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## STENNIS SPOTLIGHT

### Frequently Asked Questions (FAQs): Taxes and Budget Implications

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As of March 13<sup>th</sup>, the Mississippi State Department of Health had six presumptive positive cases of COVID-19. On March 14, 2020 Governor Tate Reeves declared a state of emergency and issued a shelter-in-place order; the governor issued a new executive order on April 24 designed to move toward the reopening of Mississippi's economy. As the state moves toward reopening, many elected decision-makers are concerned about the impact of COVID-19 on the ability of local governments to meet the needs of their citizens. During the 4<sup>th</sup> week of April, Shari Veazey – the Executive Director of the Mississippi Municipal League – asked the Stennis Institute to provide preliminary guidance regarding the impact of the coronavirus on municipal governments. As the Stennis Institute continues to gather data and to analyze the impact of the coronavirus throughout the state of Mississippi, one area of concern is the impact of the virus on state, county, and municipal budgets and revenues. Governmental entities are highly reliant upon tax revenues to meet payroll and to provide services to their constituents – during critical events, citizens frequently become more heavily dependent upon government services (e.g. healthcare, emergency response, or social safety nets). The majority of all governmental revenues derive from economic activity, predominantly employment, business activity, and related revenues to include income, sales, and property tax. Due to the significant economic disruption associated with the COVID-19 pandemic it can be anticipated that tax revenues will be impacted in the near-term and long-term. Although many of these impacts are not yet measurable, it is anticipated that the magnitude of the fiscal impact of the coronavirus will exhibit geographic and industry sector variance. Some industries and/or geographic areas may rapidly return to “normal,” while others may be slow to recover; in some cases a significant transformation may be required before full recovery can occur. This document provides a preliminary perspective on issues that will impact two primary sources of revenue for municipal and county governments: sales tax revenue and property tax revenue. County governments are generally more reliant upon local ad valorem tax (property tax) revenue - based on the value of the property being taxed. Municipal governments tend to be more reliant upon sales tax revenue. Many cities receive some share of ad valorem taxes – particularly to support schools - and also receive eighteen and one-half percent (18½%) of sales tax revenue (diversions) collected within their boundaries; county governments receive no *direct* sales tax funds, but they do receive revenue from the Mississippi Motor Vehicle Ad Valorem Tax Reduction fund.<sup>1</sup>

#### **How will the COVID-19 epidemic impact sales tax and ad valorem?**

Sales tax collections will be more immediately affected by the impact of the COVID-19 epidemic because they are directly related to consumers' income, consumer confidence, and consumer spending. Ad valorem taxes are based on property value assessments and will not be immediately impacted because assessments are done on a yearly basis. Sales tax is more directly tied to employment and income. As previously stated, there will be short-term and long-term impacts on sales tax and ad valorem tax revenues, the impact will

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<sup>1</sup> In 1994 the Mississippi Legislature authorized a credit (5 percent of the assessed value of the motor vehicle) to provide a tax break to the registered owners of Mississippi motor vehicles. This tax break created a loss in revenue to local governments. Revenue generated from the *sales* tax on motor vehicles goes into a fund created by the Legislature to reimburse local governments for this loss in *ad valorem* tax revenue.

vary by industry sector, and there will be geographic differences in the magnitude of the impact. The Stennis Institute continues to track data released by the Mississippi Department of Revenue (DOR), the Mississippi Employment Security Commission, the U.S. Department of Labor and the Bureau of Economic Analysis; currently there is insufficient data to determine with any high degree of reliability what the impact of the coronavirus will be. Sales tax diversions by the Mississippi Department of Revenue to municipalities are reported using a 3-month cycle<sup>2</sup>, therefore, diversions to municipalities reported by DOR for the month of March (the most recently available data) were sales tax collected by retailers in February and will not actually be paid to cities until April; the timing may vary based upon reporting methodologies.

**Can you estimate the impact on sales tax revenue?**

Sales tax revenues are directly related to consumer expenditures; two factors – spending by residents and spending by visitors to the state (tourists, business) – drive these revenues.

Although the long-term impact of COVID-19 on employment and unemployment in the state of Mississippi cannot be accurately known at this time; existing data and research provides insight into the potential impact of the coronavirus on the state’s sales tax revenues. The current impact of COVID-19 on unemployment in Mississippi is shown in Figure 1 below.

