

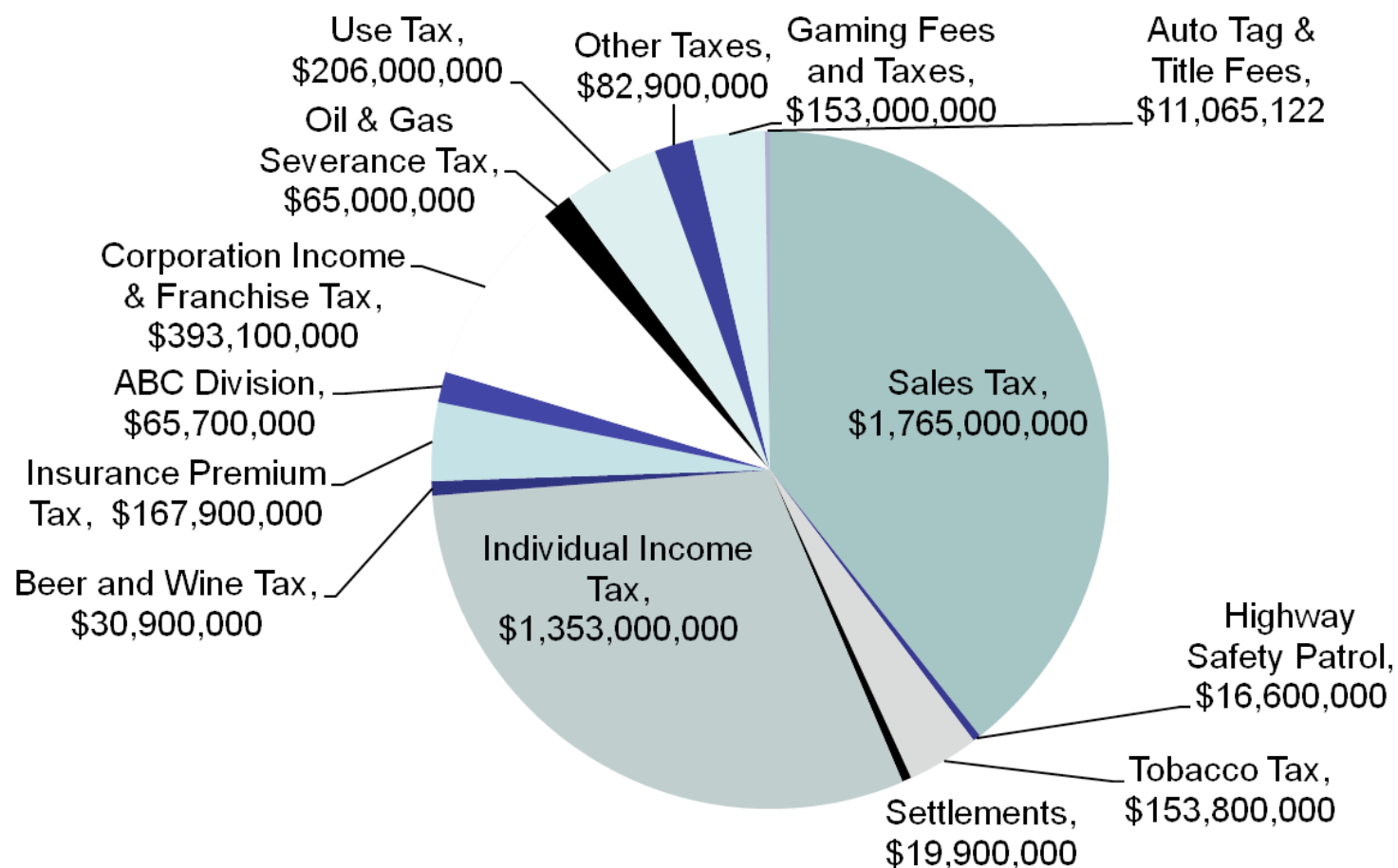
# **Revenue Options for a Balanced Approach**

