

MISSISSIPPI AT A GLANCE:

Mississippi's tax system benefits from a broader sales tax base than most other Southern states. But its income tax is far from modern with its relatively low top rate, narrow brackets and lack of a refundable earned income tax credit.

Has the state...	YES	NO	More Work Needed
1. Broadened sales tax base?		<input checked="" type="checkbox"/>	🕒
2. Modernized sales taxes?	✓		🕒
3. Raised cigarette tax to US average?		<input checked="" type="checkbox"/>	🕒
4. Enacted Earned Income Tax Credit?		<input checked="" type="checkbox"/>	🕒
5. Modernized income tax bracket?		<input checked="" type="checkbox"/>	🕒
6. Dealt with hidden income tax increases?		<input checked="" type="checkbox"/>	🕒
7. Rethought senior tax preferences?		<input checked="" type="checkbox"/>	🕒
8. Eliminated corporate loopholes?	✓		🕒
9. Linked property taxes and ability to pay?		<input checked="" type="checkbox"/>	🕒
10. Strengthened accountability?	✓		🕒
11. Conducted a performance review?		<input checked="" type="checkbox"/>	🕒

A better Mississippi...

Idea 1: Broaden the sales tax base. Mississippi should review sales tax exemptions to eliminate those that don't meet contemporary economic needs. Mississippi is one of the few Southern states without a sales tax holiday.

Idea 2: Modernize sales taxes for the new economy. Mississippi should continue to modernize its policy on taxing services. In 2004, it taxed 74 out of 168 possible services, above the national average. It also should approve the SSUTA.

Idea 3: Raise cigarette taxes to promote public health.

Mississippi should raise its 18-cent-per-pack cigarette tax to the national average of \$0.92 per pack to reduce smoking and promote public health. Research shows that doing so would likely cause 17,700 current adult smokers to quit. Long-term health savings from smoking declines are estimated to be \$742.1 million.

Idea 4: Enact a state Earned Income Tax Credit. Mississippi should enact a refundable earned income tax credit to help to bring working families' incomes above poverty. Some 366,518 Mississippi taxpayers in 2003 claimed the federal earned income tax credit for a total of \$768,994,361. A refundable state EITC would cost an estimated \$75 million if set at 10 percent of the federal credit.

Idea 5: Modernize state income brackets. Mississippi should modernize its income tax structure by broadening brackets and consider the creation of a new top rate to provide progressive balance. The state's top tax bracket is 5 percent for income \$10,000 and above for single filers.

Idea 6: Account for inflation. Mississippi should enact strategies to adjust taxes for inflation to promote long-term *fairness* and reduce back-door inflationary tax hikes. The state does not index personal exemptions, standard deductions, credits or brackets for inflation. The state did not tax poor households in 2004, but did in 2005 because its income tax system does not automatically adjust for inflation.

Idea 7: Rethink senior tax preferences. Mississippi should redesign tax codes to provide fair relief to seniors based on *ability-to-pay* instead of age alone. The state currently provides seniors with a full exemption for Social Security income, a private pension income exemption, an additional deduction/exemption, and property tax preferences.

Idea 8: Eliminate corporate tax loopholes. While Mississippi does not require combined reporting, it does restrict the use of the passive investment company (or Delaware-holding company) loophole. In addition, Mississippi is one of the few Southern states to enact a throwback rule.

Idea 9: Connect property taxes and *ability-to-pay*. If Mississippi insists on property tax reform, it should use a property tax circuit breaker to shield residents from excessive taxation and connect property taxes with *ability-to-pay*. Mississippi had the 10th lowest per capita property taxes in the nation and the 15th lowest as a percent of personal income in 2002.

Idea 10: Strengthen accountability. Mississippi currently has an annual tax expenditure report. It is important for it to be made easily accessible to the public.

Idea 11: Review the performance of government. Mississippi should conduct a comprehensive performance review to boost government efficiency, save money and improve customer service. Mississippi has not conducted a comprehensive statewide performance review over the last five years.