Initial unemployment claims and continuing unemployment claims over the period from the first week of January through the 2<sup>nd</sup> week of March do not exhibit a significant difference when 2019 is compared to 2020. On March 14<sup>th</sup> 2020, initial unemployment claims were 1,147. After the second week of March, initial claims began to steeply increase reaching 45,852 during the 1<sup>st</sup> week of April before beginning to decline. Initial unemployment claims then declined by 21.7 percent from April 11 to April 18, 2020. However, continuing unemployment claims in the state of Mississippi have continued to climb, reaching 91,748 in the

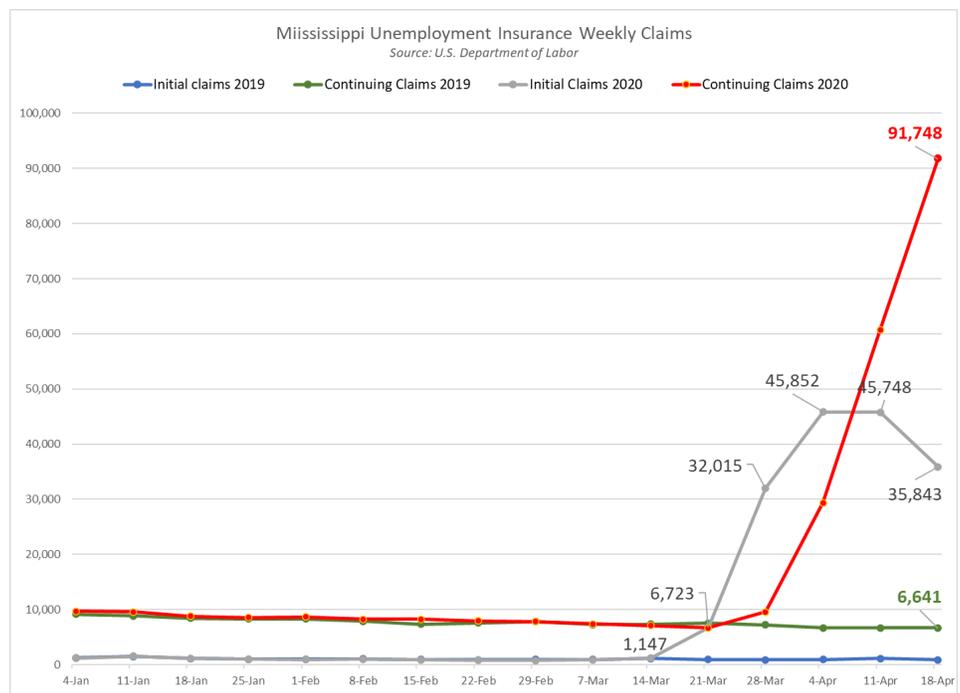


Figure 1: Initial Unemployment Claims and Continued Claims in the State of Mississippi

<sup>2</sup> Note: Sales Tax has a three month cycle. Month 1 - Tax is collected by the retailer. Month 2 - Tax is reported/paid to the Department of Revenue by the retailer. Month 3 - Sales Tax diversion is paid by the Department of Revenue to the cities. Reports are made by DOR in the month the taxes are reported/paid (Month 2). <https://www.dor.ms.gov/Statistics/Pages/Sales-Tax-Collections.aspx>

week of April 18, 2020 – indicating that approximately 85,100 lost jobs may be attributed to the impact of COVID-19 (this is the difference between continuing claims for the 3<sup>rd</sup> week in April 2019 and the 3<sup>rd</sup> week in April 2020).

