

2012



DEPARTMENT OF
REVENUE
STATE OF MISSISSIPPI

PASS-THROUGH ENTITY



2012 Pass-Through Entity Income Tax Instructions

GENERAL INFORMATION

There are some important things you can do to help speed processing of your return:

- **Use Black Ink** when preparing returns.
- **Indicating a Loss** - To indicate a loss (negative income), use brackets around the dollar amount.
- **All filers must attach a federal return filing to the state return including returns filed electronically.** Combined filers must attach the consolidated Federal Form 1065 and 1120-S (pages 1 – 5), Schedule M-3 and a complete Pro-Forma Federal Return. **Additional schedules and attachments should be stapled to your return.**
- **Download Forms** – Forms may be downloaded by tax year and tax type from our web site located at www.dor.ms.gov.
- **If you issue 100 or more K-1's, you need to file electronically.**

Legislative Changes for 2012

The following is a brief description of select legislative changes. A copy of all legislative bills is available at <http://billstatus.ls.state.ms.us/>.

Senate Bill 2609: This bill extends the repeal date to July 1, 2016 of MS Code Ann. §57-73-25, which provides an income tax credits for certain employers sponsoring skills training for employees. This bill is effective June 30, 2012.

Senate Bill 2656: This bill extends the repeal date of MS Code Ann. §27-7-22.36 to July 1, 2016 of MS Code Ann. §27-7-22.36, which authorizes job tax credit for each full-time employees employed in a new cut and sew job by enterprises that own or operate an upholstered household and furniture manufacturing facility. This bill is effective July 1, 2012.

Senate Bill 2934: This bill amended MS Code Ann. §27-7-22.5 increasing the income tax credit for ad valorem taxes paid by taxpayers on certain inventory and authorizes any unused tax credit claimed under this section to be carried forward for five consecutive years from the close of the tax year in which the credit was earned. This bill is effective July 1, 2012.

GENERAL INSTRUCTIONS

WHO MUST FILE

S Corporation

Every S corporation, domesticated or qualified to do business in Mississippi, and every S corporation engaged in business in Mississippi or having sources of income from Mississippi. **Such corporation will remain subject to the filing requirements until the corporation is officially dissolved or withdrawn through the Office of the Mississippi Secretary of State.**

Partnership

Every partnership, LLC, or LLP, domestic or foreign, deriving income from property owned within the State of Mississippi, or business, trade, profession or occupation, carried on within the State.

Exempt Organization

Every exempt corporate organization, as described in Miss Code Ann. § 27-7-27 or § 27-7-29 and not otherwise exempt from the income tax levy, is required to make a corporate tax filing if they have Mississippi unrelated business taxable income.

TIME AND PLACE FOR FILING

S Corporation

The Mississippi Pass-Through Entity Tax Return must be filed on or before the 15th day of the third month following the close of the accounting year. If the due date falls on a Saturday, Sunday, or legal holiday, file on the next business day. A business day is any day that is not a Saturday, Sunday, or legal holiday.

If the S election was terminated during the tax year, the due date of Form 84-105 is on or before the 15th day of the 3rd month following the date of termination.

Partnerships

Calendar year partnerships, LLCs and LLPs must file no later than April 15th annually. Fiscal year partnerships, LLCs and LLPs must file no later than the 15th day of the 4th month following the end of the fiscal year.

The return should be mailed to:

**Department of Revenue
P.O. Box 23050
Jackson, MS 39225-3050**

Street Address:

**1577 Springridge Road
Raymond, MS 39154**

DEFINITIONS

S Corporation

"S corporation" means a corporation for which a valid election under section 1372(a) of the Internal Revenue Code is in effect. A corporation must file Form 84-105, Mississippi Pass-Through Entity Tax Return, if (a) it elected to be an S corporation by filing Federal Form 2553, (b) the IRS accepted the election, and (c) the election remains in effect. **Do not file Form 84-105 until the corporation has been notified by the IRS that the Federal election has been accepted.**

An S corporation is not subject to income tax imposed by Miss Code Ann. § 27-7-5, but may be subject to withholding requirements as explained under "Payment of Tax" on the following page. Also, every S corporation domesticated or qualified to do business in Mississippi is subject to the measure of the franchise tax levy.

Foreign S corporations engaged in business in Mississippi or having sources of income in this state who have not qualified to transact business in this state through the offices of the Secretary of State are subject to the measure of the franchise tax levy.

Termination of Election

Once the election is made to be treated as an S corporation, it stays in effect until it is terminated. Mississippi considers the election to be terminated at such time as the election is considered terminated for Federal purposes.

Partnership

The term "partnership" includes a syndicate, group, pool, joint venture or other unincorporated organization through or by means of which any business, financial operation or venture is carried on, and which is not within the meaning of a corporation or a trust or estate.

A domestic or foreign limited liability company (LLC) is classified as an entity for purposes of Mississippi income tax laws in the same manner as the entity is classified for federal income tax purposes. If an LLC is treated as a partnership for federal income tax purposes, it will file as a partnership for Mississippi purposes. If an LLC is treated as a corporation for federal income tax purposes, it will file as a corporation for Mississippi income and franchise tax purposes.