MEPC Policy Conference

October 22, 2010

Sara Miller

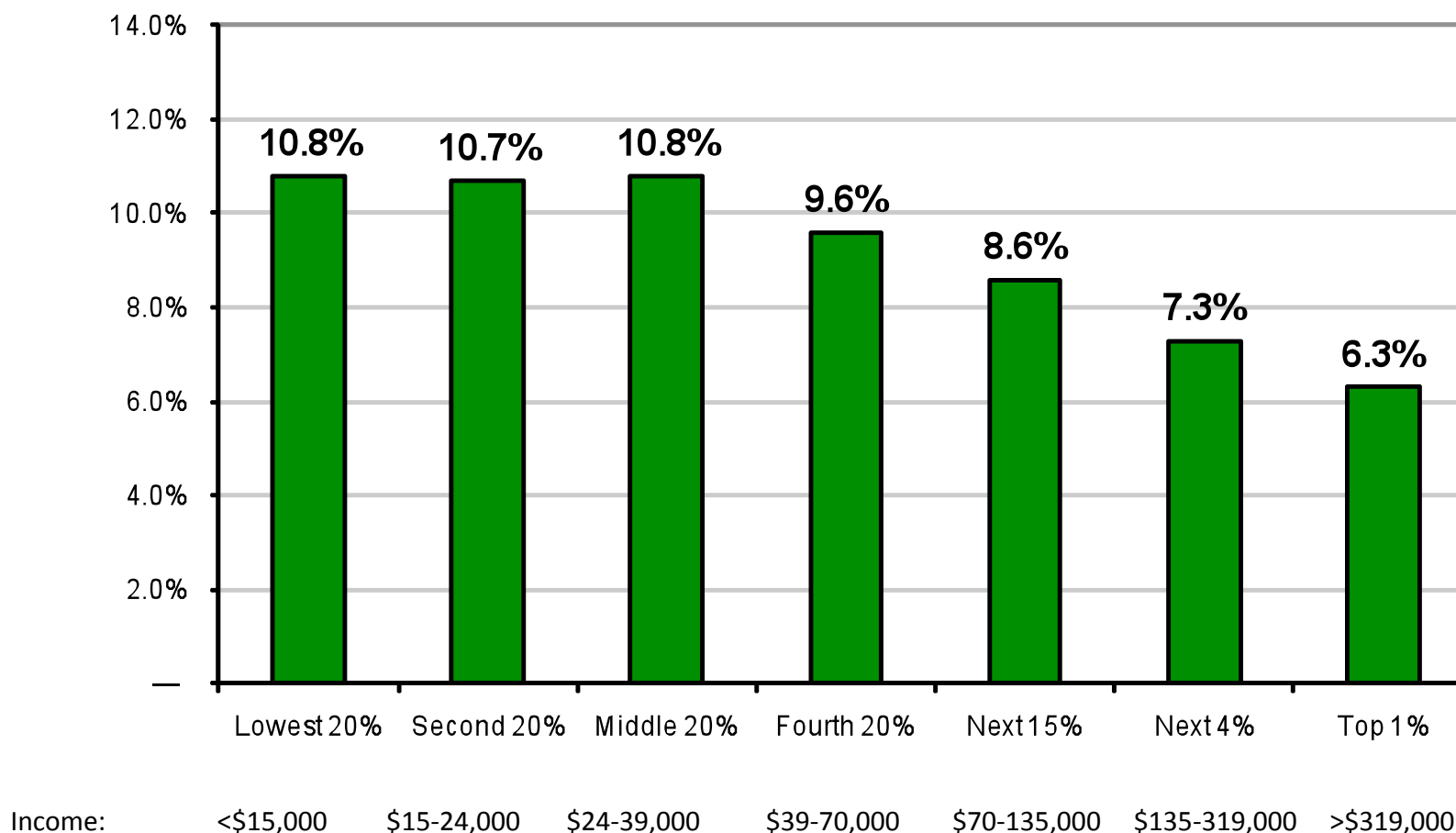
# FY 2011 State Tax Revenue Estimate by Source



