

# Revenue Options for a Strong Mississippi Economy

MEPC Policy Conference

October 21, 2011

Sara Miller

# Taxes for a Strong Economy

- Economy still struggling to recover
- Jobs not expected to recover to 2000 levels for 5 years
- Budget cuts hurt jobs
  - over 5000 state and local public service jobs lost in last since July 2009
- Education and workforce development need adequate funding to remain competitive

# MS General Fund Revenue

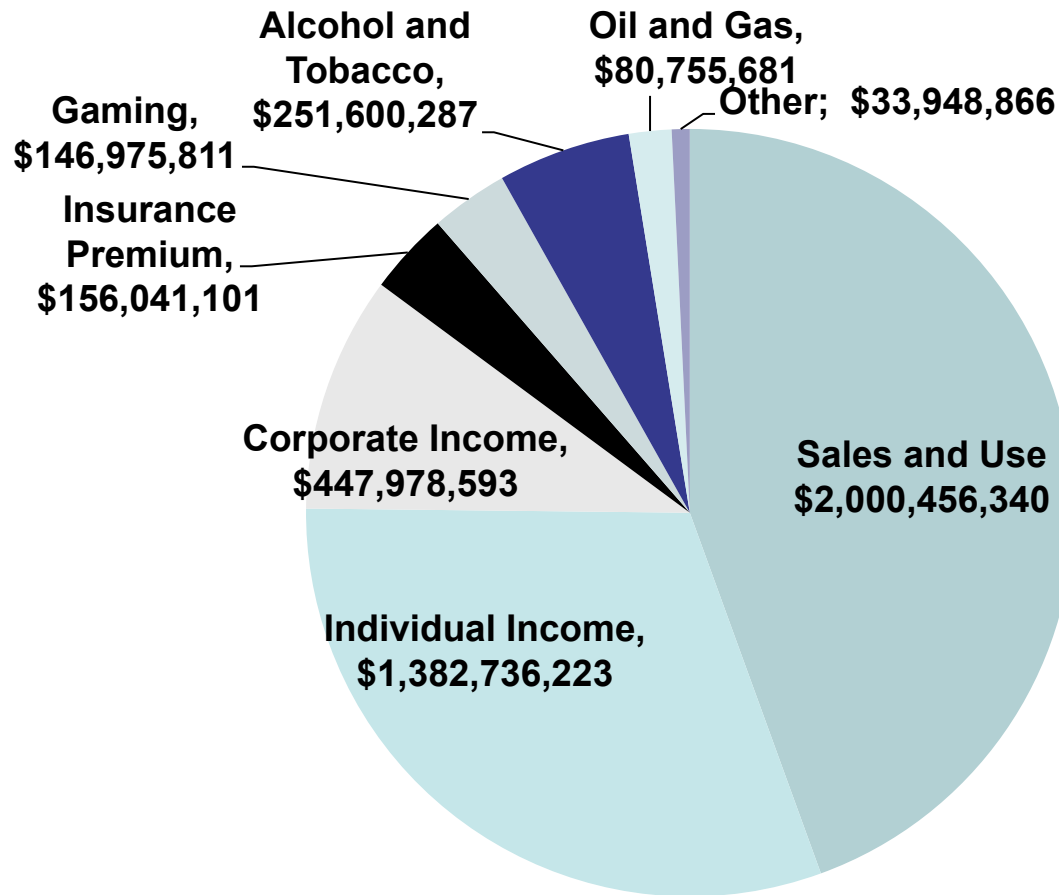


