Hope policy institute

WHO REALLY BENEFITS:
WHY LARGE TAX CUTS DON'T BENEFIT WORKING FAMILIES & COMMUNITIES

COSTLY INCOME & FRANCHISE TAX CUTS MAINLY BENEFIT CORPORATIONS & THE WEALTHY

Large tax reductions proposed at a time when Mississippi already is cutting important public investments due to a lack of revenue would erode the state's ability to create jobs and have a competitive economy.

Over the past two years major tax cut proposals have been proposed that would cut and flatten the state's income tax and cut corporate taxes, including the state's corporate franchise tax. The proposed cuts would reduce general fund collections and limit revenue to fund schools, support public safety, protect public health and invest in the state's road and bridge system.

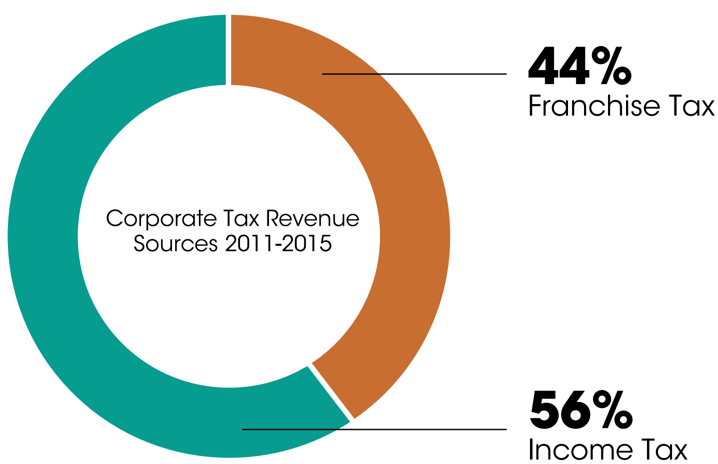
These tax cut proposals have come at an especially inopportune time because Mississippi's state finances are already under severe pressure. The state made mid-year budget cuts in January because revenues were coming in below projections. In addition, discussions are taking place about increasing gasoline or sales taxes to support badly needed maintenance for the state's roads and bridges – raising the possibility that one tax would go up while others go down, for a potential net loss to the state, and a tax shift from corporations and wealthy Mississippians to Mississippi's working families.

FRANCHISE AND INCOME TAX CUTS: WHO STANDS TO BENEFIT?

Two major components of many recent tax cut packages are the elimination of the state's corporate franchise tax and elimination of the state's income tax on taxable income below $5,000 or $10,000. Combined, these provisions could cost up to $565 million of the plan's overall cost.

Corporate Franchise Tax Elimination

For the past five years, franchise tax collections have averaged about $233 million annually, bringing in $261 million in 2015. The franchise tax is a significant source of revenue. Over the last five years it has made up 44% of Mississippi's corporate tax collections.



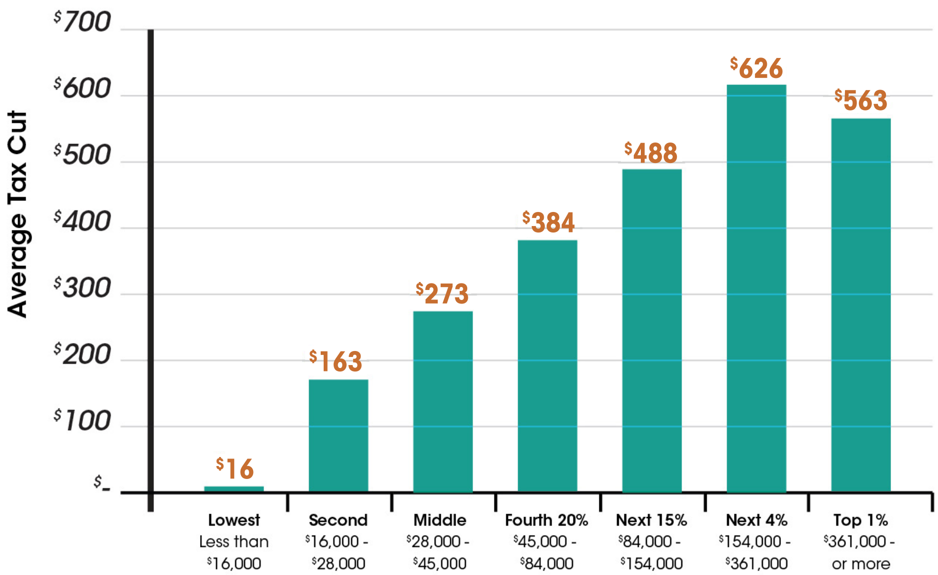
FRANCHISE TAX= LARGE PORTION OF CORPORATE TAX REVENUE