Table 1: Comparative Fiscal Impact of the Great Recession on Mississippi

Comparison of Change in Revenue by Primary Category from 2007 to 2010				
Revenue Category	2007	2010	Difference	Percent Change
<b>Sales Tax</b>				
<i>Total</i>	\$2,856,230,435	\$2,597,512,871	-\$258,717,564	-9.1%
Municipalities	\$394,477,923	\$369,817,532	-\$24,660,391	-6.3%
Motor Vehicle Ad Valorem Tag Reduction	\$167,845,487	\$114,825,729	-\$53,019,758	-31.6%
School Ad Valorem	\$42,000,000	\$42,000,000	\$0	0.0%
General Fund	\$1,930,538,054	\$1,781,276,812	-\$149,261,242	-7.7%
<b>Use Tax</b>				
<i>Total</i>	\$287,138,843	\$253,304,802	-\$33,834,041	-11.8%
Motor Vehicle Ad Valorem Tag Reduction	\$37,920,429	\$23,554,248	-\$14,366,181	-37.9%
School Ad Valorem	\$4,000,000	\$4,000,000	\$0	0.0%
General Fund	\$218,399,136	\$202,173,625	-\$16,225,511	-7.4%
<b>Gaming Fees and Taxes</b>				
<i>Total</i>	\$330,558,204	\$287,022,344	-\$43,535,860	-13.2%
Allocated to Municipalities	\$49,081,485	\$46,443,710	-\$2,637,775	-5.4%
Allocated to Counties	\$59,629,803	\$49,455,596	-\$10,174,207	-17.1%
General Fund	\$185,846,916	\$155,123,038	-\$30,723,878	-16.5%
<b>Insurance Premium Tax</b>				
<i>Total</i>	\$175,964,530	\$175,275,706	-\$688,824	-0.4%
Municipalities	\$6,819,824	\$7,640,980	\$821,156	12.0%
County Fire Protection	\$6,819,824	\$7,641,280	\$821,456	12.0%
General Fund	\$138,394,126	\$135,785,600	-\$2,608,526	-1.9%
<b>Alcohol Beverage Tax</b>				
<i>Total</i>	\$65,354,835	\$72,753,013	\$7,398,178	11.3%
Allocated to Municipalities	\$1,765,135	\$2,255,445	\$490,310	27.8%
Allocated to Counties	\$816,375	\$375,675	-\$440,700	-54.0%
General Fund	\$57,344,324	\$64,240,001	\$6,895,677	12.0%
<b>Petroleum Tax</b>				
<i>Total</i>	\$452,645,636	\$400,991,764	-\$51,653,872	-11.4%
Municipal Aid	\$1,547,295	\$1,547,295	\$0	0.0%
Allocated to Counties	\$44,559,831	\$41,573,099	-\$2,986,732	-6.7%
Seaall Tax - Coastal Counties	\$6,100,108	\$5,974,135	-\$125,973	-2.1%
Road Protection - Coastal Counties	\$3,236,377	\$11,139,004	\$7,902,627	244.2%
General Fund	\$928,130	\$968,453	\$40,323	4.3%
<b>TVA In Lieu</b>				
<i>Total</i>	\$22,028,997	\$26,317,882	\$4,288,885	19.5%
Allocated to Municipalities	\$4,999,308	\$6,103,387	\$1,104,079	22.1%
Allocated to Counties	\$9,819,913	\$11,692,565	\$1,872,652	19.1%
Allocated to Schools	\$4,950,316	\$5,959,115	\$1,008,799	20.4%
General Fund	\$2,259,460	\$2,562,815	\$303,355	13.4%
<b>Nuclear In Lieu</b>				
<i>Total</i>	\$20,000,000	\$20,000,000	\$0	0.0%
Allocated to Municipalities	\$7,269,908	\$7,584,705	\$314,797	4.3%
Allocated to Counties	\$11,530,192	\$11,215,295	-\$314,897	-2.7%
General Fund	\$1,200,000	\$1,200,000	\$0	0.0%
<b>Total Receipts</b>	\$6,976,607,957	\$6,560,327,123	-\$416,280,834	-6.0%
<b>Municipalities/ Counties/Schools</b>	\$2,285,581,189	\$2,189,367,104	-\$96,214,085	-4.2%
<b>General Fund</b>	\$4,691,026,768	\$4,370,960,019	-\$320,066,749	-6.8%

Source: Mississippi Department of Revenue Annual Reports for the Fiscal Year Ending June 30, 2007 and 2010

To provide historical perspective on a job loss of this magnitude, the state of Mississippi lost 61,500 non-agricultural jobs over the period from 2007 to 2010 during the Great Recession. Although the impact of COVID-19 will not be identical to the impact of the recession, it provides some insight into the fiscal impact of job loss and economic decline on revenue streams to municipal and county governments. Table 1 at left shows the fiscal impact of the recession on selected revenue categories (excluding property taxes directly collected by county or city governments). As shown, total sales tax revenues for the state of Mississippi fell by approximately 9.1 percent and sales tax diversions to municipalities fell by 6.3 percent over the 3-year period from 2007 to 2010. Other revenue categories, such as Gaming Fees and Taxes, Petroleum Tax, and Use Tax are also anticipated to be impacted by the halt of economic activity associated with the coronavirus. Revenues from Gaming Fees and Petroleum Taxes are anticipated to be particularly hard hit.

