chart 4.

Chart 4
State Income Tax Threshold and Federal Poverty Line for a Family of Four (2001-2006)



Source: Center on Budget and Policy Priorities, *The Impact of State Income Taxes on Low-Income Families in 2006*

In addition to being a tool to promote tax fairness, strong income tax systems also promote adequacy. The incomes of higher wage earners tend to grow faster than the incomes of low wage earners and the revenues generated by strong income tax systems are more likely to keep up with increases the costs for state services than revenues generated through other means. Of the 43 states that have an income tax, Mississippi ranks 40th in the amount of income taxes paid per person according to an analysis of Census data.

Be on the lookout for our upcoming report *Putting the Pieces Together: A Guide to the Mississippi Budget* for more information on the State Budget and Mississippi's tax structure.