1 Executive Summary (To be completed at the end of the final report)

2 Introduction

On January 3, 2008, Governor Haley Barbour announced the creation of a public-private Blue Ribbon Tax Study Commission (the Commission) developed to study Mississippi's tax code and recommend reforms. Nationally, state tax systems are becoming obsolete and are not keeping up with the ever-changing United States economy. Piecemeal updates are no longer sufficient and comprehensive examinations are needed. According to the National Conference of State Legislatures, 37 states have conducted tax studies since 2000 to revisit how they assess taxes on their people. These states include our southern neighbors North Carolina, South Carolina, Tennessee, and Georgia.

3 Mission

With the goal of being revenue neutral, this Commission was charged with a comprehensive study of Mississippi's tax laws, which includes how they fit together with federal and local taxation of Mississippi citizens. The Commission was directed to focus on revenue and not spending. The Commission was asked to analyze tax burden and how it is spread across all taxpayers while maintaining a focus on four essential and guiding principles:

- 3.1 Compliance: The system must provide its taxpayers with the tools and information necessary to comply with the laws.
- 3.2 Fairness: The system must ensure that every citizen pays his or her fair share.
- 3.3 Job Creation: The system should be pro-growth and pro-job creation.
- 3.4 Revenue Stability: The system must generate sufficient revenue to fund state government at necessary and appropriate levels, while recognizing that local governments' and other political subdivisions' operating revenue are funded to a significant degree from state tax dollars.

Compliance and fairness are concepts that go hand in hand. "Fair, efficient and customer-focused tax administration is critical to the effectiveness of our voluntary system of tax compliance. A burdensome, unfair, or otherwise biased administrative system negatively impacts tax compliance and hinders economic competitiveness."[1]

Compliance is an issue to a varying extent with all Mississippi taxes. High voluntary compliance rates can be attributable to a state providing its citizens with the tools needed to understand the tax laws, a system that evenly applies its laws and establishment of a fair system for review.

Every taxing structure has a gap between the correct amount of tax owed and the amount of tax that is paid. This difference is commonly referred to as the "tax gap". The Internal Revenue Service (IRS) states that the non-compliance rate for all Federal taxes is 16.3 percent. Using similar assumptions, the Mississippi State Tax Commission (MSTC) estimates that as much as $120,000,000 may be lost each year to taxpayers who simply do not file returns or under pay their fair share.

The Commission recognizes the need to increase compliance and close the "tax gap". While the Commission sees a need for Mississippi to study its tax gap in detail, the Commission also believes that the gap can be narrowed in the short term. This can best be accomplished through updating resources, strengthening enforcement of existing laws and taxpayer education.

MSTC, the agency charged with administering Mississippi's tax laws, has information technology systems in place that are not effective. A new tax management software system would enable the agency to enhance voluntary compliance and accurately collect all the taxes due. A new tax management software system will produce additional revenue resulting in a reduction in the current tax gap. It will permit the agency to provide better customer

[1] "Fair, Efficient, and Customer-Focused Tax Administration: Policy Position." Council On State Taxation. 2007. 12 Aug. 2008 < http://www.cost.org/uploadedFiles/About_COST/Policy_Statement/2007AdvocacyAgenda.pdf>

service to the taxpayers currently paying taxes and ensure fairness through more comprehensive and consistent application of current tax laws.

Maintaining the status-quo is not an option for state governments and Mississippi is no exception. The state must continue to structure itself to create a business-friendly environment that will be focused on increasing economic growth and employment. As of June 2008, Mississippi's unemployment rate was 6.9% which was higher than the national unemployment rate of 5.5%.

The Commission believes that growth and job creation must be a primary focus for any recommended changes to the existing tax structure. *Rich States Poor States – An ALEC-Laffer State Economic Competitiveness Index* says that,"States with the lowest tax, spending, and regulatory burdens win the competitiveness contest period. These are primarily in the South and Southwest regions of the nation."[2]

The Commission found Mississippi has a diversified and balanced tax structure which ranks well in national studies, with room for improvement in specific areas. This diversified structure is necessary to provide appropriate revenue levels sufficient to sustain necessary services through periods of economic prosperity as well as economic downturns.

According to *Governing* magazine, January 2008, states can "reduce the overall revenue ups and downs by building a diversified portfolio of taxes, relying not just on a single tax or on a single industry but instead using several taxes, such as an income tax, a sales tax, and selective excise taxes."[3]

[2] Laffer, Arthur, and Stephen Moore. Rich States / Poor States. Washington, D.C.: American Legislative Exchange Council, 2007.
[3] Barrett, Katherine, and Richard Greene. "Growth & Taxes." Governing Jan. 2008: 20-37.

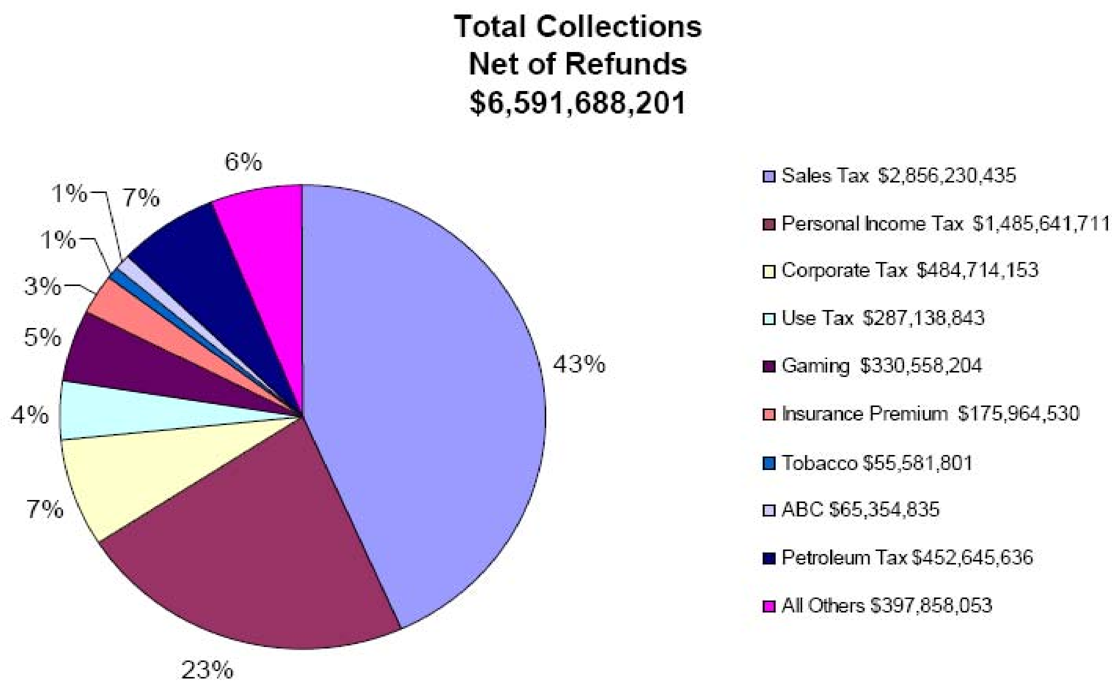
"It's been known for a long time that obsolete state tax systems are not producing the revenue states need. But what's becoming clear today is that those tax systems are not only failing to keep up with the dramatic shifts in the U. S. Economy. They are a drag on economic growth." (Growth & Taxes, January 2008 *Governing)* [4]

[4] Ibid.