Source: State of Mississippi Budget FY 2011

Total: \$4.9 Billion

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

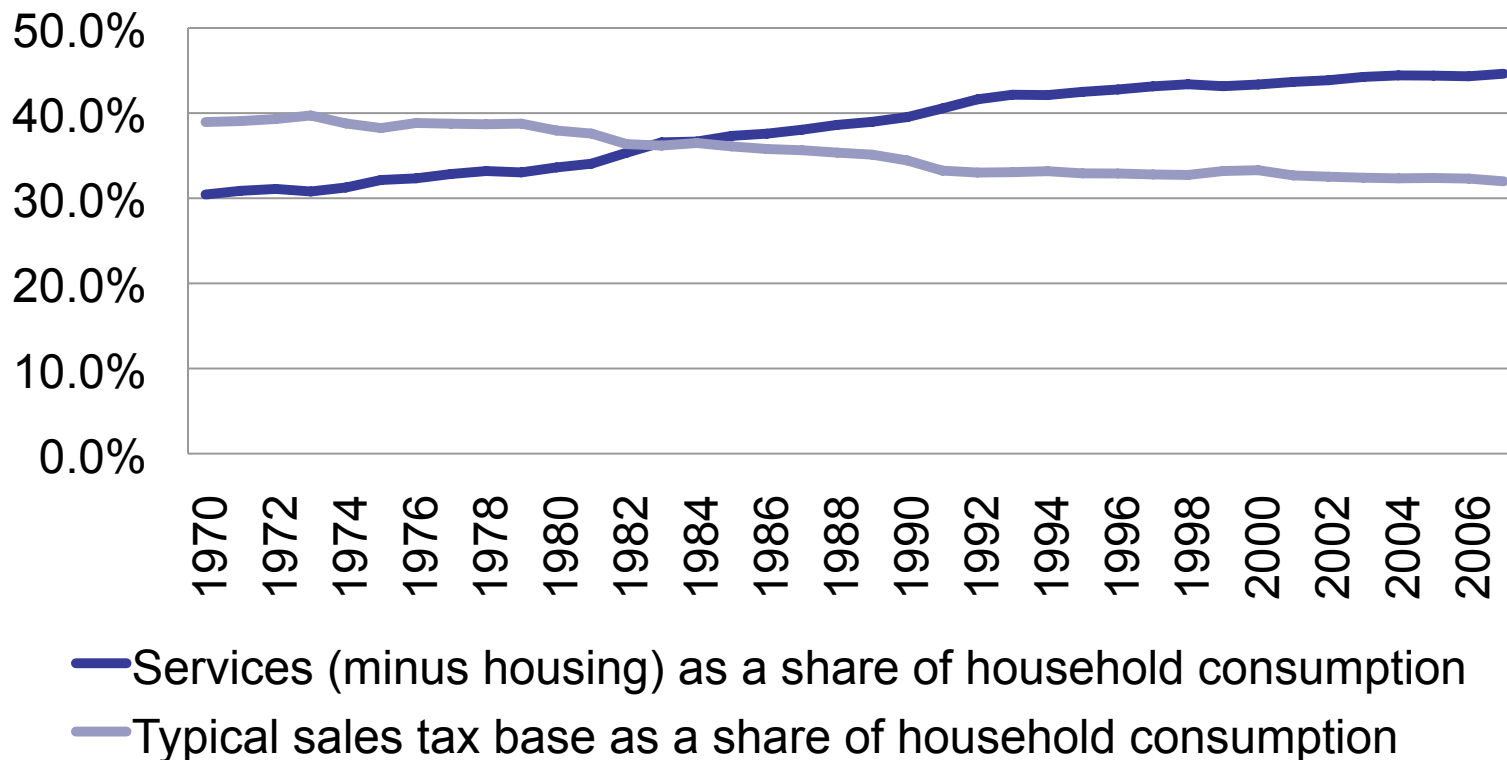


Source: Institute on Taxation and Economic Policy

# 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/or 7.5% bracket over \$100,000
- Temporarily reduce tax incentives

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



# 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, graphic design services
- Estimated revenue--\$98 M
- Comprehensive taxation of services--\$300 M