In these instructions, all three entities (partnership, LLC, and LLP) may, at times, be referred to as "partnerships", and partner/members referred to as "partners".

FILING ELECTRONIC RETURNS

Tax preparers have the ability to file Pass-Through Entity Tax Returns electronically. All electronic returns must attach a federal return. Please visit www.dor.ms.gov for more information.

PERIOD COVERED BY THE RETURN

Returns shall be filed on the basis of the 12-month accounting period established by the pass-through entity for Federal income tax purposes which generally will be on a calendar year basis. If the return is for a fiscal year or a short tax year, fill in the tax year space at the top of the return.

PAYMENT OF TAX

Pass-Through Entities do not pay tax on its income but "passes through" any profits (losses) to its shareholders/partners (owners). Owners must include pass-

through items on their income tax returns. Individual owners are subject to tax upon their distributive share of pass-through entity net income, whether it is distributed to them or not. A non-resident individual, who is a member of a pass-through entity owning property or doing business in the State of Mississippi, is subject to tax on his share of the pass-through entity net income, whether distributed or not.

If the pass-through entity does business both within and without the state, it will be necessary to compute the income (loss) of the pass-through entity from sources within the state in order to determine the amount of income taxable to, or the amount of the loss deductible by, the non-resident owners.

The non-resident shareholder/partner is subject to tax only on such share of his income, whether or not distributed, as is assignable to Mississippi.

S Corporation

An S corporation may elect to file a composite return and make composite payments of tax on behalf of some of its nonresident shareholders. In general, any nonresident individual may elect to be included in a composite filing. For more information on filing a composite return see page 11.

If a nonresident is going to file a Mississippi nonresident individual tax return he or she must not be included in a composite return, but should separately pay estimated taxes as an individual using voucher Form 80-300.

Non-Resident Income Tax Agreement

All nonresident shareholders of Mississippi S corporations are required to execute an agreement (a) to file a return and to make timely payment of all taxes imposed on the shareholder by the state of Mississippi with respect to the income of the S corporation, and (b) to be subject to personal jurisdiction in this state for purposes of the collection of income taxes, together with related interest and penalties, imposed on the shareholder by this state with respect to the income of the S-Corporation.

Form 84-380, Nonresident Income Tax Agreement, should be filed with the S-Corporation and maintained by the S-Corporation as a part of its permanent tax files. This form should not be sent with the pass-through entity return.

In the event, the S corporation fails to obtain the agreement of a nonresident shareholder indicated above or in the event a nonresident shareholder fails to file a return and to make timely payments of all taxes imposed on the shareholder by this state, the S corporation shall make a payment to the state in an amount equal to the highest marginal tax rate in effect under Miss Code Ann. § 27-7-5 (5%) multiplied by the shareholder's pro rata share of the income attributable to the state reflected on the corporation's return for the taxable period.

Partnership

In the event the individual partners fail to report and pay the taxes imposed according to Miss Code Ann. § 27-7-25, the partnership and the general partners shall be jointly and severally liable for said tax liability and shall be assessed accordingly. However, the partnership and/or general partners shall not be liable if the partnership withholds five percent (5%) of the net gain or profit of the partnership for the tax year and remits the same to the Commissioner.

Partnerships electing to report tax on partnership net income in this manner should request Form 84-387, Partnership Income Tax Withholding Voucher. Partners with tax remitted to the Department of Revenue through partnership

withholding should claim the amount as estimated tax on his or her individual income tax return. Form 84-387 should be provided to the partner by the partnership showing the correct amount withheld.

A partnership that has income from sources within and without Mississippi should withhold from Mississippi source income only. The Commissioner may allow composite return filing by a partnership. Instructions for filing a composite return are shown on page 11 and 12.

PAYMENT OPTIONS

- **Pay Online** - Go to www.dor.ms.gov, click on **Taxpayer Access Point (TAP)** and follow the instructions for paying online. You may also view and update account information through TAP **including address change**. Even without a MARS account or a TAP log in you may make an estimate payment online. From the TAP home page, there is a menu bar on the left hand side of the screen with a link stating, "Make an Estimated Payment".

- **Pay By Check/Money Order** - **Make your check or money order payable to the Department of Revenue** with a payment coupon and mail **both** the check/money order and coupon to P.O. Box 23075, Jackson, MS 39225-3075. Write the identification number on the check or money order.

- **Pay by credit card or electronic check**
Call 1-800-272-9829, or go to www.officialpayments.com. There is a 2 ½ % fee for credit cards, or a \$3.00 fee for E-checks charged by Official Payments. Visa, Master Card, Discover and American Express cards are accepted. The Jurisdiction code for Mississippi is 3400.

EXTENSION OF TIME TO FILE RETURN

Taxpayers having a tax liability who request an extension of time must remit the tax due with their Mississippi application for extension. Pass-through entities may submit Form 83-180 on or before the due date of their returns, including remittance for any remaining tax liability, and receive an automatic extension of time to file their tax returns.