In Millions

Source: Mississippi Department of Revenue Report of Transfers

Note: \*2012 data is an estimate

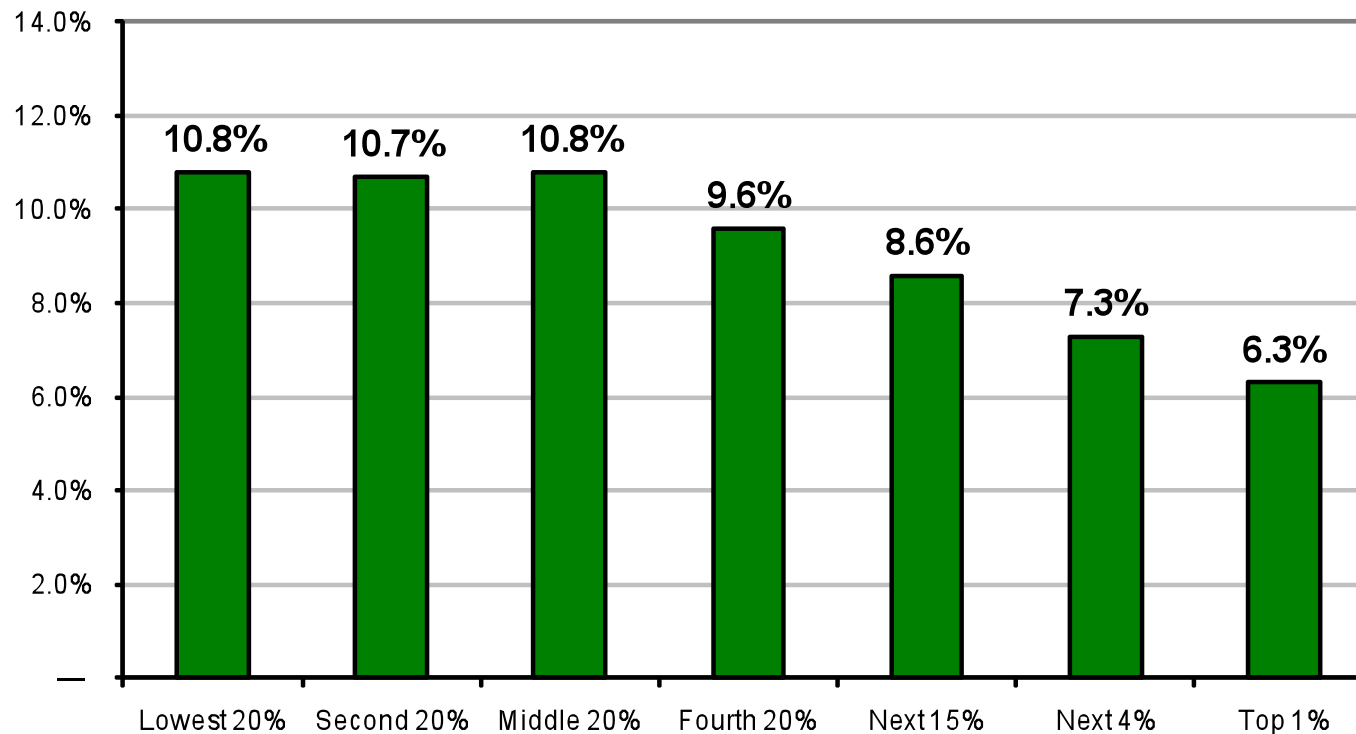
# FY 2011 General Fund Revenue by Source



Source: Department of Revenue Summary of Transfers

Total: \$4.5 Billion

# Taxes Paid as % of Income by MS Family Income Group, 2007



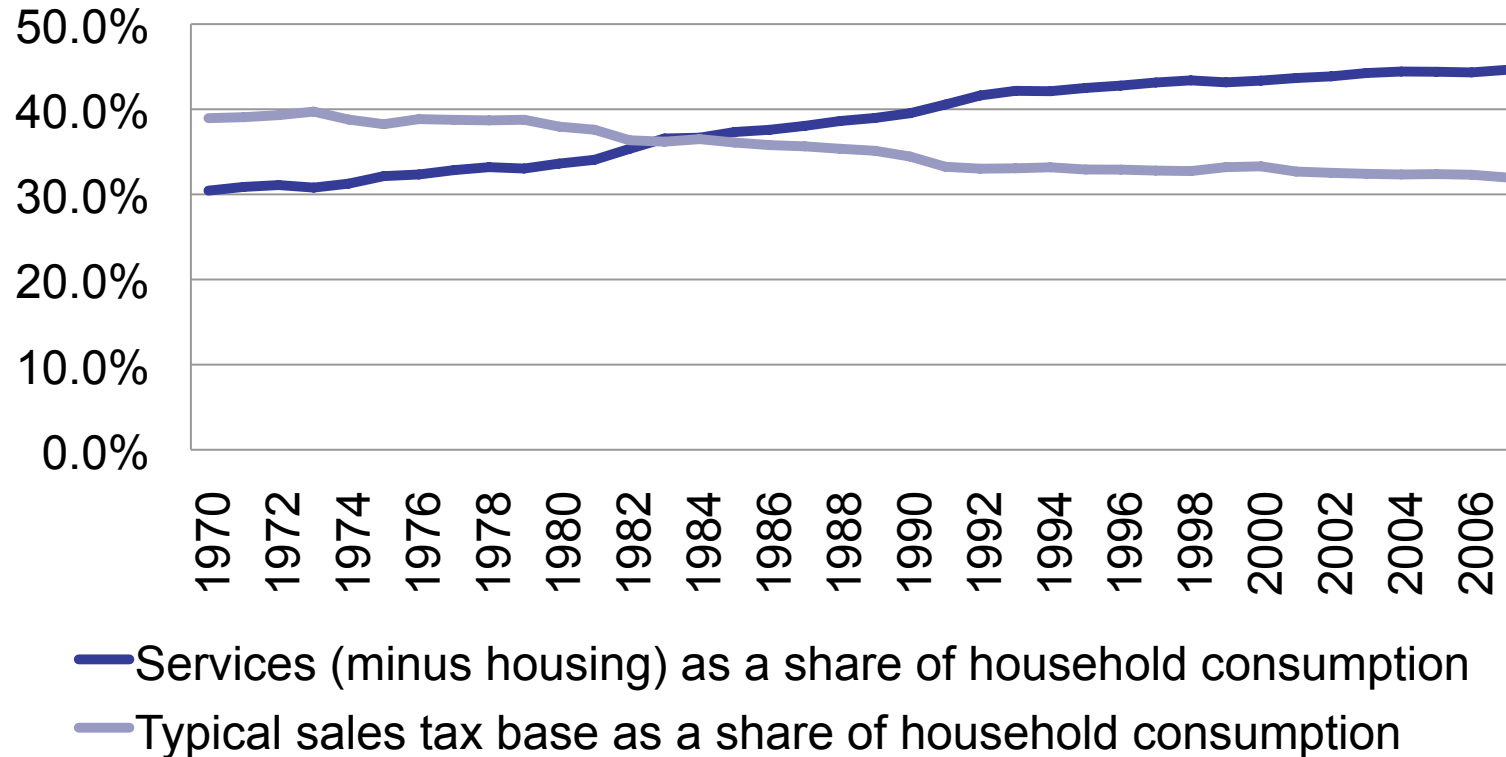
Income:            <\$15,000    \$15-24,000    \$24-39,000    \$39-70,000    \$70-135,000    \$135-319,000    >\$319,000

