

MISSISSIPPI TAXES AND EXEMPTIONS

Mississippi businesses are subject to four basic state taxes: corporate income tax, franchise tax, sales and use tax, and property tax. Tax credits or exemptions are available on all basic state taxes except franchise tax.

Corporate Income Tax

All corporations engaged in business activities in Mississippi are taxed on the net taxable income derived from those activities as follows:

First	\$5,000	3%
Next	\$5,000	4%
Over	\$10,000	5%

In the case of multi-state manufacturing corporations, net business income from manufacturing operations which cannot be directly assigned to the Mississippi operation is apportioned to the State on the basis of a three-factor formula:

1. Ratio of property (book value) in Mississippi versus total property
2. Ratio of payroll in Mississippi compared to total payroll
3. Ratio of sales attributable to Mississippi compared to total sales
Additional non-business income is added to the apportioned income.

Mississippi allows a net operating loss to be carried over for the five years following the taxable year of such loss. The State, however, does not allow deductions of federal income taxes. There is no county or municipal income tax in Mississippi.

Example of Corporate Income Tax (Multi-State Operation)

Assume that a company selling at wholesale has two manufacturing plants, one in Mississippi and one in another state, and that the Mississippi plant accounts for 45% of the property, 40% of the payroll, and 35% of the sales. Assume further that the net business income of the corporation is \$500,000.

The corporate income subject to Mississippi tax and the amount of tax payable can be calculated as shown below:

Ratio of property in Mississippi to total property	.45
Ratio of payroll in Mississippi to total payroll	.40
Ratio of sales in Mississippi to total sales	<u>.35</u>
Sum of the three factors	1.20

Apportionment ratio (1.20/3=.40)

Business income apportioned to
Mississippi (\$500,000 x .40)
Net taxable income \$200,000

Total Mississippi tax:	
3% of first \$5,000	\$150
4% of next \$5,000	200
5% of balance (\$190,000)	<u>9,500</u>
Income tax payable to Mississippi	\$ 9,850

Corporate Income Tax Exemptions

Jobs Tax Credit*

Eligible employers in Mississippi who create a designated number of full-time jobs are eligible for a five-year jobs tax credit, the amount of which will vary depending upon the location of the facility.

The State's 82 counties have been divided into three categories: Tier 3, Tier 2, and Tier 1. Each category has individual parameters for both the number of new jobs that must be created and the amount of the tax credit available to eligible employers (Bolivar County is considered a Tier 3 county).

Eligible businesses include manufacturers, processors, distributors, wholesalers, warehouse, research and development facilities, air transportation and maintenance facilities, final destination or resort hotels having a minimum of 150 rooms, and movie industry studios.

County Classification	Number of New Jobs To Be Created	Dollar Credit Per New Job
Tier 3	10 or more	\$2,000 annually
Tier 2	15 or more	\$1,000 annually
Tier 1	20 or more	\$ 500 annually

National or Regional Headquarters Jobs Credit*

Out-of-state businesses that transfer national or regional headquarters to Mississippi or existing in-state companies which establish national or regional headquarters in the State are eligible for a five-year, \$500 tax credit for each new full-time position created. A minimum of 35 full-time jobs must be created.

Research and Development Jobs Credit*

A five-year, \$500 tax credit is offered for each new full-time job created which requires research and development skills.

Job Training Tax Credit*

A 25% income tax credit is offered to a manufacturer which participates in an employer-sponsored retraining program through a community/junior college in the district within which the employer is located.

Child Care Income Tax Credit*

An income tax credit of 25% of qualified expenses is offered to any employer providing child care for employees during working hours. The facility must have an average daily enrollment for the taxable year of no less than six children who are 12 years of age or less and be licensed according to the regulations governing licensure of child care facilities in Mississippi. Employers will be certified as eligible for the tax credit by the Mississippi Department of Health and the State Tax Commission.

- These credits can be used in any combination, but the total combination cannot exceed 50% of the taxpayer's income tax liability for that year. Any excess credit may be carried forward for five successive years.

Corporate Franchise Tax

Mississippi's franchise tax applies to most corporations doing business in the State. The rate is \$2.50 per \$1,000 of the value of capital used, invested, or employed in the State. The tax base consists of capital stock issued and outstanding, surplus and undivided profits, and true reserves. However, the tax base cannot be less than the corporation's assessed value of real and tangible personal property in Mississippi.

