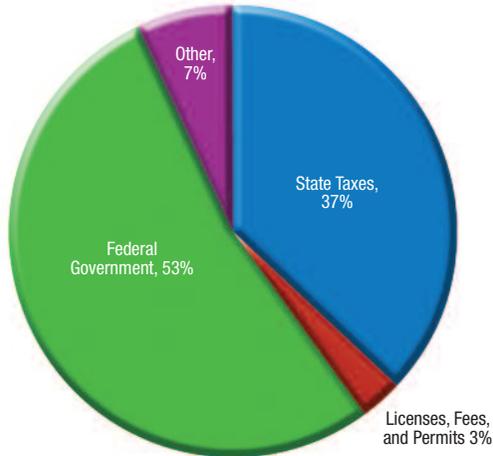


From Where Does Our State Get Its Money?

After seeing how state funds are used, a natural question is, “How does the state pay for our programs and services?” In order to fund our government’s work, state residents and businesses pay taxes and fees. The federal government also provides money to assist in providing certain state services (Figure 7).

Figure 7: State of Mississippi Governmental Fund Revenues by Source, FY 2011



Total = \$16,070,814,000

Source: Mississippi Comprehensive Annual Financial Report

In FY 2011, residents, businesses and the federal government contributed \$16.1 billion in combined state revenues.¹³ Of each dollar collected by the state of Mississippi, 37 cents came from state taxes; 53 cents came from the federal government; and 10 cents came from licenses, fees, interest, court settlements and other sources.

State Taxes

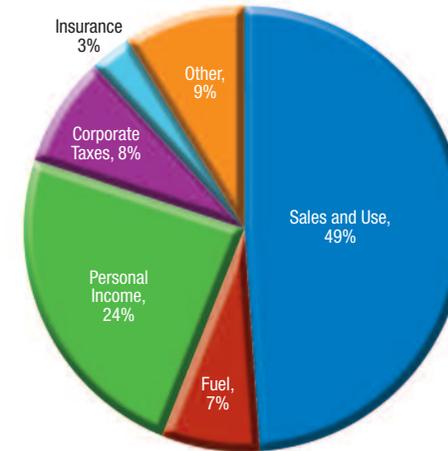
Individuals and businesses within our state contribute to the state’s funds by paying taxes. State taxes include:

- 1. *Sales taxes*, which are a percentage of the price of goods and services purchased in the state;
- 2. *Use taxes*, which are a percentage of the price of goods purchased outside of Mississippi for use in our state;
- 3. *Income taxes*, which are a percentage of individual and business income; and
- 4. *Special taxes on certain businesses*, such as casinos, and certain goods, like gasoline.

In FY 2011, we supported our state with \$5,901,128,000 in state taxes. Figure 8 shows Mississippi’s tax revenue collections by source in FY 2011.

As shown in Figure 8, sales and use taxes made up the largest portion of state tax revenue in FY 2011 at 49%. The second largest revenue stream was the personal income tax, which made up 24% of state revenues. The corporate income tax made up only 8% of state tax revenue.

Figure 8: Mississippi State Tax Revenue by Source FY 2011



Total = \$5,901,128,000

Source: Mississippi Comprehensive Annual Financial Report FY 2011, p. 32

Sales and Use Tax

Mississippi generated most of its state tax revenue, (\$2,916,298,000 or 49%) from sales and use taxes.¹⁴ According to an analysis of U.S. Census data, Mississippi ranked 16th in the country in the amount of general sales taxes paid per resident in FY 2009 (\$1,025).¹⁵

Traditionally, sales taxes are charged on the purchase of goods. Mississippi taxes most goods at a rate of 7%. Our sales tax on goods includes all retail purchases of tangible personal property including, but not limited to groceries, clothes, toiletries and over-the-counter medications. The state also charges a 5% sales tax on automobiles.¹⁶

Every state with a sales tax also has a use tax. This tax applies to items that are purchased outside of Mississippi for use in our state. The use tax is designed to prevent state residents from avoiding the sales tax by purchasing goods in other states. Residents who purchase goods in other states are legally required to report and pay tax on those purchases.

Mississippi also taxes some services at the rate of 7%. For example, the installation of air conditioning systems and electrical work are taxable services. However, some services are not taxed, including many professional services, such as: legal services, accounting services and other services like pet grooming or massage therapy.