# Revenue Options

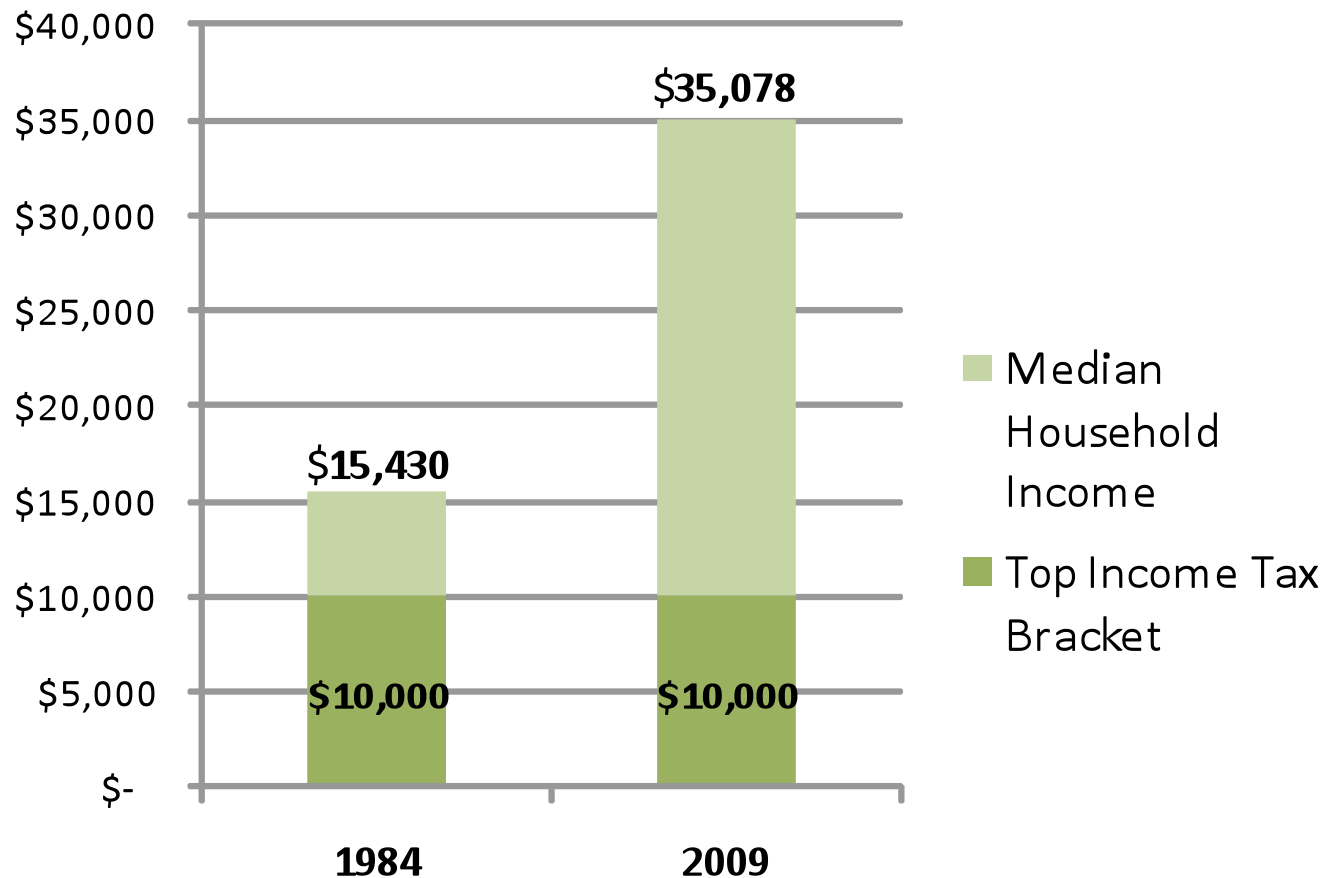
- Broaden sales tax base to include more services
- Update income tax
  - 6% bracket over \$45,000 taxable income for personal and corporate income tax and/or 7.5% bracket over \$100,000
- Temporarily reduce tax incentives