Source: Institute on Taxation and Economic Policy

# Revenue Options

- Broaden sales tax base to include more services
- Update income tax
  - 6% bracket over \$45,000 taxable income for personal and corporate income tax and 7.5% bracket over \$100,000
- Close corporate tax loopholes
- Temporarily reduce tax incentives

# Trends in Services vs Traditional Sales Tax Base in Last 30 Years



Source: Center on Budget and Policy Priorities

## Proposed New Services Taxed

- Recommended by the Governor's Tax Study Commission
- Examples include: membership to health clubs, beauty salon and spa services, pet grooming, motor vehicle towing, photographic services, interior design services, carpet and upholstery cleaning, janitorial services
- Estimated revenue--\$98 M
- Comprehensive taxation of services--\$300 M

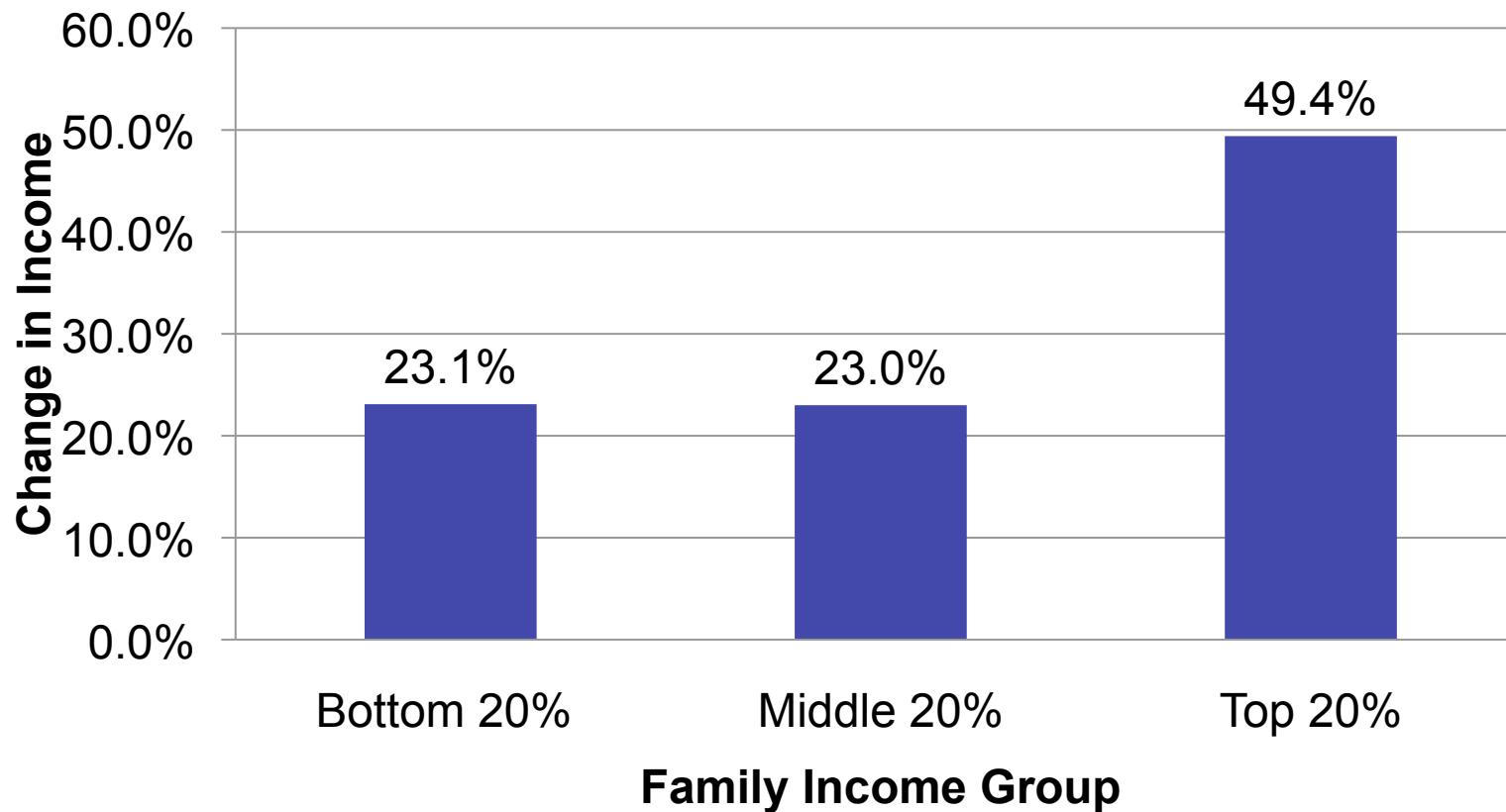
# Revenue Options

- Broaden sales tax base to include more services
- Update income tax
  - 6% bracket over \$45,000 taxable income for personal and corporate income tax and 7.5% bracket over \$100,000
- Close corporate tax loopholes
- Temporarily reduce tax incentives

## State Income Tax Brackets and Rates

- 3% on first \$5,000 of income
- 4% on next \$5,000, and
- 5% on income over \$10,000
- 6% on income over \$45,000 (proposed)
- 7.5% on income over \$100,000 (proposed)

# Income Change of MS Families by Income Group in Last 2 Decades



Source: Center on Budget and Policy Priorities

# Proposed New 6% Bracket

## Who would be included?

Family Type	Taxable Income	Standard Exemptions and Deductions	Income Threshold for 6% Bracket
Married Couple with Two Children	\$45,000	\$19,600	\$64,600
Single Parent with One Child	\$45,000	\$12,900	\$57,900
Single Person	\$45,000	\$9,400	\$54,400

Note: Assumes families taking standard deductions and exemptions