Of the \$2.9 billion in sales taxes collected in FY 2011, about half of the collections came from taxing food, vehicles and general merchandise (including clothes).¹⁷ The tax on food is notable because our state charges one of the highest sales tax rates on groceries in the nation. Only Mississippi and Alabama still extend their full sales tax rate to groceries. Other states with a sales tax on groceries provide a rebate or credit that offsets some of the sales taxes paid on groceries by some residents.¹⁸

Mississippi—as required of all states by federal law—does exempt food purchases made through the **Supplemental Nutritional Assistance Program (SNAP)** and through the Women, Infant and Children’s (WIC) Program from sales tax. Nonetheless, most recipients have to make other food purchases to supplement their food assistance and these purchases are still subject to the full sales tax.

Personal Income Taxes

In FY 2011, the personal income tax was our state’s second largest source of tax revenue. Mississippi collected 24% of its tax revenues (or \$1,409,473,000) from individual income taxes.¹⁹ Of the 43 states that have an income tax, our state ranked 39th in the amount of income taxes paid per person (\$503), according to an analysis of FY 2009 U.S. Census data.²⁰

Mississippi’s income tax is relatively flat, meaning that most taxpayers pay a similar effective tax rate. There are three tax brackets—3%, 4% and 5%—and everyone with more than \$10,000 in taxable income pays at the top (5%) rate.²¹ Taxable income is total income minus a number of exemptions and deductions, which adds up to about \$20,000 for a typical family of four, but can be more if the taxpayer itemizes deductions.²²

Corporate Income Taxes

The **corporate income tax** is a tax on business profits. Only about 8% of the state’s revenue in FY 2011 came from taxing businesses through the corporate income tax. As with the personal income tax, corporate income tax rates are 3%, 4% and 5% depending on income.²³

A corporation’s income tax liability may be reduced by one of the state’s many corporate tax credits. Tax credits lower the tax owed by the corporation by the amount of the tax credit. In Mississippi, tax credits are provided to corporations for a wide variety of actions, including creating new jobs, providing child/dependent care for employees, and producing motion pictures in the state.²⁴

Mississippi also charges a **franchise tax** on businesses operating in the state at a rate of \$2.50 per \$1,000 of the value of resources invested in the state.²⁵ The minimum franchise tax to be paid by corporations in our state is \$25. Corporations pay the franchise tax on top of their corporate income tax liability.

In FY 2011, our state collected \$395,054,012 in corporate income and franchise taxes after granting \$46,772,050 in tax credits to corporations.²⁶ The collections in 2011 amounted to \$110 per capita, for a ranking of 25th out of the 47 states with corporate income tax collections.²⁷

Other State Taxes

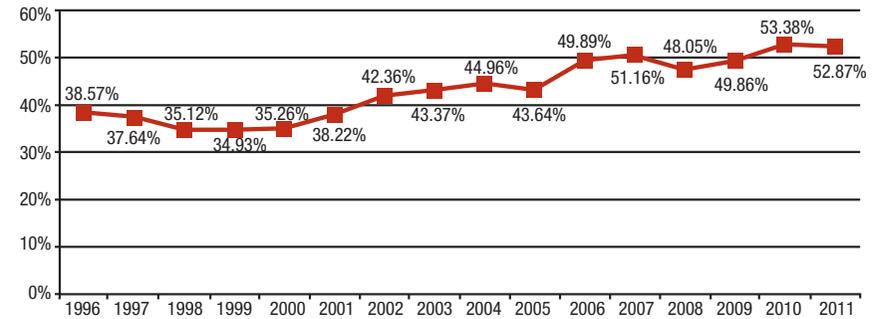
The remaining 19% of our state’s tax revenue came from a number of other taxes including: cigarette taxes, taxes on gaming establishments, and taxes on fuel and insurance.²⁸

Other Revenue Sources

Federal Funds

As shown in *Figure 7*, 53%, or \$8.5 billion, of state revenues came from the federal government in FY 2011. The federal government provides money to states to help pay for specific programs. Often, the state is required to pay a portion of the program costs by matching federal dollars. For example, in FY 2011, the state’s federal Medicaid match rate was 75%, meaning that for each dollar of Medicaid spending, 25 cents were paid by the state and 75 cents were paid by the federal government.²⁹ Over the last several years, Mississippi has experienced an increase in the share of total state revenues it receives from the federal government (*Figure 9*). Federal Medicaid payments to cover the rising cost of health care account for a large portion of the increase.

Figure 9: Federal Revenues as a Share of Total Governmental Fund Revenues FY 1996 – FY 2011



Source: Mississippi Comprehensive Annual Financial Reports, FY 2003 – FY 2011