4. The Mississippi System

Mississippi collects state taxes from individuals and businesses. State taxes include sales and use tax, personal income and withholding tax, corporate income and franchise tax, gaming tax, petroleum tax, insurance premium tax, finance company privilege tax, severance tax, and others. Currently, the state's general fund revenues are about equally split between income taxes (personal and corporate) and consumption taxes (sales and use). These two groups of taxes together make up more than 80 percent of the general fund revenues.
(see Table 1, Source: MSTC)

Table 1



5. Findings

5.1 Overview

Mississippi's tax structure is diversified as a whole and with minor exceptions is competitive with our neighboring states. However, the Commission believes that some modifications are necessary in order to better meet the mission of the Commission as outlined above. The Commission's findings are divided into short-term and long-term recommendations that move Mississippi closer to the objectives of compliance, job creation, fairness, and revenue stability.

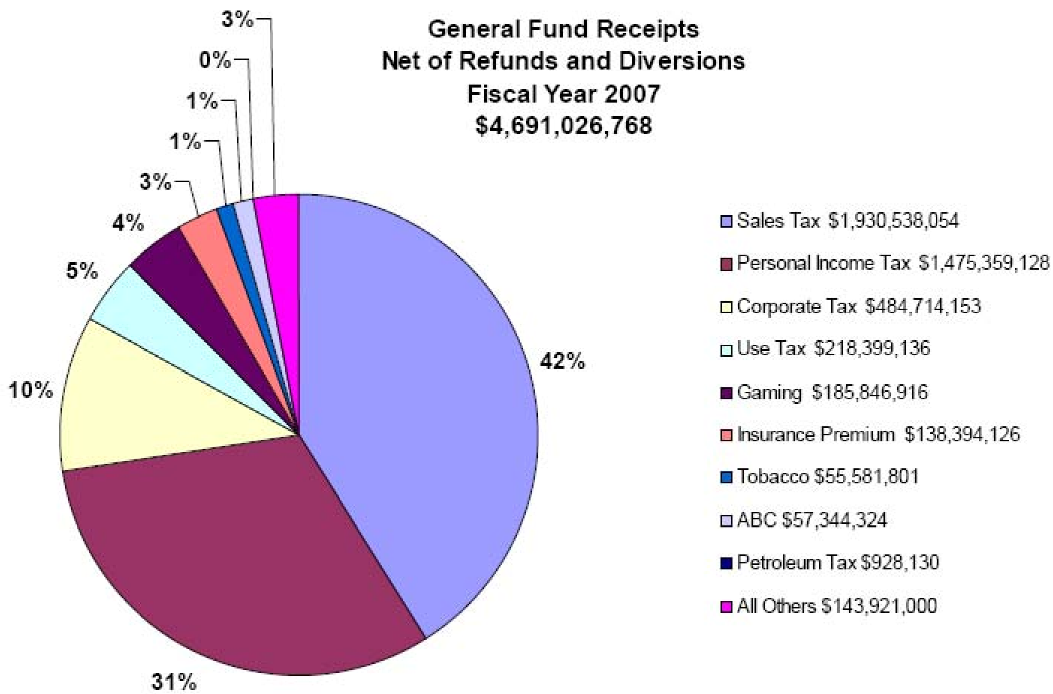
To determine the potential changes that should be addressed, the Commission was separated into five subcommittees:

5.2 Business Taxation

The Tax Foundation's 2008 edition of the State Business Climate Index (based on corporate taxes, individual income taxes, sales taxes, unemployment insurance taxes, and taxes on property including residential and commercial property) ranked Mississippi 18th in *best tax climate in the country.* According to the Tax Foundation, "Regionally, Mississippi is about middle-of-the-pack compared with Florida (5th), Texas (8th), Missouri (15th), Tennessee (16th), Georgia (20th), Alabama (21st), Louisiana (32nd), and Arkansas (35th)".[5] The Council on State Taxation also found that thirty-two states have a greater total business tax burden than Mississippi.

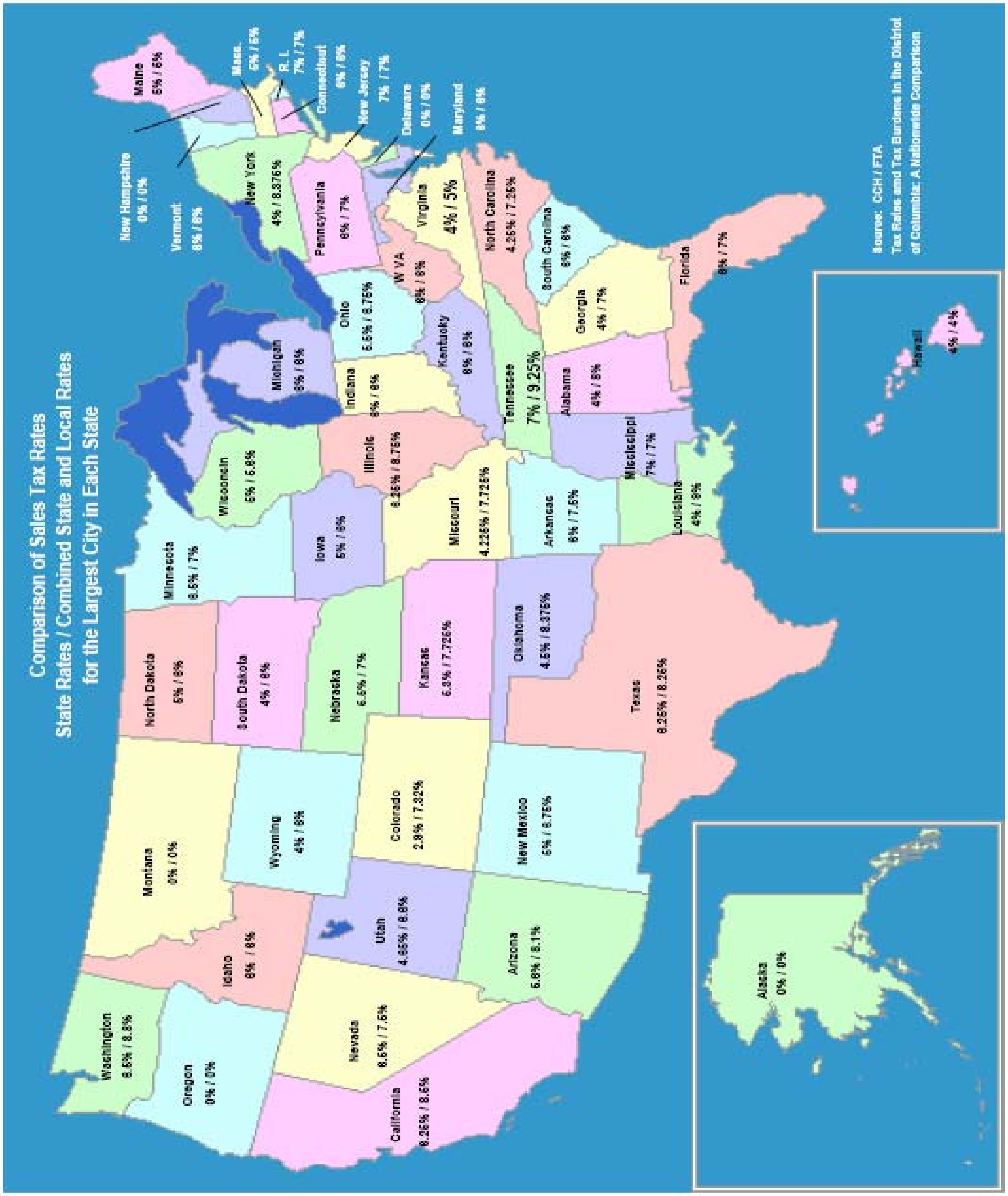
[5] "The Facts on Mississippi's Tax Climate." The Tax Foundation. 2008. 12 Aug 2008 < http://www.taxfoundation.org/research/topic/38.html >

