



## A BALANCED APPROACH TO THE STATE BUDGET SHOULD INCLUDE TAX INCREASES TO ADDRESS STATE GENERAL FUND REVENUE SHORTFALLS

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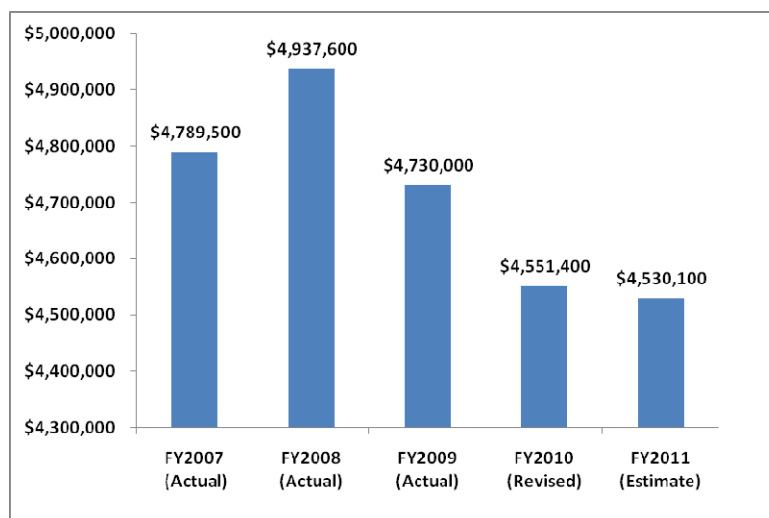
### Key Takeaway

The Joint Legislative Budget Committee adopted a State General Fund Revenue Estimate showing state revenue collections below projections made earlier in the year. The Revenue Estimate also anticipated very little growth in 2011. Given the decline in tax collections and the current state of the economy, funding state services will require a balanced approach that includes raising revenues at the state level. At the federal level, additional state fiscal relief is needed to lessen the harmful effects of state budget cuts and the impending end to ARRA funding.

### Revenue Outlook

General Fund Collections peaked in FY2008 with strong tax receipts fueled by hurricane recovery spending. However, shortly after the start of the recession began, Mississippi began to experience declines in revenue collections. Figure 1 demonstrates the actual and projected downward trend of Mississippi State General Fund Revenue from FY2007-2011. From FY 2008 to FY2009, there was a 4.2% decline in revenue collections. Estimates for FY2010, the current budget year, predict that Mississippi's revenue collections will fall by another 3.8%. The estimate for FY2011 anticipates that collections will hold steady; however, this estimate does not take into account the role of federal stimulus dollars in balancing the budget FY2010 and FY2011.

Figure 1: Actual and Estimated State General Fund Revenue Collections FY 2007-2011



Source: Mississippi Joint Legislative Budget Committee State of Mississippi

## **A Balanced Approach that Includes Raising Revenue**

Four reasons support a balanced approach that includes raising revenues in lieu of a cuts only strategy:

- First, deep cuts will mean that Mississippi's families that are working or that want to and need assistance the most will be the most likely to be hurt.
- Second, Mississippi has benefitted from some short-term funding boosts, such as increased tax collections following Hurricane Katrina that cannot be sustained.
- Third, scholarly research shows that budget cuts can do more harm to a state's economy than tax increases on high income families.
- Fourth, a balanced approach to Mississippi's financial challenges is needed to maintain the educational opportunities that are critical to building an economy that offers good jobs and enables Mississippi to compete in the 21st century.

Increasing taxes during a recession is not without precedent. Mississippi enacted its sales tax during the Great Depression. In more recent times, during the recession of 1981, Mississippi raised income taxes and sales taxes.

## **Revenue Options**

The following recommendations provide options for raising revenues:

- **Update the Income Tax** – Per Capita, Mississippians pay the least amount of personal income tax than in any other state with an income tax. By adding another bracket and increasing exemptions and deductions, the state would generate additional revenue while taking into consideration the ability of working families to pay the tax.
- **Update the Sales Tax** – Mississippi's sales tax is currently structured to capture the purchase of goods. As the economy has evolved, more Mississippians buy services. By expanding the sales tax to include more services, the state would generate additional revenue and spread out the tax burden;
- **Fees** – Many fees are currently below regional averages. By bringing fees to regional averages for state services, money would stay in the general fund rather than subsidizing the service;
- **Incentive reduction** – 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.

For the state to be competitive when the economy recovers, the state will need to take a balanced approach to building a budget that includes raising revenues. Beyond 2011, the gradual phase out of state fiscal relief is needed to lessen the harmful effects of state budget cuts and the impending end to federal stimulus dollars.