COVID-19 related measures to encourage social-distancing and sheltering-in-place have resulted in significant changes in consumer behavior; whether these changes will be temporary or permanent is an unknown factor.

Mississippi is already experiencing a significant decline in employment and soaring unemployment claims as businesses are forced to close due to social-distancing guidelines – restaurants, retail

stores, and many service businesses have been particularly hard hit by the coronavirus. In 2019, tourism brought 24.6 million visitors to the state of Mississippi, supported 91,400 direct jobs with a payroll of approximately \$2 billion, and visitor expenditures were estimated at \$6.6 billion.<sup>3</sup> The gaming industry – which employed over 17,000 people – has

Table 2: Municipal and County Revenue from Special Levies

Transfers to Cities and Counties from Special Levies/Collections			
City or County	FY 2019	City or County	FY 2019
Aberdeen Special Tax	\$86,881	Magee Special Tax	\$289,759
Adams County Convention	\$1,322,432	McComb Special Tax	\$240,260
Baldwyn Special Tax	\$43,594	Meridian Special Tax	\$2,853,385
Batesville Tourism and Economic Dev.	\$1,249,003	Montgomery County Coliseum & Tourism	\$118,959
Bay Springs Special Tax	\$3,778	Moss Point Special Tax	\$301,569
Booneville Special Tax	\$397,693	MS Gulf Coast Convention & Visitors Bur.	\$4,655,664
Brandon Special Tax	\$1,215,006	Natchez Special Tax (occupancy)	\$381,355
Brookhaven Special Tax	\$111,783	New Albany Special Tax	\$829,068
Byhalia Tourism, Parks & Recreation	\$6,707	Newton Special Tax (occupancy)	\$11,016
Byram Special Tax	\$86,949	Ocean Springs Hotel Tax	\$57,604
Canton Tourist & Convention	\$630,717	Ocean Springs Restaurant Tax	\$1,444,597
Carthage Special Tax	\$330,657	Oxford Stadium Tax	\$3,315,298
Cleveland Special Tax	\$945,705	Oxford Tourism	\$435,562
Clinton Special Tax	\$236,202	Pascagoula Special Tax	\$1,155,502
Coahoma County Special Tax	\$403,221	Pearl Special Tax	\$1,721,031
Columbus Tourism	\$1,007,739	Philadelphia Tourism	\$78,344
Como Special Tax	\$72,553	Picayune Special Tax	\$536,572
Como Special Tax (Occupancy)	\$515	Pontotoc Special Tax	\$459,020
Corinth Tourism	\$1,348,543	Rankin County Special Tax	\$968,460
Desoto County Special Tax	\$9,375,901	Richland Special Tax	\$455,408
Florence Special Tax	\$339,899	Ridgeland Special Tax	\$1,745,895
Flowood Special Tax	\$2,978,298	Ripley Special Tax	\$337,112
Fulton Special Tax	\$64,500	Sardis Special Tax	\$125,088
Greenwood Tourism Commission	\$523,095	Senatobia Special Tax	\$517,058
Grenada Tourism	\$768,839	Southaven Special Tax	\$2,139,499
Hancock County Special Tax	\$54,250	Starkville Tourism and Convention Tax	\$2,169,190
Harrison County Coliseum-Convention Ctr	\$4,848,997	Starkville-Oktibbeha Tourism	\$334,602
Hattiesburg Special Tax	\$6,286,881	Stone County Special Tax	\$465,956
Hernando Tourism	\$34,938	Tishomingo County Promotion Tax	\$22,399
Holly Springs Tourism	\$350,501	Tunica County Special Tax	\$1,637,725
Horn Lake Special Tax (occupancy)	\$281,138	Tupelo Convention & Tourism Promotion	\$4,886,389
Houston Special Tax	\$201,054	Tupelo Water Facilities	\$3,682,870
Indianola Tourism Commission	\$464,815	Vaiden Special Tax	\$4,324
Jackson (city) Convention Center	\$4,656,281	Vicksburg Special Tax	\$2,327,662
Jackson (city) Infrastructure	\$14,023,730	Warren County Tourism	\$1,255,179
Jackson (city) Tourism	\$3,609,482	Washington County Board of Sup.	\$221,375
Kosciusko Tourist Promotion	\$41,953	Washington County Tourist Promotion	\$713,308
Lauderdale County Tourism	\$732,344	West Point Special Tax	\$303,040
Laurel Special Tax	\$1,778,500	West Point-Clay County Special Tax	\$303,038
Louisville Special Tax	\$39,967	Winona Special Tax	\$166,274
Lowndes County Special Tax	\$59,082	Yazoo County Special Tax	\$543,028
		<b>Total Special Tax Transfers</b>	<b>\$105,223,568</b>