Currently, corporate income taxes are approximately ten percent of the taxes collected in Mississippi (see Table 2, Source: MSTC). When looking at the tax structure as a competitive tool for economic development, the Tax Foundation ranks Mississippi as the 8th best state in the country based purely at corporate income tax rankings.



5.3 Consumption Tax

Mississippi is often erroneously cited as having a high sales tax rate; however, Mississippi, unlike many other states, does not have sales taxes assessed at the local level. Instead, Mississippi collects and then diverts a portion of the state's sales tax revenue to local municipalities. When compared to the combined state and local sales tax rates, Mississippi's sales tax rates are actually lower than Louisiana, Arkansas, and Tennessee (see Table 3, Source: CCH: FTA).



Disclaimer: This Tax Study report is a DRAFT only. This is not the final report of the Commission. All language and recommendations included in this draft report are subject to edits and a vote. Thus, as currently written, some of the recommendations may be contradictory.

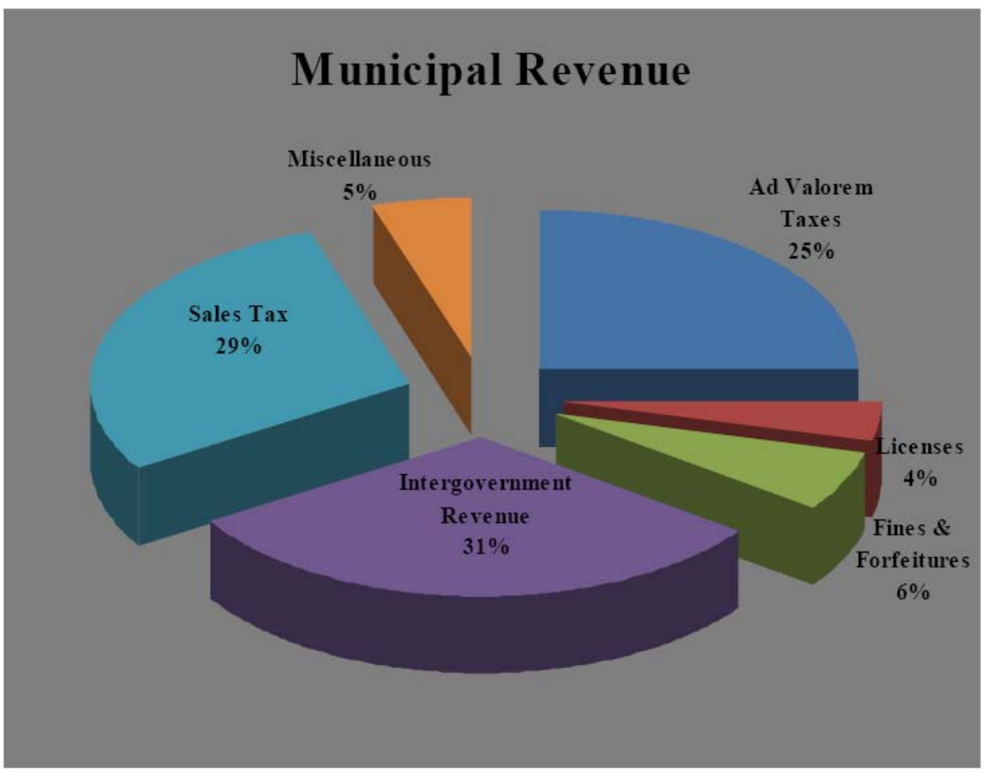
Additionally, the Commission found that Mississippi's method of collection and distribution to the municipalities is one of the simplest in the nation and is very business friendly.

Sales tax exemptions, and other consumption tax issues were considered and recommendations are included herein.

5.4 Local Taxation

For Fiscal Year 2007, Mississippi remitted from state tax collections over $470,000,000 in total to its 82 counties and over $530,000,000 to its cities. These figures clearly demonstrate that our local governments are heavily dependent on the state to provide the resources necessary to fund their operations and to provide their citizens with services (see Table 4, Source: MSTC). The effect of the state's tax structure on local government taxation and revenue was pervasive throughout the Commission's deliberations. Property taxes, including those assessed against inventory, tax diversions and local authority to levy taxes, were considered and the recommendations are included herein.

Estimated Municipal Revenues



Source: Mississippi Municipal League

5.5 Personal Income Tax

Mississippi's top personal income tax rate of five percent is fourth lowest in the southern region (Florida, Tennessee, and Texas - 0 percent, Alabama - 5 percent). The Tax Freedom Day, the day when an individual has earned enough to pay his or her total tax bill, is 16 days earlier in Mississippi than the national tax freedom day. Both of these statistics indicate that Mississippi's personal income taxes are competitive with other states.

The Internal Revenue Service estimates that approximately one third of American tax filers do not pay any federal income tax, compared to 43 percent of Mississippi tax filers. [6]

Mississippi's per capita income is just over 74 percent of the United States average. In 2007, Mississippi's per capita income was $28,845 while the United States per capita income for the same period was $38,611. The state's percentage has increased steadily over the past several years – in fact, personal income as a percent of the national average has been increasing faster than most other states.

5.6 Incentives, Exemptions, and Credits

The Commission understands the importance of incentives, exemptions, and credits in recruiting businesses and creating jobs in the state. In today's global economy, incentives are no longer reserved for the high-profile projects – they have become the norm and are expected by many companies. Any exemption, credit, or incentive that is awarded by the state should be done so with the knowledge that they are awarded at a cost.

When contemplating any form of incentive, the economic benefit of the incentive to the citizens of the state must be weighed against the costs of these incentives to the state. Consideration must be given to what types of industries Mississippi wants to attract, and what should be done to retain existing industry and encourage them to consider expansions and growth in our state.

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[6] http://www.irs.gov/pub/irs-soi/06in25ms.xls

In addition to reviewing the economic incentives, evaluations were made regarding the existing sales tax exemptions and the services that are currently not subject to sales tax. Recommendations related to incentives, exemptions, and credits are included herein.

The Full membership of the Commission recognizes that this report is a basis for further conversation. The Commission encourages the public to express their views to the Governor, the Legislature and other elected officials as we work together to create a fairer, pro-growth and pro-job creation tax structure.

The following Short Term and Long Term Recommendations (Sections 6 and 7) are subject to a vote. Subcommittees and Members differed on a variety of issues; therefore, the following recommendations may be accepted, deleted or amended.