## State Income Tax Brackets and Rates

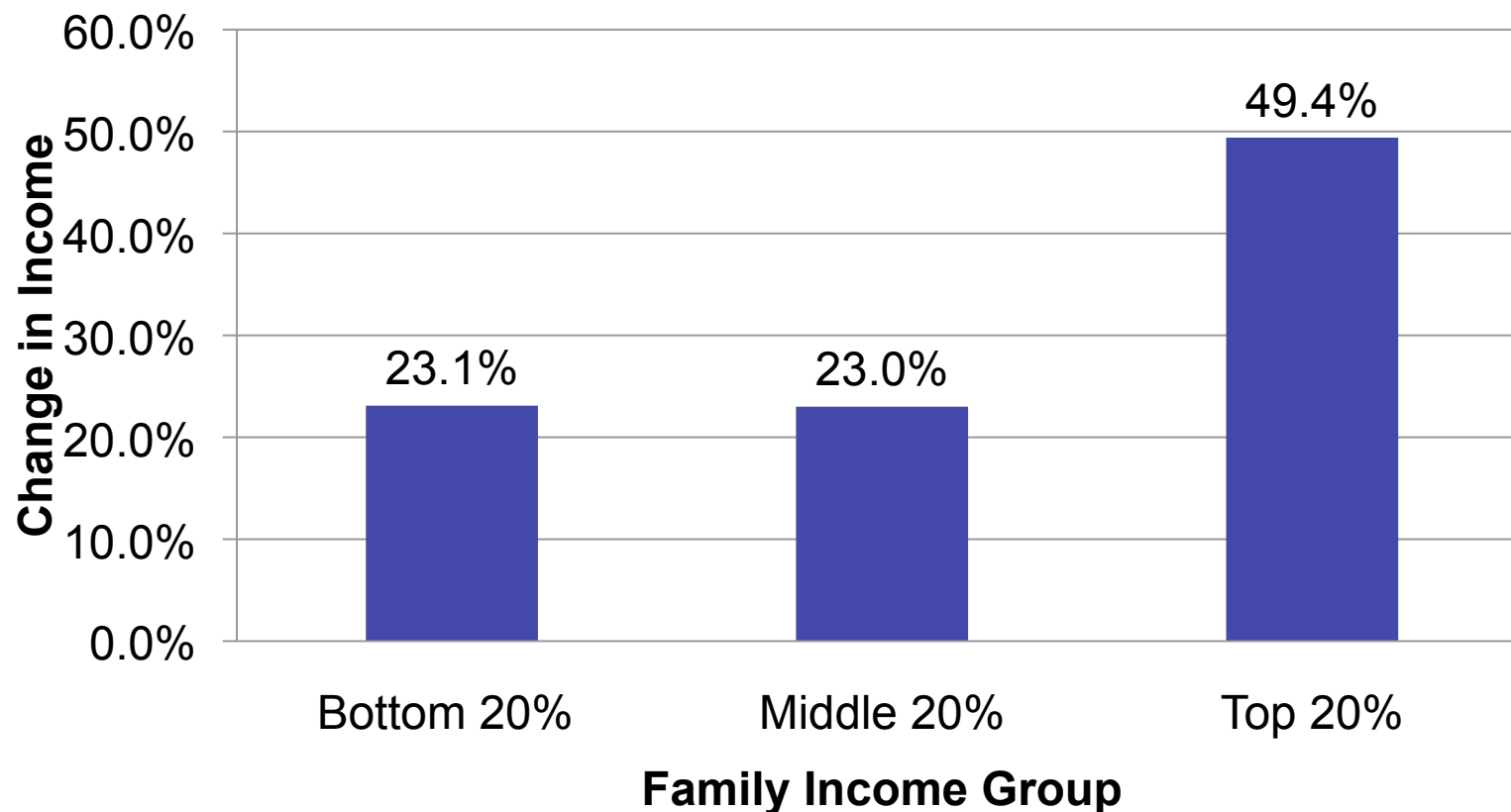
- 3% on first \$5,000 of income
  - 4% on next \$5,000, and
  - 5% on income over \$10,000
  - 6% on income over \$45,000 (proposed)
- 
- or additional
- 7.5% on income over \$100,000 (proposed)



# Median Income Grows--Brackets Remain Unchanged



# 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/or 7.5% bracket over \$100,000
- Temporarily reduce tax incentives

# Reduce Tax Incentives

- Tax incentives are state spending
- Temporary reduction of 10% could save state \$8.4 M; 25% would save \$21 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 and corporate income tax bracket at \$45,000 OR	\$119,000,000
New personal and corporate income tax brackets of 6% over \$45,000 and 7.5% over \$100,000	\$207,000,000 to \$280,000,000
Decrease tax incentives 10%	\$8,400,000