

Economic Impacts Of Eliminating The Corporate Franchise Tax In Mississippi

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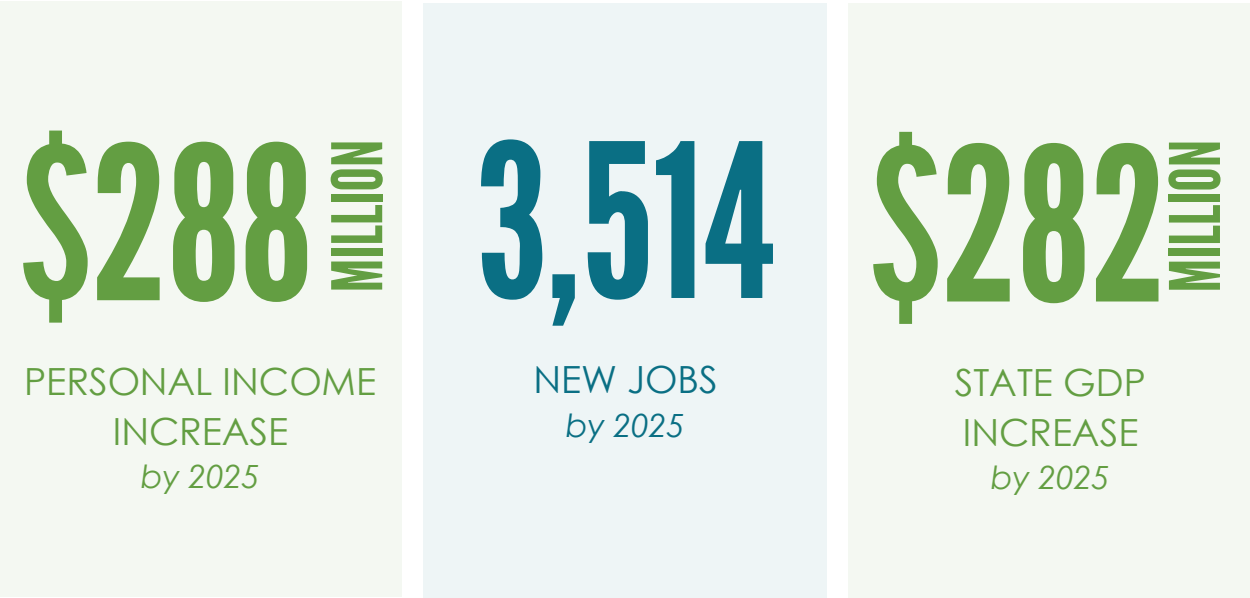
Mississippi Manufacturers Association

STUDY HIGHLIGHTS

This study evaluates the impact of eliminating the Mississippi corporate franchise tax on the Mississippi economy. Mississippi currently levies a franchise tax on all corporations doing business in the state. Senate Bill 2839, under consideration by the Mississippi legislature, proposes to phase out this tax. This study forecasts the economic and fiscal impacts on Mississippi employers, workers, and residents if the corporate franchise tax is completely eliminated by 2016.

The main findings of the study include:

- 1) The corporate franchise tax accounted for \$242,025,787 in corporate taxes collected from Mississippi businesses in 2014. Manufacturing sector employers paid the largest share of the franchise tax at \$56,131,898.
- 2) The elimination of the Mississippi corporate franchise tax is forecasted to generate 3,287 new jobs by 2020 and 3,514 by 2025 than otherwise forecasted.
- 3) The elimination of the Mississippi corporate franchise tax is forecasted to increase the state GDP by \$237 million in 2020 and by \$282 million in 2025 than otherwise forecasted.
- 4) The elimination of the Mississippi corporate franchise tax is forecasted to increase personal income levels in the state. An additional \$205 million in personal income is forecasted to be generated by 2020 and an additional \$288 million by 2025 than otherwise forecasted.
- 5) The forecasted increase in personal income translates into an increase in income tax revenue with an additional \$20 million in state and local taxes collected in 2020, and an additional \$28 million collected in 2025 than otherwise forecasted.