6. Recommendations – Short Term

6.1 Tax Gap

6.1.1 The Commission recognizes that the tax information systems used by the MSTC need to be upgraded. Modern technology and hardware are needed if the State of Mississippi is going to fairly administer its existing tax laws. Material loss of revenue is being incurred as a result of the antiquated technology systems. A new tax management software system would produce additional revenue by reducing the current tax gap. It would provide better service to taxpayers paying their fair share. It would ensure fairness through more comprehensive application of current tax laws and would provide better information to decision makers than is currently available. Systems are commercially available.

6.1.2 The Commission seeks to improve compliance and convenience to the taxpayer by recommending systems which make it easier to comply and by providing the tools necessary to enhance productivity of staff.

6.2 Restructure the MSTC

6.2.1 Divide the current job of Chairman and Commissioner of Revenue into two separate jobs, one being the Chairman of the State Tax Commission and the other being the Executive Director of the Department of Revenue in order to provide independence in the tax appeals process. Grant the Executive Director the right to appeal adverse decisions of the State Tax Commission to court.

6.2.2 Change the name of the agency from The State Tax Commission to the Mississippi Department of Revenue so taxpayers understand that these two groups are separate and distinct.

6.2.3 Maintain the State Tax Commission name for the three member appeals board and maintain the current staggered terms of appointment for the Chairman and the two Associate Commissioners.

6.2.4 Clarify that the Executive Director of the Department of Revenue shall be vested with all of the administrative duties that are currently vested in the Chairman, Commissioner of Revenue, or State Tax Commission. There are a few administrative duties currently performed by the three-member Tax Commission that should be transferred to the full time Executive Director of the Department of Revenue.

6.2.5 Provide that the Executive Director of the Department of Revenue shall be appointed by the Governor and confirmed by the Senate for a six year fixed term.

6.2.6 Provide that the Executive Director may be reappointed to serve additional six year fixed terms at the discretion of the Governor but once appointed and confirmed, the Executive Director shall not be subject to removal during the unexpired term except by impeachment action of the Senate.

6.2.7 Clarify that the new three-member State Tax Commission will serve exclusively as an independent appeals board that will hear taxpayer appeals of decisions of the Executive Director of Department of Revenue (Review Board Decisions), appeals of ABC permit denials or ABC enforcement actions, and appeals of all other final administrative decisions of the Executive Director of the Department of Revenue, other than those related to personnel actions.

6.2.8 Provide that the compensation for the Executive Director, Chairman and Associate Commissioners shall be established exclusively by the State Personnel Board.

6.2.9 Other Administrative Changes

6.2.9.1 Extend the current thirty (30) days statutory notice periods for all tax matters to sixty (60) days.

6.2.9.2 Reduce the statutory bonding amount to one half the amount of tax in question to appeal from the State Tax Commission to state court. Since the State Tax Commission would be independent of the Department of Revenue, all taxpayers will have a review by an independent body before a bond is required.

6.2.9.3 Establish a statewide tax lien registry, possibly in the Secretary of State's office. This would replace the requirement of having to file tax liens in the county where taxpayers own property and should help close the tax gap.

6.3 Corporate Income and Franchise Taxes

6.3.1 Reduce Franchise Tax Rate – Two options have been suggested to reduce the Franchise Tax in the state:

6.3.1.1 Reduce the franchise tax rate by 40 percent from $2.50 to $1.50 per $1000 of capital employed in the state and apply franchise tax to a broader group of entities, including limited liability companies, to achieve fairness among similarly situated taxpayers.

6.3.1.2 Eliminate the franchise tax levy completely, phasing the tax out over five years.

6.3.1.3 Maintain the existing franchise tax levy.

6.3.2 Eliminate Selected Income Tax Credits – The Commission maintains that Mississippi should retain the corporate income tax credits which are significantly utilized and keep our state competitive with other states. Credits that are rarely utilized should be considered for elimination such as the R & D Skills Credit, the

Child Care Credit, the Financial Institutions Jobs Tax Credit and the Airport Cargo Charges Credit.

6.3.3 Adjust the Corporate Tax Rate – Exempt the first $10,000 of taxable income for each corporation. Additionally, eliminate the three percent and four percent corporate tax rates and continue to tax the remaining income at five percent**.**

6.3.4 Conform State Depreciation with Federal– Recommend Mississippi follow federal provisions for depreciation.

6.3.5 Modify the Taxation of Capital Gains – Existing legislation provides an exemption from state income taxes for gains from the sale of stock of a Mississippi domestic entity. There are concerns that this exemption as written may be unconstitutional. The options listed below address various ways that the statute may be modified:

6.3.5.1 Remove the exemption by repealing section 27-7-9(f) (10), which may be subject to challenge on constitutional grounds. This provision exempts the gain from sale of stock of a Mississippi domestic entity. This provision is often used to exempt the gain on the sale of real property from state taxation.

6.3.5.2 Increase the exemption by removing the word "domestic" from section 27-7-9(f) (10) in order to exclude all gains from Mississippi income tax. This eliminates the potential for a constitutional challenge by exempting gains from the sale of stock for both foreign and domestic entities.

6.3.5.3 Tax all capital gains at 3 percent, the lowest income tax rate.

6.3.5.4 Leave the statute as is and make no changes to the taxation of gains.

6.4 Personal Income Taxes

6.4.1 Combine Reporting of Taxpayer and Spouse on Returns – Remove the option for married taxpayers to report the taxpayer's and spouse's income separately on a joint return. Income will be combined and reported as one amount similar to the federal return.

6.4.2 Limit Personal Exemption on Dependents – Restrict a taxpayer from claiming a dependent if the dependent claims himself on a separate return. Currently dependents can file a return claiming a personal exemption and may also be claimed on the parent's return who would then receive a second exemption for the dependent.

6.4.3 Modify the Standard Exemption and Personal Exemption – Increase the standard deduction and personal exemptions to reduce the tax burden on Mississippi's taxpayers.

Filing Status	Existing Standard Deduction	Proposed Standard Deduction	Existing Personal Exemption	Proposed Personal Exemption
Married Filing Joint	$4,600	$6,000	$12,000	$14,000
Head of Family	$3,400	$4,000	$8,000	$10,000
Single	$2,300	$3,000	$6,000	$7,000
Married Filing Separate	$2,300	$3,000	$6,000	$7,000
Married Spouse Deceased	$4,600	$6,000	$12,000	$14,000

6.4.4 Modify the Exemption Allowed for Dependents – Increase the exemption allowed for each dependent on personal income taxes from $1,500 to $3,000.

6.4.5 Modify the Current Exemptions for Retirement Income – Several proposals related to the taxation of retirement income were submitted. The following options are proposed alternatives:

6.4.5.1 Implement a $25,000 maximum exemption on retirement income per taxpayer in addition to a full exemption on Social Security income.

6.4.5.2 Maintain the current retirement income exemptions and promote the exemption to retirees as a great reason to choose Mississippi as their retirement home.

6.4.6 Allow a Deduction for a Portion of the Self-Employment Tax – For self employed individuals, the employers' portion of the self-employment tax shall be a deduction from gross income.