Source: *Hope Policy Institute Analysis of Data from the Mississippi Department of Revenue Annual Reports*

Most corporations in Mississippi pay very little in corporate taxes to the state. Corporate taxes make up less than $1 of every $10 collected in general fund tax revenue. Three out of every four corporations in the state pay less than $150 annually in corporate income tax and more than half of corporations (more than 34,000) pay zero. For many corporate taxpayers, the franchise tax is the only corporate tax they have to pay. More than half of corporations who pay the franchise tax (61%) pay no corporate income tax.

Income Tax Bracket Elimination

Another major provision of many of the recent tax cut proposals is to eliminate the state's personal and corporate income tax on taxable income below a certain level by eliminating one or two of the income tax brackets. The estimated cost to the state to eliminate taxable income up to $10,000 from the income tax would be $304 million a year. Wealthy Mississippians stand to gain the most from this tax cut, leaving many working families continuing to struggle to make ends meet. The chart below shows the average household tax cut for families at each income level. For example, households making less than $16,000 a year would get an average cut of only $16 while those making over $361,000 would get a $563 tax cut, on average. For corporations, currently almost 80% of corporations pay less than $350 in corporate income tax per year, and, if the first two income tax brackets are eliminated, would pay zero.



AVERAGE TAX CUT FROM ELIMINATING 3% AND 4% INDIVIDUAL INCOME TAX BRACKET BY INCOME GROUP

Source: *Hope Policy Institute Analysis of Data from the Institute on Taxation and Economic Policy*

Cutting taxes on income below $10,000 a year might sound at first like a boon for households struggling to get by. In fact, many Mississippians in that situation already owe little or no state income tax because they don't earn much taxable income beyond what they are allowed to deduct. With standard exemptions and deductions, a family of four with a married couple and two children who claim standard exemptions and deductions only owes income taxes on what they earn over $19,600. The tax cut would not only go to those earning less than $10,000 in taxable income; it would also cut the taxes on the first $10,000 of taxable income for wealthier families. Individual taxpayers could get a maximum tax cut of $350 under the plan, while a married couple filing jointly could get a maximum cut of $700.

And, while the lowest-income Mississippi households owe no state income tax they do pay a large amount of other taxes. In fact, the lowest-income households pay in sales tax, on average, a share of their income seven times greater than the share of income that the top one percent of households (those making over about $300,000 a year) pay in sales tax.

Big Tax Cuts Don't Work

Large tax cuts are often proposed with the claim that they will help create jobs and build a strong economy. The opposite turns out to be the case. The experience around the country is that most jobs are created by in-state startups and other young, fast-growing companies already in a state – not by big companies moving to a state. At the same time, big tax cuts take resources away from the public investments that are proven to make a state attractive to entrepreneurs – such as schools, safe communities, and a reliable transportation system.

Other states including Louisiana, North Carolina, Illinois, Oklahoma and Kansas are now feeling the harmful effects of large tax cuts that erode public investment in broad prosperity. For example, Louisiana's legislature recently ended a special session where it cut exemptions and raised sales taxes to deal with the impact of previous tax cuts that have led to unprecedented cuts to higher education and other important services.

Mississippi's weaknesses lie in not having maintained a sufficient level of public investment in the things that would make our economy strong. Large income and corporate tax cuts like those under consideration would make that situation worse, not better.

Hope
policy institute

Hope Policy Institute serves as the policy division of HOPE (Hope Enterprise Corporation and Hope Credit Union). Through independent analysis grounded in the experiences of HOPE's programs and its members, the Policy Institute influences policies that affect the allocation of resources and facilitates an environment to ensure that all people prosper. The Institute's areas of emphasis include:

- Budget & Tax
- Development Finance
- Education & Workforce Development
- Financial Inclusion
- Health & Healthcare
- Housing

HOPE's intentional and translational policy approach to advocacy recognizes that while each loan and every account supported by HOPE is important, the effects are small relative to the needs of the region. Only by influencing public policies and the practices of private institutions is lasting, scalable impact achieved.