BACKGROUND

FRANCHISE TAX IN MISSISSIPPI

In 1934, the Mississippi Legislature enacted franchise tax legislation via House Bill No. 151. This legislation created a tax that is applicable to all corporations, associations, or joint-stock companies that have capital stock and do business within the state of Mississippi. The Mississippi corporate franchise tax applies to all capital stock of businesses in the state that have privileges not possessed by individuals or partnerships. It applies to both foreign and domestic corporations that are granted either C-corporation or S-corporation status by the Internal Revenue Service (MS, 1972), excluding not-for-profit corporations.

Today's Mississippi corporate franchise tax equates to a rate of \$2.50 per \$1,000 of capital, surplus, undivided profits, and true reserves employed in Mississippi. The corporate franchise tax levies a minimum tax of \$25.

Since 2003 the amount of corporate franchise tax collected in Mississippi has more

than doubled, from \$119,748,146 in 2003 to \$242,025,787 in 2014 (See Figure 2). As Table 1 shows, manufacturing sector employers paid the largest share of the franchise tax at \$56,131,898, followed by public utilities (\$41,321,350) and finance/insurance/real Estate (\$37,050,221).

NATIONAL TRENDS

Some states have recently eliminated or are in the process of eliminating their franchise tax. West Virginia, with a focus on improving business climate in the state, phased out their franchise tax beginning in 2010. The West Virginia franchise tax is scheduled to be totally eliminated by 2015 (Tyson, 2014). Similarly, in 2013 Missouri began phasing out its franchise which is scheduled to be totally eliminated by 2016. Supporters of the Missouri tax phase-out felt the move would make Missouri more business-friendly. Additionally, supporters felt the elimination would lead to job creation, offsetting the estimated \$87 million a year Missouri would give up if the tax were totally eliminated (Martin, 2011).

Figure 2: Corporate Franchise Tax Paid in Mississippi, FY2003-2014



Source: Mississippi Department of Revenue, 2015

Table 1: Corporate Franchise Tax Paid by Industrial Sector, FY 2014

Industry	Franchise Tax Paid
Manufacturing	\$56,131,898
Public Utilities	\$41,321,350
Finance/Insurance/Real Estate	\$37,050,221
Services	\$36,926,277
Wholesale/Retail Trade	\$35,487,621
Miscellaneous	\$12,680,232
Mining	\$10,965,308
Construction	\$7,967,999
Agriculture	\$3,494,881
Total	\$242,025,787

Source: Mississippi Department of Revenue, 2015

METHODOLOGY

To estimate the impact of eliminating the corporate franchise tax in Mississippi, a forecasted simulation was generated using the Regional Economic Modeling Inc.'s (REMI) PI+ model of the Mississippi economy. The REMI PI+ model is a widely used and highly reputable economic modeling software that incorporates aspects of four major modeling approaches: Input-Output, General Equilibrium, Econometric, and Economic Geography (REMI, 2014). Utilizing data related to historical employment, earnings, and demographic trends from sources such as the Bureau of Economic Analysis, Bureau of Labor Statistics, and County Business Patterns, the REMI PI+ model can be applied to approximate the economic impacts of governmental policy changes on a given area (REMI, 2014).

For the purposes of this study, the reduction of the corporate franchise tax was entered into the REMI PI+ model as a reduction in production costs for corporations. The forecasted simulation was designed to

isolate the economic impact of eliminating the corporate franchise tax.¹

A progressive approach was used to enter predicted amounts of corporate franchise tax into the REMI PI+ model. This approach was utilized to predict the future amounts of franchise tax that Mississippi corporations could expect to pay if the franchise tax were not eliminated. Predicted amounts were based on historic data trends from the Mississippi Department of Revenue (2015). Amounts entered into the model were based on 2014 nominal dollars, which do not account for adjustments in inflation rates.