6.5 Property Taxes

6.5.1 Modify the Existing Inventory Tax Exemptions – The Commission discussed modifications to the existing property taxes levied on inventory in the state. While most other states have eliminated the tax on inventory, taxes on inventory are currently a significant source of revenue to the cities and counties. Significant modification to the county's property tax base can cause problems with existing tax increment financing and will affect the local government's bonding capacity. The following options have been submitted for consideration:

6.5.1.1 Eliminate property tax on inventory and enact a statewide gross receipts privilege tax to replace the inventory tax revenue loss. This new tax would replace the local privilege taxes and would be placed on all businesses. Taxes will be collected on a statewide basis and diverted back to the locals, not to directly offset inventory tax losses, but based on location of businesses.

6.5.1.2 Maintain the existing inventory tax, but phase in a 100% income tax credit equal to 20% of inventory tax paid in the first year, 40% in the second year, 60% in the third year, 80% in the fourth year and 100% in the fifth year.

6.5.1.3 Expand the existing free port warehouse exemption to give local governments the authority to exempt all raw materials, work in process, and finished goods inventory from all property taxes (city, county, and school millage). Local governments would have the authority to provide the exemption in total or in part for any period of time, or make the exemption permanent. Currently, the free port warehouse exemptions are only allowed on finished goods inventory with a final destination outside the state. This expanded exemption is recommended only for manufacturing, warehousing and distribution facilities.

6.5.1.4 Maintain the current tax on inventory with no modifications.

6.5.2 Provide an Exemption on Personal Property Taxes – Provide a $20,000 personal property exemption, based on true value, of the first $20,000 of furniture, fixtures and equipment for all businesses. The exemption will reduce the personal property tax.

6.5.3 Modify the Existing Homestead Exemption – Eliminate the homestead exemption on the school tax millage, but maintain the exemption on the county and city portion of the property tax assessment.

6.5.4 Modify the Valuation of Section 42 Housing – The value of Section 42 Housing should be determined using the same methods as other commercial housing. Repealing Senate Bill 3100 from the 2005 Regular Session will permit the local assessors to value the property in a fair and equitable manner. The value received from sales of any federal tax credits should be included over the life of the affordable housing contract if the income approach is utilized.

6.6 Sales Taxes

6.6.1 Modify the Sales Tax Exemption on Bond Financing – Sales tax exemptions related to bond financing should be available only to the following industries, which are targeted industries under current economic development statutes.

- Manufacturers
- Electric Power Generation
- Processors
- Wholesalers
- Research and Development
- Distributors
- Warehouses
- Air Transportation and Maintenance Facilities
- Computer Software Developers
- Telecommunication Enterprises
- Recreational Facilities that Impact Tourism
- Final Destination or Resort Hotels with more than 150 Guest Rooms
- Movie Industry Studios
- Data or Information Processing Facilities
- Technology Intensive Facilities
- National or Regional Headquarters
- Deployment of Broadband Technology

6.6.2 Give Municipalities Authority to Levy a Local Sales Tax - Authorize a local sales tax based on the general sales tax base for specific purposes when voted on by the local citizens. Each individual levy would expire when the intended purpose was met. Sixty percent majority of those voting would be needed for a local sales tax to pass.

6.6.3 Sales Tax Diversion to Counties – Authorize a diversion of sales taxes to counties calculated as a percentage of collections (.25% to .50% recommended) that would go to the counties, but not reduce current diversion percentage (18.5%) going to the municipalities. The additional county percentage would be from all taxes collected within that county, including in cities and towns. This would permit municipalities and counties to enter into interlocal and private agreements in projects that will benefit all. Also, this could help reduce property taxes and counties would be more supportive of annexations from cities.

6.6.4 Modify Agricultural Rates to correspond with Other Industrial Rates – Exemptions and reduced rates for business inputs, specifically manufacturers and farmers, were reviewed. Currently, Mississippi exempts all raw materials, processing chemicals and catalysts used by manufacturers as well as seed, feed and fertilizers for farmers. Additionally, packaging and container products are exempt for both classes. Each of these groups is provided reduced rates on machinery for use in the production of their goods for sale. Manufacturers are eligible for a 1.5% rate on the purchase of manufacturing machinery and farmers are eligible for a 1% rate on farm tractors and a 3% rate on farm implements. The recommendation is made that the rate for farm tractors currently taxed at 1% and all farm implements currently taxed at 3% be changed to the 1.5% rate to match the rate for manufacturers. This change will provide consistent treatment of inputs for both groups.

6.6.5 Remove Exemptions Related to Non-profit Organizations – The state does not provide a blanket exemption for sales to non-profit organizations. Specific organizations have been added on a piecemeal basis. Many are not included, and there is no apparent basis for the distinction among charitable organizations. The largest category among these exemptions is for non-profit hospitals. This would require non-profit organizations to pay tax on purchases for their own use.

6.6.6 Modify the Tax Rates Paid by Electric Power Associations (EPA) – Currently, EPAs pay a reduced rate of 1% on all purchases. The Commission recommends this reduced rate be increased to tax EPA's like other electric power utilities.

6.6.7 Add Additional Services to the list of Taxable Services – One objective of the Commission was to consider broadening the tax base. One way to do this is to tax additional services in that base. Under present law, services are exempt unless specifically excluded. The Commission recommends considering other services for taxation, including but not limited to the following list:

- Motor Vehicle Towing
- Data Processing and Hosting
- Rental of Self-Storage Units and Mini-warehouses
- Interior Design Services
- Graphic Design Services
- Advertising Services to tax the professional services component and exclude the re-billed or pass-through charges for airtime, print space, billboard, etc.
- Photographic Services
- Security Services
- Janitorial Services
- Carpet and Upholstery Cleaning Services
- Memberships to sports and health clubs
- Beauty Salon, Barber, Spa, Nail Services and Tanning Services
- Flooring (including all tile) Installation and Repair
- Roofing Installation and Repair
- Glass and Glazing Installation and Repair
- Pet Grooming
- Lawn Mowing and Other Lawn Care Services
- Solid Waste Collection and Removal
- General repair services – this adds clarification
- Masonry
- Siding Installation and Repair

6.6.8 Remove Exemptions from the Amusement Tax Statutes – Admission charges and amusements are subject to tax, but a number of exemptions exist related to admittance fees as well as some admissions are subject to a reduced rate. To expand the base, all of the exemptions from the amusement tax statute (27-65-22) should be repealed and all admittance fees should be taxed at 7%.