# Revenue Options

- Broaden sales tax base to include more services
- Update income tax
  - 6% bracket over \$45,000 taxable income for personal and corporate income tax and 7.5% bracket over \$100,000
- Close corporate tax loopholes
- Temporarily reduce tax incentives

# Corporate Tax Loopholes

- Some large, multi-state corporations use “tax planning” to shift income out of state
- PEER research shows 80% of all corporations (and 70% of the largest) in MS pay zero income tax
- Combined reporting would close these loopholes
- Need more auditors at Dept. of Revenue

# Revenue Options

- Broaden sales tax base to include more services
- Update income tax
  - 6% bracket over \$45,000 taxable income for personal and corporate income tax and 7.5% bracket over \$100,000
- Close corporate tax loopholes
- Temporarily reduce tax incentives

## Review and Reduce Tax Incentives

- Tax incentives are state spending
- Temporary reduction of 10% could save state \$6.3 M; 25% would save \$15.8 M
- For many tax incentives, effectiveness information not available
- Governor's Tax Study Commission recommended reviewing effectiveness of tax incentives regularly

# Revenue Option Estimates

Revenue Proposal	Estimated Annual Revenue
Broaden Sales Tax Base to include more services	\$98,000,000 to \$300,000,000
New 6% personal income tax bracket at \$45,000 and 7.5% at \$100,000	\$117,000,000
New 6% corporate income tax bracket at \$45,000 and 7.5% over \$100,000	\$150,000,000
Close Corporate Tax Loopholes	Estimate not available
Decrease tax incentives 10%	\$6,300,000

## More Information

- [www.mepconline.org](http://www.mepconline.org)
- Policy Matters Blog
- Upcoming report on Top Five Threats to Revenue in Mississippi

Sara Miller

[smiller@hope-ec.org](mailto:smiller@hope-ec.org)