For multi-state corporations, capital is apportioned to Mississippi on a formula/ratio basis. The ratio is calculated by dividing the sum of the book value of real and tangible personal property owned in the State plus the gross receipts received from business activity in the State by the sum of the book value of real and tangible total corporate personal property plus total corporate gross receipts received. The ratio is then applied to the total capital stock, surplus and undivided profits, and true reserves to calculate the amount of capital apportioned to Mississippi. This amount is then multiplied by the franchise tax rate to obtain the amount of franchise tax owed.

Example of Franchise Tax (Multi-State Operation)

Assume a company owns \$2.4 million (book value) of real and tangible personal property, \$1.08 million of which is located in Mississippi. Gross receipts of the company

are \$4.8 million of which \$1.9 million is located in Mississippi. The total capital stock, surplus and undivided profits, and true reserves of the company are \$2.0 million. The corporation's franchise tax is calculated below:

Book value of Mississippi property	\$1,080,000
Mississippi gross receipts	<u>1,900,000</u>
(Formula numerator)	\$2,980,000
Book value of total corporate property	\$2,400,000
Total corporate gross receipts	<u>4,800,000</u>
(Formula denominator)	\$7,200,000
Franchise tax apportionment ratio (\$2,980,000/\$7,200,000)	.414
Capital apportioned to Mississippi (\$2,000,000 x .414)	\$828,000
Mississippi franchise tax (\$828,000/\$1,000) x \$2.50	\$2,070

Sales and Use Tax

Sales and use taxes are applied to all businesses having legal existence within the State. Although sales taxes vary, based upon the types of transactions, the list below details some of the specific sales taxes relative to manufacturers.

A use tax applies to personal property purchased in another state but utilized in Mississippi. The use tax is computed by applying the Mississippi sales tax rate applicable to that type of property less credit allowed for sales or use taxes paid in the state of purchase. Used property is generally taxed on the basis of its book value figured on straight line depreciation.

Sales to a Manufacturer:

1. Raw materials (except sand and gravel, 5 cents per ton)	0%
2. Catalysts, chemicals, or gases used directly in processing (except natural gas, 1.5%)	0%
3. Packaging and containers for sale with finished goods	0%
4. Machinery and parts used directly in manufacturing and port operations (purchase or rental)	1.5%

5. Industrial electricity, natural gas, and fuels	1.5%
6. Industrial water	7%
7. Telephone and telegraph	7%
8. All other equipment, furniture, fixtures, materials, supplies, and rentals not used directly in manufacturing	7%
9. Contract construction for projects over \$10,000 (except residential)	3.5%

Sales by a Manufacturer:

1. To final consumer or user	7%
2. To another manufacturer for use as manufacturing machinery	1.5%
3. To another manufacturer as a raw material for further processing	0%
4. To a wholesaler or retailer or resale	0%
5. To exempt customers (e.g., government agencies, educational institutions, etc.)	0%

Sales and Use Tax Exemptions

In Tier 3 Counties(Bolivar County)*

A full sales and use tax exemption is available to qualified businesses (manufacturing and processing) on purchases of component building materials used in the construction or expansion of a building. A full sales and use tax exemption is also available on qualified purchases of new machinery and equipment.

In Tier 2 and Tier 1 Counties*

A sales and use tax exemption equal to one-half of the total tax liability is available to qualified businesses (manufacturing and processing) on purchases of component building materials to be used in the construction or expansion of a building. A sales and use tax exemption equal to one-half of the total tax liability is also available on qualified purchases of new machinery and equipment.

Bond Finance Program*

A full sales and use tax exemption is available to qualified businesses which finance component building materials and machinery and equipment with bond proceeds.

National or Regional Headquarters*

A full sales and use tax exemption is available to qualified businesses of an industrial nature transferring national or regional headquarters to Mississippi or in-state existing businesses establishing national or regional headquarters and creating a minimum of 35 jobs. The exemption is available to qualified businesses on purchases of component materials used in the construction or expansion of buildings. A full sales and use tax exemption is also available on qualified purchases of new machinery and equipment.

* **These exemptions do not apply to the 3.5% contractor's tax.**

Property Tax

Counties and municipalities levy a property tax on real and tangible personal property. Most property is assessed at 15% of true value. Motor vehicles and utilities (excluding railroads) are assessed at 30% and owner-occupied residential properties at 10% of true value. Property is appraised and assessed by local assessors. Depreciation is allowed in determining true value. Tax rates are set by the political subdivision based on local budget requirements.