6.6.9 Eliminate Specific Sales Tax Exemptions – Repeal or modify the following exemptions:

6.6.9.1 Remove the exemption for rentals of manufacturing machinery used to make containers from timber or wood.

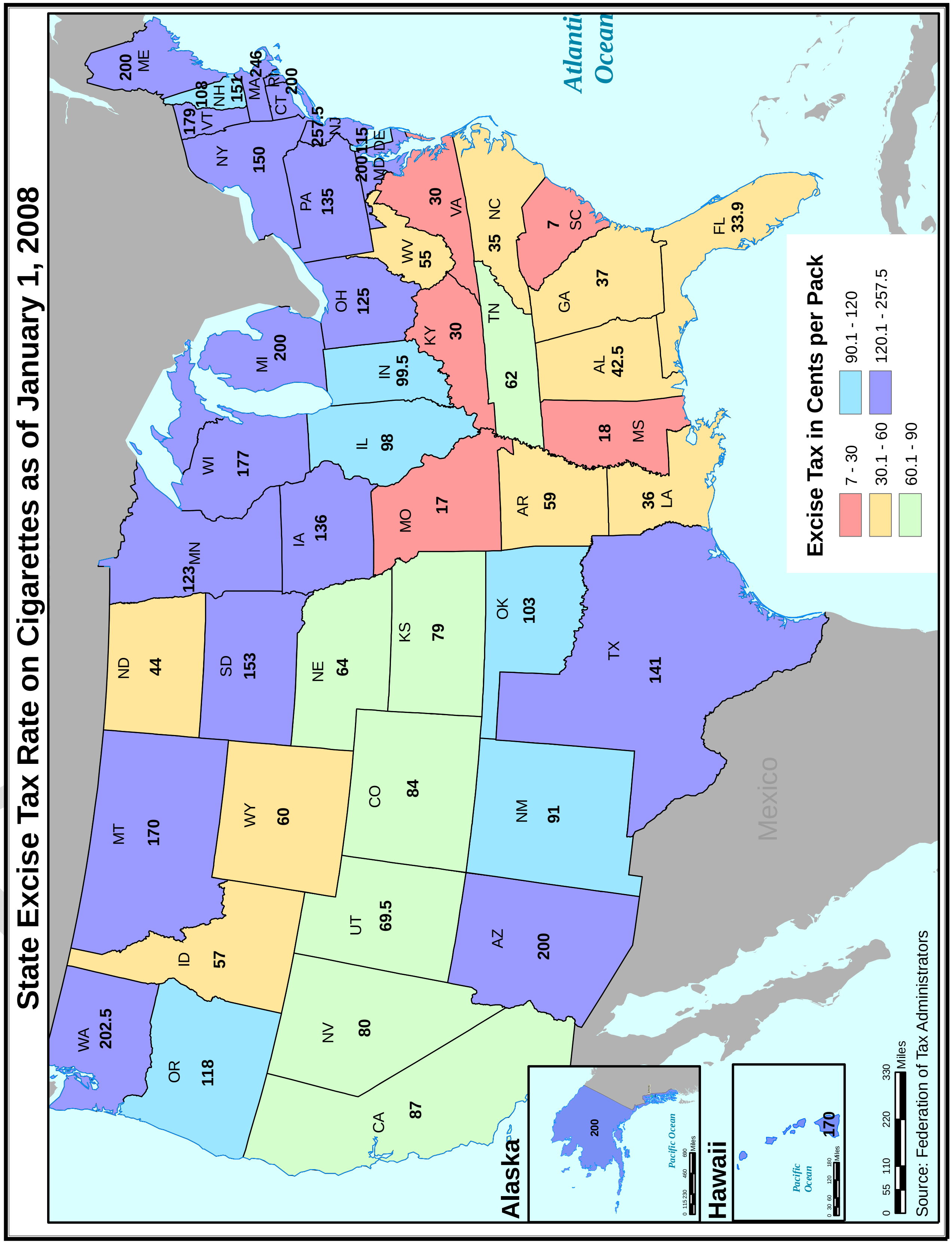
6.6.9.2 Modify the exemption for sales of commercial fishing boats. These vessels should be taxed at the same rates as the sales of truck-trailers.

6.6.9.3 Remove the exemption for sales of production items used in motion picture making. If the Motion Picture Rebate is awarded, then there is no reason to provide a sales tax exemption as well.

6.6.9.4 Remove the exemption from the sale of newspapers, periodicals or publications.

6.7 Tobacco Taxes

6.7.1 Increase the Taxes on Cigarettes – The excise tax on cigarettes is lower in Mississippi than most other states in the nation (see Table 5, Source: Federation of Tax Administrators). A number of proposed changes were submitted to increase this tax. The options before the Commission are as follows.



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6.7.1.1 Increase the excise tax from 18 cents to 36 cents per pack. This is derived from an average of the following SE states: MO, KY, VA, NC, TN, AR, AL, GA, SC and FL.

6.7.1.2 Increase the excise tax from 18 cents to 50 cents per pack, which would reflect the average of the four surrounding states.

6.7.2 Create a New Tax to Provide Equal Taxation for All Cigarette Manufacturers – Create a new tax on all tobacco manufacturers and give credit against this tax for payments made under the master settlement in the State's tobacco lawsuit. The burden of this new tax applies to manufacturers not participating in the master settlement.

6.7.3 Maintain all Increases in Tobacco Taxes for General Fund Use – Any revenue increase should not be tied to a specific use or other recommendation, but should be general fund revenue.

6.7.4 Tax Smokeless Tobacco Based on Weight - Follow the recent trend in other states by implementing a unit excise tax based on weight.

6.8 Incentive Programs

6.8.1 Modify the Advantage Jobs Program – The Advantage Jobs Program is an existing incentive program that rebates a portion of the personal taxes that are withheld from employees back to the employer for a period of ten years. This program is used extensively in the recruitment of industry, and most of the surrounding states have similar programs. The primary challenge with this program is its complexity. The following changes are suggested: Make the rebate at the discretion of the Mississippi Development Authority Executive Director for a maximum period of up to ten years; Award the rebate on 80% of the withholding taxes paid; pay the rebate for all jobs created until a specified end date.

6.8.2 The Growth and Prosperity Program (GAP) – GAP is not producing the results that were anticipated when this legislation was established. Of the 86 approved applications, 40 have been for expansions, and of the 46 applications for new facilities, only half of the applicants have managed to actually open and create the ten jobs required to meet program requirements. Rather than continuing the existing program, a repealer for this program is suggested, along with a replacement program that focuses less on tax abatements and more on the other challenges that exist for these targeted areas.

6.8.3 The Tourism Rebate program (TIP) – The TIP program is a relatively new program that has not been widely used to date. This program should be re-evaluated in two years to insure that the program is performing as anticipated. This program, which is a modified version of an older incentive, appears to be adequate, but is not the appropriate tool for use in recruiting small amusements that are utilized primarily by in state customers.

6.8.4 Modify the Motion Picture Incentive Program – The Motion Picture Incentive Program should be modified. As currently structured, this program may benefit unintended projects and should be restricted and closely monitored. The "national distribution" limitation may be ineffective to define the proper market distribution which the state seeks to target. The following changes are proposed:

6.8.4.1 Add a provision to the existing legislation to repeal the program as of 2012. If the incentive is performing as anticipated, the repealer can be extended or deleted.

6.8.4.2 Ask the MDA to re-define the term "Nationally Distributed" to insure that films that are approved do have a valid national distribution planned – not just an intent to show films at festivals or sell over the internet.

6.8.5 Provide the Means for Effective Evaluation of Existing Programs - Incentives should be evaluated every five years. The Commission suggests that Momentum Mississippi determine if the benefits are still effective and the cost of the incentive is proportionate with the benefit received by the State. To accomplish this, legislation requiring incentive recipients to provide limited information related to incentives received is necessary. Based on the information provided, summaries of the costs of incentives can be compiled and used in the evaluation process**.**

6.9 Miscellaneous Recommendations

6.9.1 Maintain the Current Tax on Beer and Light Wine – According to the Tax Foundation's report, Mississippi's tax on beer and light wine is in line with the taxes imposed by our neighboring states. Accordingly, no changes are suggested to this tax at this time.