Source: Mississippi Department of Revenue Annual Report Fiscal Year July 1, 2018 to June 30, 2019

been completely shutdown and tourism related revenues cannot be expected to recover quickly from the impact of the coronavirus. Geographic areas of the state that are highly reliant upon tourism or gaming related revenues may be slow to recover. Prior to the coronavirus, Gulf Coast casinos were relatively resilient to increasing competitive pressure from the expansion of gaming in other states, but casinos in the Tunica area were struggling. Without changes to the regulatory environment, it is anticipated that the impact of the coronavirus will be devastating to gaming revenues and related tourism revenues from the Tunica region.

Many municipalities and counties receive revenue from special tax levies. The majority of these revenues are derived from a tax on the proceeds of sales from restaurants, food and beverages, and hotels or motels. During Fiscal Year 2019, municipalities and counties collected \$105.2 million in revenue from special levies. These revenues will shrink significantly due to the coronavirus related reduction in

<sup>3</sup> Mississippi Development Authority, Fiscal Year 2019 Annual Report. <https://mississippi.org/manage/wp-content/uploads/2019-Annual-Report.pdf>. Accessed April 25, 2020.

tourism and reduced business travel. The closure of Mississippi's institutions of higher learning will further exacerbate the decline in these revenues as campus activities – sporting events, graduation ceremonies, or conferences – are paused.

### **How much revenue can we (the counties and/or cities) expect to have as the economy recovers from the pandemic?**

Treasury Secretary Steven Mnuchin has stated that he anticipates continued economic contraction during the second quarter of 2020 (April through June) and then a significant rebound beginning in the third quarter of 2020. The Congressional Budget Office has also predicted a sharp contraction of the economy during the second quarter of 2020 and then an increase in economic activity beginning in the third quarter; unemployment rates are projected to average 15 percent during the second and third quarter of 2020 and unemployment rates of approximately 10 percent are predicted to persist throughout 2021. Any projections are subject to an enormous amount of uncertainty; the extent of continued social-distancing, the possibility of the reemergence of the pandemic, the closure of academic institutions, and layoffs by governmental organizations all contribute to the uncertainty of the timing of economic recovery.

Alternative methods of retail fulfillment options were changing consumer behavior patterns prior to the COVID-19 epidemic; self-distancing and sheltering-in-place are anticipated to accelerate these changes. These alternative fulfillment options predominantly include buying online, direct delivery (e.g. Amazon) and buy online, pickup in store (BOPIS). E-Commerce has been capturing an increased share of retail sales. In the 3<sup>rd</sup> Quarter of 2019, the share of e-commerce in total U.S. retail sales was 11.4 percent, up from 10.1 percent from the corresponding quarter of 2018.<sup>4</sup> In 2019, the average annual revenue per online shopper was \$1,084. In 2019, U.S. online retail sales of physical goods amounted to \$365.2 billion and are projected to reach close to \$600 billion in 2024. Apparel and accessories retail e-commerce in the U.S. is projected to generate \$194.4 billion in 2024. As online sales have increased, sales at brick and mortar stores have remained stagnant or declined. As non-essential retailers were closed to protect people during the coronavirus pandemic, U.S. retail sales dropped by 8.7% in March 2020. Although some firms like Walmart and Amazon are experiencing historically high sales revenues, other retailers are feeling the brunt of the impact of coronavirus. Clothing stores experienced the sharpest decline as sales dropped 50.5% for the month. Sales by auto dealers and furniture stores declined by 27.1 percent and 26.8 percent, respectively. Restaurant and bar sales decreased by 26.5 percent, sporting goods sales fell by 23.3 percent and department store sales were down 19.7 percent. Gas station sales fell by 17.2 percent. At the same time, grocery stores – an essential service – saw their sales increase by 26.9 percent. Drug stores experienced a 4.3 percent increase in sales and building supply sales rose by 1.3 percent. The National Retail Federation predicts that the retail industry will lose \$430 billion in revenue in the 3<sup>rd</sup> quarter of 2020 and that an estimated 30,000 non-essential retail outlets have closed. For example, Macy's was forced to close all of its stores across the U.S. by March 18, 2020 and furloughed approximately 130,000 department store employees, but retained some workers to continue e-commerce, call center and distribution activities as Macy's continues to sell online. The coronavirus may be the death knell for already struggling retail stores; stimulus funding is unlikely to help businesses that were already struggling before the virus. In April, Fitch downgraded credit ratings for Dillard's, J.C. Penney, Kohl's, Levi Strauss, Nordstrom, Tapestry (e.g. Coach, Kate Spade), and Signet (e.g. Kay Jewelers, Zales) while S&P downgraded L Brands (Victoria's Secret) and Gap. Many of these stores are the anchors that malls rely upon. If these retail chains are

