



MISSISSIPPI STATE TAX COMMISSION

Income and Franchise Tax Bureau

Notice 80-04-001

April 1, 2004

BONUS DEPRECIATION

The Commissioner has determined the thirty percent (30%) and the fifty percent (50%) depreciation bonus provided by recent federal changes is NOT a reasonable allowance for exhaustion, wear and tear and obsolescence of property. Therefore, if such "bonus" depreciation is taken for federal purposes, an adjustment must be made to the Mississippi income tax return to clearly reflect that depreciation which would have otherwise been allowed using other federal depreciation guidelines.

Tax Filings

Taxpayers who receive a federal bonus "depreciation" deduction for property placed into service on or after September 11, 2001 are not allowed this deduction for purposes of computing MS taxable income. When federal taxable income is used as a starting point for computing MS taxable income several adjustments are required.

- 1) The "bonus depreciation" taken for federal tax purposes is added back.
- 2) A deduction for additional depreciation, due to a higher depreciable base, is recorded. Due to the bonus depreciation being disallowed, a property's depreciable base will generally be higher (by the amount of the bonus depreciation) for Mississippi than for federal tax purposes. This results in a greater "non-bonus" depreciation deduction for Mississippi than for federal income tax purposes resulting in a second adjustment.
- 3) Indirectly, additional adjustments may result, such as a difference in the gain on sale of an asset where a bonus depreciation adjustment was made for Mississippi purposes.

Each return filing should contain the following:

A copy of Federal Form 4562 - Depreciation and Amortization - Federal (federal computations)

A copy of Federal Form 4562 - Depreciation and Amortization - MS (MS computations)

The adjustment to income is reported as follows:

"C" corporation tax filers - report the adjustments on Form 83-122.

"S" corporation tax filers - report the adjustments on Form 85-122. These adjustments are also reflected in the appropriate income category of the MS K-1 (Form 85-132) as well as described in the supplemental information on page two (2) of the K-1.

Partnership tax filers - report the adjustments on Form 86-122. These adjustments are also reflected in the appropriate income category of the MS K-1 (Form 86-132) as well as described in the supplemental information on page two (2) of the K-1.

Individual tax filers who are required to file Federal Form 4562 - report the net adjustment as an addition to "other income or loss" on Form 80-135, Schedule N, line 3.

Individual and corporate tax filers receiving a MS K-1 - shouldn't need to make an adjustment since the effect of the bonus depreciation disallowance should already be reflected, as an increase to income, on the Mississippi K-1.

Individual tax filers with an interest in a partnership, S corporation, or other flow-through entity not doing business in Mississippi, will obtain a copy of Federal Form 4562 from the flow-through entity. A computation of the net adjustment will be made and attached to the individual return and reported as an addition to "other income or loss" on Form 80-135, Schedule N, line 3.