6.9.2 Maintain the Current Gaming Taxes – The Gaming Tax rates are effective and no changes are suggested. Currently, Mississippi is the third largest gaming center in the U.S.

6.9.3 Require Local Governments to Publish Selected Information – Require that municipalities, counties other political entities:

(a) publish annually the types and amount of taxes collected by them (including amounts diverted from the state),

(b) disclose how revenues are used (e.g., deposited into general fund, special funds, etc.) and;

(c) publish annually the nature and amounts of discretionary ad valorem tax exemptions granted.

6.9.4 Increase Permits and Fees to Cover the Cost of Services Provided – Fees should cover the cost of services that are being provided and should be comparable with surrounding states. At a minimum, the charge for fees and permits should be increased to provide agencies and departments the ability to recover costs incurred to provide the service.

7 Recommendations-- Long Term

7.1 Participate in the Streamlined Sales Tax Project – Remain supportive and engaged in the Streamlined Sales Tax Project and its intended solutions for the internet sales problem. The Streamlined Sales Tax Project was formed in 2000 as an effort to develop a plan that states could use to simplify sales tax structures. The idea is that if the states can significantly reduce the complexities of their sales tax structures, then the states could successfully lobby Congress to pass legislation requiring remote sellers (internet, catalog and telephone) to collect state sales taxes. The Streamlined Sales and Use Tax Agreement (SSUTA), which serves as model legislation, became effective in 2005. Senate Bill 2089, as passed in the 2003 Regular Session of the Legislature, gave MSTC the authority to act on behalf of the State as the State's authorized representative to the Project. As of July 2008, 19 states have achieved full member status and three states hold associate member status.

Mississippi is considered an implementing state meaning that our Legislature has authorized Mississippi to participate in the project. However, Mississippi is not a conforming or member state because we have not changed our laws to enact the provisions of the agreement. There are numerous law changes that will be required in order to become a member state. Additionally, member states will be required to compensate businesses for their cost of collection which could potentially negate any additional taxes received from remote sales.

The recommendation is to strengthen existing use tax laws with the intention of enhancing compliance efforts. This can best be accomplished through improved methods of identifying potential use tax liabilities. The long term recommendation is to continue the state's participation with the State and Local Advisory Council to the Streamlined Sales Tax Governing Board. This participation will help determine if membership into the SSUTA will be beneficial to the State. Encourage Congressional Delegation to support our efforts to tax internet and catalog sales.

7.2 Broaden the Mississippi Sales Tax Base – Reduce the overall sales tax rate by broadening the base through increased taxes on services and/or elimination of exemptions. The Commission also recommends a periodic view of sales tax exemptions.

7.3 Maintain Mississippi's Opposition to a Lottery – The Commission recommends that the state does not consider implementation of a lottery. There are multiple reasons to avoid enacting a lottery. Annual state lottery sales per person averaged $177 in 2005 according to The Tax Foundation. The National Gambling Impact Study Commission found the lottery to be a regressive form of taxation, stating that households with income of less than $10,000 spent three times the amount of households with incomes of more than $50,000.[7]

7.4 Consider Changing to Unitary Taxation for Corporate Income Tax – Combined unitary reporting is a method of taxing corporations for income tax as an operating entity instead of taxing each individual corporation. It is less subject to manipulation than separate entity reporting, but it is more complicated. There are 46 states with a corporate income tax or another broader based tax that is similar to corporate income tax. Nineteen states require combined unitary reporting for corporate income tax. Three more require combined unitary reporting, but the basis of the tax is broader than income tax. Several more require combined reporting in special circumstances such as when there is a shifting of income between states in order to manipulate the tax. Several states have recently changed to combined unitary reporting including West Virginia, Texas, Michigan and Massachusetts.

[7] Hansen, Alicia. "Gambling with Tax Policy: States' Growing Reliance on Lottery Tax Revenue." Tax Foundation: Background Paper 54 (2007): 1, 26-27

The two geographically closest states to Mississippi that require combined unitary reporting are West Virginia and Texas. The Alabama, Tennessee, Kentucky and Florida legislatures considered implementing combined unitary reporting this past year but did not pass this change.

Combined unitary reporting appears to be the national trend in taxation of corporations, but it should be studied carefully before any implementation is made. The recommendation is made that Mississippi should consider changing to combined unitary reporting as a long term goal and before any such change is made, a study of the best methods to accomplish this task and the possible revenue effects must be completed.

Changing to a combined unitary reporting method of filing will require more changes to our corporate income tax law than just adding combined reporting. This will be a very complicated change.

Additionally, the commission would like to consider eliminating the Franchise Tax if the state of Mississippi moves to combined unitary reporting method.

7.5 Modify the Method of Taxing Gasoline and Other Motor Fuel Taxes – The Commission recommends a variable component be established for excise taxes on motor fuels, similar to the North Carolina model.

The Commission agrees that a long term solution for financing the states' transportation system is needed. This issue needs more in-depth study and analysis to find a way to match rising costs of maintenance and construction with the flat income stream that currently funds the highway programs. The Commission also suggests the collection and disbursement of county bridge taxes be reviewed.

Some possible options are to create public/private partnerships, change the motor fuel tax structure and look at the efficiency of operations to ensure that the State is getting the most out of the money allocated.

7.6 Modification of Mississippi's Income Tax – The members discussed a long term goal of studying the feasibility of phasing out personal and corporate income tax. As part of the feasibility study, create a formula whereby as other tax revenues increase individual and corporate income taxes are reduced.

7.7 Need for an Ongoing Review Process – The Commission feels that the State has experienced success with various ongoing study and review groups. The Commission recommends that the Executive and Legislative branches consider creating an ongoing entity to monitor the State's tax structure and revenue as time and circumstances change.

8 Public Outreach and Transparency

The Commission believed that detailed information and open communication were essential to its deliberations. Thus, continuous contact with the public was viewed as important. Six public meetings were held with diverse presentations (see Appendix A). On May 19, 2008, the public was invited to address the Commission. This meeting was devoted to receiving comment, opinion, and information from the public. Written comments were also accepted and distributed to the Commission.

A website and dedicated email address were established. All meeting schedules, presentations, and documents reviewed by the commission were posted on the official website at www.governorbarbour.com/taxstudycommission.htm. The final report was released to the public and debated in a public forum.

The Commission would like to acknowledge its appreciation for the time and efforts of those individuals who prepared information, attended the commission meetings, and responded to requests for information.

10. Members of the Commission

The Commission is comprised of a diverse group of individuals representing private business, state and local officials, educators, tax attorneys, and accountants. This variety ensures a broad representation of expertise and interests. The members of the Commission include:

Chairman:	Buck Clarke	Gene McGee	Mike Summerford
Leland Speed	Cobie Collins	Sonny Meredith	Gray Swoope
	Toni Cooley	Jay Moon	Forest Thigpen
Tony Adams	Socrates Garrett	Steven Palazzo	Anthony Topazi
Ron Aldridge	Karen Green	Tate Reeves	David Waide
Manley Barton	Craig Hitt	Carl Nicholson	Percy Watson
Mike Bemis	Delbert Hosemann	Aubrey Patterson	Charlie Williams
Joe Blount	Terri Hudson	Bill Rutledge	Blake Wilson
Paul Breazeale	Paul Johnson	Robert Smith	
Tom Butchart	Dean Kirby	Troy Stovall	
Alveno Castilla	Bill Lampton		

11 **Conclusions (To be completed at the end of the final report)**

Appendix A

The Commission held a series of meetings organized to educate its members regarding the State's current tax structure. Guests brought various educated findings to inform the Commission.