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<sup>4</sup> <https://www.statista.com/statistics/187439/share-of-e-commerce-sales-in-total-us-retail-sales-in-2020>. Accessed April 2020.

forced into bankruptcy, the impact on retail destination locations, i.e. Tupelo, Meridian, Ridgeland, or Jackson) within the state of Mississippi will be significant, and may be long-term.

The coronavirus pandemic is impacting consumer behavior; a recent survey from Prosper Insights & Analytics found that 71 percent of consumers say they are social distancing and adjusting their behavior – shopping less in physical stores, stocking up on groceries and household items, or moving increasingly to online transactions – to protect themselves and their families. While many consumers are unwilling or unable to shop in stores, they focus more intensely on obtaining items. This is particularly true for groceries. Amazon, Kroger, and Publix are increasingly offering delivery services and delivery solutions may become a key retail requirement moving into the future.

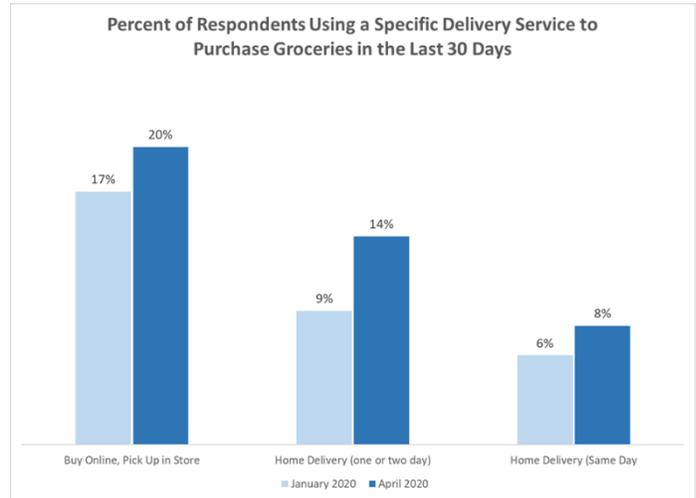


Figure 2: Source: Prosper Insights & Analytics April 2020 Consumer Survey

Although there is an urban/rural divide in consumer usage and availability of home delivery options, research is finding that the percent of consumers using either buy online, pick up in store (BOPIS), or home delivery to purchase groceries has increased since the advent of COVID-19. As shown in Figure 2 at right – BOPIS and home delivery increased significantly between January 20 and April 20 of 2020. The study found that 31 percent of consumers are interested in using home delivery for groceries in the future.

The negative impact of the coronavirus on employment is being offset by a surge in hiring by some retailers. In response to coronavirus changes in consumer online purchasing and delivery demand, many companies are hiring. For example, in April, Instacart - announced it would be hiring an additional 250,000 more workers to meet demand during the pandemic<sup>5</sup> while Amazon and Walmart reported hiring 250,000 new workers due to surging coronavirus demand.<sup>6</sup> If retailers in Mississippi are able to adapt to changing consumer demand, associated sales tax revenues will recover more quickly as sheltering-in-place guidelines are relaxed.