Mississippi does not have a state property tax.

Property Tax Exemptions

Counties and municipalities may grant an exemption on all property taxes, except school taxes, for a period of up to 10 years. Eligible enterprises include warehouse and/or distribution centers, manufacturers, processors, refineries, research facilities, regional and national headquarters, movie industry studios, and air transportation and maintenance facilities.

County and municipal authorities may levy a fee in lieu of taxes on projects totaling over \$100 million. The minimum fee cannot be less than one-third of the property tax levy which could be imposed. Eligible enterprises include warehouse and/or distribution centers, manufacturers, processors, refineries, research facilities, regional and national headquarters, air transportation and maintenance facilities, and regional shopping malls.

Free Port Warehouse Law

By taking advantage of Mississippi's Free Port Warehouse law, manufacturers can be exempt from paying property taxes on property stored in a licensed Free Port Warehouse in the ratio that the value of shipments outside the State bears to the value of total shipments. For example, if 98% of the value of finished goods is shipped to destinations outside the State, then 98% of the value of the goods on January 1 would be exempt from property taxes.

On January 1, 1982, the Mississippi Free Port Warehouse Law became effective. It is a tremendous financial advantage to those Mississippi industries who eventually transfer any portion of their inventory to final destinations outside the State of Mississippi. The law allows the state to grant an ad valorem tax exemption from county and municipal taxes which would result in significant tax savings to affected firms.

In general, the Basic Requirements for a Licensed Free Port Warehouse are:

Must be a warehouse or storage facility regularly engaged in the handling and storage of personal property.

Ad valorem exemption of personal property must have approval of county and municipal governing bodies regarding amount and duration of exemption.

Each licensed warehouse must file with the State Tax Commission and Tax assessor of each taxing jurisdiction where the facility is located an inventory of all personal property consigned or transferred to such warehouse or storage facility on January 1 of each year. At the end of the year, a report is made to the taxing authorities showing actual movement of personal property from the facility. These reports are done on State Tax Commission forms.

The State Tax Commission has full authority to require the keeping of all records and reports necessary under this law as set forth in the Mississippi Code of 1972, Annotated, Section 27-31-51 through 27-31-57, and may revoke the free port warehouse license pursuant to their own rules and regulations. It is advisable that potential licensees should contact the local taxing authorities as aforesaid to learn their feelings on this subject prior to making application to the State Tax Commission for a free port warehouse license.

Example of Property Tax

Assume that a plant is located within a municipality where the total of all property taxes is 78.5 mills. The total tax due is shown below:

Taxable Property	True Value
Land	\$ 10,000
Buildings	1,500,000

Machinery and Equipment	700,000
Raw Materials	200,000
Finished Goods	500,000
Total	<u>\$2,910,000</u>

Assessed Value:
 $15\% \times \$2,910,000 = \$436,500$

Tax due before exemptions:
 $78.5 \text{ mills} \times \$436,500 = \$34,265$

Bolivar County has a passed history of granting both the 10-year property tax exemption as well as the Free Port Warehouse exemption. The Cleveland-Bolivar County Chamber of Commerce will work with the industry to fill out the application as well as accompany the industry to the appropriate city or county board meeting to request such exemptions. The process usually takes from four to six weeks to complete.

Other Taxes

State Unemployment Compensation Tax

Mississippi levies an unemployment compensation tax on the first \$7,000 of an employee's annual wages. The maximum rate is 5.4%. The minimum varies from year to year depending upon the general experience rate of the State. The minimum tax rate is 1.2%. New employers in the State are assigned a tax rate of 2.7% until such time as they establish an individual experience rate.

Workers' Compensation

Employers in Mississippi having five or more employees must purchase workers' compensation coverage through insurance carriers, or qualify with the Mississippi Workers' Compensation Commission as a self-insurer.

Compensation is two-thirds of the claimant's wages up to a maximum of two-thirds of the average weekly wage, or \$252.59, for up to 450 weeks, but not to exceed \$113,655.50, excluding medical payments. The amounts are indexed on an annual basis.

Personal Income Tax

Individual income is taxed at the same rate as corporate income: 3% of the first \$5,000 of taxable income, 4% of the next \$5,000, and 5% of the balance. Individuals are allowed personal exemptions.