Monday, March 24, 2008
10:00a.m.-2:00p.m. Woolfolk State Office Building in downtown Jackson
Mississippi's Tax Structure: A Comparison of Tax Collections, Diversions, Credits and Rates
Commissioner Joe Blount, Chairman and Commissioner of Revenue, Mississippi Tax Commission

Special Report: An Opportunity to Improve Mississippi's Tax Climate
Joseph Henchman, Tax Foundation

Growth and Taxes
Richard Greene, Pew Center on the States and Governing Magazine

Tuesday, April 29, 2008
10:00a.m.-2:00p.m. Walter Payton Recreation Center, Jackson State University
Tax Study Commission Report
Gray Swoope, Executive Director of the Mississippi Development Authority

Blue Ribbon Tax Study Commission: Mississippi Economic Growth
Dr. Phil Pepper, State Economist

Rich State Poor States: ALEC-Laffer State Economic Competitiveness Index
Steve Moore, Wall Street Journal

An Overview of Mississippi General Revenue Receipts 2005 and 2007
Mississippi Corporate Taxpayers, Sales Taxpayers, and Personal Income Taxpayers
Judy Phillips, Stennis Institute of Government

Monday, May 19, 2008
10:00a.m.-2:00p.m. Mississippi Telcom Center in downtown Jackson
Individuals and groups spoke to the Commission during this meeting. Those who did not reserve speaking time but attended the meeting were allowed to comment. Space was allocated on a first-come first-serve basis. Written statements were also accepted. Those who addressed the Commission were:

Beau Whittington, MS Tourism Association
Barbara Powell, Common Cause
Billy Horton, Video Image Productions
Charles Kenny
Danyelle Carroll, MS Association of Medical Equipment Suppliers
David Harrington, Harrington Medical Equipments
Ed Sivak, MS Economic Policy Center
Frank Yates, MS Association of Educators
Gayron Sims, Designer's Fabric Shop
George Evans
George Lewis, MS Municipal League
Harold Neal and Susan Upton
Ilene Sumrall, MS Farm Bureau Federation
Jennifer Cofer, Communities for a Clean Bill of Health
Jimmie Ladner, MS Assessors and Collectors Association
Joel Yelverton, MS Supervisors Association
Linda Ferguson, Safeway Cleaners
Lynn Evans, March of Dimes
Margaret Remy, Quick Prints
Mary Margaret Bollinger, League of Women Voters
Michael Lenoir, Matrix Solutions
Mid-South Building Materials Dealers Association
Mike Cashion, MS Hospitality and Restaurant Association
Mississippi Manufacturers Association
Pam Shaw, Children's Defense Fund
Paul Varner, Butler Snow
Honorable Robert Clark
Tom Ramsey, The Rogue & Good Company, retail
Tommy Thames, The Park Companies
Walter Howell, AARP

Wednesday, July 2, 2008
10:00a.m.-2:00p.m. Mississippi Telcom Center in downtown Jackson
Ad valorem taxes
Joe Young, PIke County Tax Assessor
Mississippi Municipal League
George Lewis, Executive Director
Local Taxes: Pelahatchie
Mayor Knox Ross
Local Taxes: Hernando
Mayor Chip Johnson
Local Taxes: Hattiesburg
City Clerk Eddie Myers
Local Governments: Dependable Sources of Revenue
Chairman Leland Speed asks presenter and Pike County Tax Assessor Joe Young to rank local government sources of revenue, according to their volatility.

Tuesday, July 22, 2008
10:00a.m.-2:00p.m. Mississippi Telcom Center in downtown Jackson

Incentives in Mississippi
Presented by Kathy Gelston, CPA with the Financial Resources Division, Mississippi Development Authority and Meg Bartlett with the Mississippi State Tax Commission

Mississippi Sales and Use Tax Exemptions
Presented by Kathy Gelston, CPA with the Financial Resources Division, Mississippi Development Authority and Meg Bartlett with the Mississippi State Tax Commission

Below is a list of Publications provided to members of the Commission for further Study:
PUBLICATIONS
Mississippi State Tax Commission: www.mstc.state.ms.us
Annual Report: Fiscal Year Ending June 30, 2007
Mississippi's Tax Structure: A Comparison of Tax Collections, Diversions, Credits and Rates
Sales Tax Historical Notes and Amendments
Income Tax Historical Notes and Amendments
Mississippi Municipal League: www.mmlonline.com
Estimated Municipal Revenues (graphic)
Estimated Municipal Expenditures (graphic)
Mississippi State Institutions of Higher Learning, Center for Policy Research and Planning: www.ihl.state.ms.us
A Summary Comparison of State Taxes in Selected Southeastern States
The Annual Tax Expenditure Report
Blue Ribbon Tax Study Commission: Mississippi Economic Growth - Dr. Phil Pepper, State Economist
Mississippi Economic Policy Center: www.mepconline.org/index.php
Putting the Pieces Together: A Taxpayer's Guide to the Mississippi Budget

Mississippi Department of Employment Security: www.mdes.ms.gov
Economic and Labor Market Analysis in Mississippi
American Legislative Exchange Council: www.alec.org
Rich State Poor States: ALEC-Laffer State Economic Competitiveness Index
Governing Magazine: www.governing.com
Growth and Taxes
The Tax Foundation: www.taxfoundation.org
Special Report: An Opportunity to Improve Mississippi's Tax Climate
Special Report: State and Local Tax Burdens Hit 25-Year High
2008 State Business Tax Climate Index
Facts and Figures 2008
Facts and Figures 2007
Mississippi: State-Local Tax Burden Compared to U.S. Average (1970-2007)
State Individual Income Tax Rates, 2007
State Corporate Income Tax Rates
Comparison of Corporate Income Tax Rates (graphic)
Comparison of Personal Income Tax Rates (graphic)
Comparison of General Sales Tax Rates (graphic)
Mississippi Development Authority: www.mississippi.org
Tax Study Commission Report - Gray Swoope, Executive Director of MDA

ENDNOTES

1. “Fair, Efficient, and Customer-Focused Tax Administration: Policy Position.” Council On State Taxation. 2007. 12 Aug. 2008 < http://www.cost.org/uploadedFiles/About_COST/Policy_Statement/2007AdvocacyAgenda.pdf>

2. Laffer, Arthur, and Stephen Moore. Rich States / Poor States. Washington, D.C.: American Legislative Exchange Council, 2007.

3. Barrett, Katherine, and Richard Greene. “Growth & Taxes.” Governing Jan. 2008: 20-37.

4. “The Facts on Mississippi’s Tax Climate.” The Tax Foundation. 2008. 12 Aug 2008 < http://www.taxfoundation.org/research/topic/38.html >

5. Hansen, Alicia. “Gambling with Tax Policy: States’ Growing Reliance on Lottery Tax Revenue.” Tax Foundation: Background Paper 54 (2007): 1, 26-27

6. http://www.irs.gov/pub/irs-soi/06in25ms.xls