The negative impact of the coronavirus on employment will also be temporarily offset due to the passage of the \$2.3 trillion Coronavirus Aid, Relief, and Economic Security (CARES) Act. Under the CARES Act, “Economic Impact Payments” or “Stimulus Checks” ranging from payments of \$1,200 to \$2,400 plus an additional \$500 for qualifying children have begun to be issued by the Internal Revenue Service. In addition to these stimulus checks, provisions of the CARES Act created three initiative for states to extend unemployment insurance to unemployed workers by: 1) expanding the amount of time an individual may receive benefits from 26 to 39 weeks; 2) increasing the amount of benefits an individual may receive by \$600 per week through July 31, 2020; and 3) including individuals who may not otherwise qualify for unemployment benefits (e.g. independent contractors, the self-employed, and gig economy workers). Because the CARES Act increases unemployment checks by \$600 for four months, jobless workers who secure benefits in

<sup>5</sup> <https://fortune.com/2020/04/23/instacart-hiring-250000-workers-wellness-checks-coronavirus-covid-19/>. Accessed April 2020.

<sup>6</sup> <https://www.businessinsider.com/amazon-walmart-hiring-2020-3>. Accessed April 2020.

Mississippi will see their weekly amount more than triple from a maximum of \$235 to \$835. The exact amount will depend on a person's eligibility and how much they earned at their job. A weekly benefit of \$600, which equals \$15 per hour for 40 hours, means many people in Mississippi will be paid more during unemployment than when they were working. The CARES Act will also allow for more Mississippians to qualify for unemployment, including those who can't work because they are self-employed and those with coronavirus or caring for someone with coronavirus. The enhanced unemployment benefits will partially offset the loss of sales tax revenue through the month of July 2020 as the state moves toward economic recovery. Enhanced unemployment benefits combined with the surge in consumer spending groceries can also be anticipated to partially offset the negative impact of the coronavirus on sales tax revenues. In the state of Mississippi, the Retail sector accounted for approximately 55.2 percent of total gross sales tax and within that sector 13.9 percent of gross sales tax revenue (\$249,233,577) was associated with grocery store sales in Fiscal Year 2019.

### **How will taxes on E-Commerce be affected?**

As previously discussed, the COVID-19 epidemic has dramatically changed consumer retail shopping behaviors, increasingly buying online with direct delivery. The epidemic accelerated pre-coronavirus purchasing patterns as E-Commerce has been systematically capturing an increased share of retail sales. The state of Mississippi does not charge a "sales tax" on the purchase of goods made online, but it does charge a "use" tax on the retail sale of goods made online. The Mississippi use tax is a special excise tax assessed on items purchased tax-free online, while traveling, or transported into Mississippi; the use tax rate is 7 percent. In 2017, DOR Commissioner Herb Frierson reached an agreement with major online retailers to collect the 7 percent use tax on items sold in Mississippi. From Fiscal Year 2017 to Fiscal Year 2019, use tax collections increased by \$109.2 million for the state of Mississippi; total collections were \$419.6 million in 2019, of this amount, \$92.2 million was diverted to Motor Vehicle Ad Valorem Reduction, School Ad Valorem, and Education Enhancement. Mississippi municipalities receive no diversions from use tax collections.

### **What about ad valorem?**

One of the best features of the ad valorem tax is it tends to be a very reliable source of income. Since this tax is based on property values for real estate, business property, the price of motor vehicles, and the value of public utilities, it tends to be very consistent and usually does not suffer rapid declines like sales tax. Since tax rates (millage rates) are set annually, some decrease in assessed values due to an economic downturn may be compensated for by increasing millage rates. However, when this happens there may be a shift in the tax burden between classes of property. City and county governments must be cognizant that significant sales tax losses may not be able to be completely offset by increasing millage rates because the ad valorem revenues generated by the increase cannot exceed 10% of the ad valorem revenues generated in any of the previous three years without a voter referendum.

### **What are some other issues?**

Due to individuals being out of work, local government should be prepared for delays in payments on ad valorem taxes, water and sewer bills, and other fee-based services provided to their citizens. These delays can alter the available resources and services local governments can provide to their constituents. Local governments have already begun furloughing employees, reducing salaries for certain officials and department heads, and exercising other options to adjust for shortfalls in tax revenues.