Results of the simulation are reported in terms of the expected impact of eliminating the franchise tax on (1) employment, (2) personal income, (3) wages and salaries, (4) state GDP, and (5) state and local tax revenue. These impacts are calculated by examining differences between simulation output results of eliminating the franchise tax and base (or control) figures that do not account for its elimination.

¹ The simulations do not impose a revenue-neutral or balanced budget constraint on state and local government budgets. Therefore, the simulations do not take into consideration any impact for increases in other types of taxes or reductions in government

spending that may be adopted to balance any budgets as a result of revenue lost from eliminating the franchise tax.

With the exception of changes in tax revenue, all results are provided through simulation outputs from the REMI PI+ model. To measure the impact of new state and local tax revenues resulting from increases in personal income, an estimate was generated utilizing state and local tax collection data from the U.S. Census Bureau

(2014) and data from the U.S. Bureau of Economic Analysis (2014). A ratio was generated and applied to the estimated new income levels generated by the REMI PI+ simulation to estimate the amount of additional local and state tax revenue that would be collected due to an increase in personal income levels.

RESULTS

IMPACT ON EMPLOYMENT

Table 2 reports the REMI model results for the expected impact of eliminating the corporate franchise tax on employment in Mississippi. The elimination of the corporate franchise tax is expected to generate 3,287 additional in-state jobs in 2020 and 3,514 additional in-state jobs in 2025 than otherwise forecasted. The sectors with the greatest number of additional jobs include construction (565 additional jobs by 2025), retail trade (470 additional jobs by 2025), government (465 additional jobs by 2025), accommodation and food services (368 additional jobs by 2025), and health care and social assistance (344 additional jobs by 2025).

IMPACT ON PERSONAL INCOME, SALARIES, AND GDP

Table 3 reports the REMI model results for the expected impact of eliminating the corporate franchise tax on personal income, salaries, and GDP in Mississippi. The elimination of the corporate franchise tax is expected to lead to an increase in personal

income of Mississippi residents by an additional \$205 million in 2020 and an additional \$288 million in 2025 than otherwise forecasted. Wages and salaries are expected to increase by an additional \$140 million in 2020 and an additional \$180 million in 2025 than otherwise forecasted. The elimination of the corporate franchise tax is also expected to result in an increase in state GDP, with the model estimating an additional \$237 million in GDP in 2020 and an additional \$282 million in 2025 than otherwise forecasted.

IMPACT ON TAX REVENUE

Table 3 also reports the impact of the elimination of the corporate franchise tax on state and local taxes. The results show that an increase in personal income from the elimination of the franchise tax will produce an estimated additional \$14 million in state taxes and an additional \$6 million in local taxes, for a total of \$20 million in additional tax revenue. By 2025, these estimates grow to an additional \$20 million in state taxes and \$8 million in local taxes, for a total of \$28 million in state and local tax revenue.

Table 2: Forecasted Increase in Employment by Sector from Eliminating the Mississippi Corporate Franchise Tax

	2020	2025
Total Employment	3,287	3,514
Forestry, Fishing, and Related Activities	17	19
Mining	43	48
Utilities	20	22
Construction	658	565
Manufacturing	179	195
Wholesale Trade	51	55
Retail Trade	446	470
Transportation and Warehousing	126	144
Information	20	21
Finance and Insurance	106	113
Real Estate and Rental and Leasing	58	61
Professional, Scientific, and Technical Services	117	139
Management of Companies and Enterprises	28	31
Administrative and Waste Management Services	138	160
Educational Services	14	18
Health Care and Social Assistance	295	344
Arts, Entertainment, and Recreation	39	46
Accommodation and Food Services	307	368
Other Services, except Public Administration	216	230
Government	409	465

Table 3: Forecasted Increase in Income, GDP, and Taxes from Eliminating the Mississippi Corporate Franchise Tax (Dollars in Millions)

	2020	2025
Personal Income Increase	\$205	\$288
Wages and Salaries Increase	\$140	\$180
GDP Increase	\$237	\$282
Increase in Total Taxes	\$20	\$28
State Taxes	\$14	\$20
Local Taxes	\$6	\$8

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