THE AUTHORIZED EXTENSION OF TIME TO FILE DOES NOT EXTEND THE TIME FOR PAYMENT OF THE INCOME OR FRANCHISE TAX DUE. INTEREST AND PENALTY SHALL APPLY ON ANY UNDERPAYMENT OF TAX

If no tax liability exists on the due date of the return, the Commissioner may recognize an extension of time authorized and granted by the Internal Revenue Service for the filing of annual income tax returns.

WHO MUST SIGN

S Corporation

The return must be signed by the president, vice president or other officer of the s corporation. A receiver, trustee, or assignee must sign any return which he/she is required to file on behalf of an S corporation.

Partnership

The return must be signed by one general partner or limited liability company member.

If a receiver, trustee in bankruptcy, or assignee controls the organization's property or business, that person must sign the return.

INTEREST AND PENALTY PROVISIONS

Late Payment - Interest at the rate of 1% per month from the regular due date until paid, is due on the amount of unpaid tax whenever such is not paid on the regular due date, even though an extension of time to file the return has been granted or authorized. The penalty imposed for failure to pay the tax when due is 1/2% per month based on tax not paid by the due date not to exceed 25% in the aggregate.

Late or Non-File - Penalties are imposed for failure to file a return when due. The penalty imposed for failure to file a return is 5% per month not to exceed 25% in the aggregate. Such failure to file a return penalty shall not be less than \$100 for income tax.

Incomplete Returns - A s corporation that does not file a complete return or does not file a return within the prescribed time may be subject to a penalty of \$25 per required attachment or schedule up to a maximum of \$500 per return.

To be a complete return, a return should contain all the requisite general information, as well as, all summary tax information and the basic back up schedules. Examples of the required general information are complete name, current address, ID number, officer information and signature, and other information relating to the filing entity as requested on page 2 of Form 84-105.

Examples of the summary tax information are the front page of the return, the computation of net income, the franchise tax schedules, the computation of the apportionment factor (if income is apportioned), the balance sheet, non-business income schedule, the direct accounting income statement (if applicable), schedules showing the computation of any tax credit taken (such as jobs credit) and Schedule K reflecting information pertaining to shareholders' distributive shares of income and deductions.

Examples of the basic backup schedules are details of other additions or other deductions as requested on the computation of net income schedule, details of other additions or other deductions as requested on other statements made a part of the return, details of other assets, and details of other current liabilities and other liabilities in the balance sheet as are normally included with the federal return.

The purpose of this penalty provision is to ensure that sufficient information is disclosed on the return. If major schedules (such as the balance sheet) are omitted or incomplete, or if schedules are consistently omitted or incomplete, then the penalty will be imposed. The more severe or consistent the omission, the more likely it is that the penalty will be imposed.

RATES OF TAX

(a) **Franchise tax (S Corporation Only)** - \$2.50 per \$1,000, or fractional part thereof, of capital, surplus, undivided profits and true reserves employed in Mississippi (**Minimum tax of \$25**).

(b) **Income Tax (Composite)** - 3% on the first \$5,000 of taxable income, 4% on the next \$5,000 of taxable income, and 5% on taxable income in excess of \$10,000.

S Corporation

Franchise Tax Instructions

The franchise tax is measured by the value of capital used, invested or employed in the exercise of any power, privilege or right enjoyed by the corporation within Mississippi. The mode of measurement is the amount of capital of the corporation employed or so situated as to be privileged to be employed in the state. In determining the amount of capital, the net book value as regularly employed in conducting the affairs of the corporation shall be accepted as prima facie correct as to the true capital of the corporation, except where the Commissioner determines that the book value does not properly reflect capital employed in this state and in that situation the Commissioner's determination of capital shall be prima facie correct.

Form 84-110, S-Corporation Franchise Tax Schedule, must be completed by all s corporations indicating the amount of capital of the corporation. All reserves that do not represent definitely known and fixed liabilities must be considered as elements of capital of the corporation. Amounts designated for payment of dividends may not be excluded unless such amounts have been definitely and irrevocably placed to the credit of the stockholder, subject to withdrawal on demand. Sums representing debts, notes, bonds, mortgages due and payable, depreciation reserves, bad debt reserves, or reserves representing valuation accounts may be excluded (unless between affiliated companies or shareholders).

Attention: Multistate Taxpayers

Lines 10 through 13 of Form 84-110 must be completed by multistate corporations doing business both within and without Mississippi. Total capital of a multistate corporation is apportioned to Mississippi in the ratio that real and tangible personal property owned in Mississippi and gross receipts from business carried on in Mississippi bears to the total real and tangible personal property owned by the corporation and gross receipts wherever located and from wherever received. The amount of capital apportioned to Mississippi is computed on **line 14, Form 84-110**.

The section of Form 84-110 concerning the assessed values of all real and personal property in Mississippi must be completed by all s corporations. Miss Code Ann. § 27-13-9 and § 27-13-13, provide that the amount of the determined capital in Mississippi shall in no case be less than the assessed value of the Mississippi property of the corporation for the year preceding the year in which the return is due.

Taxable capital is calculated on **lines 16 through 19 of Form 84-110**. The amount of taxable capital shown on **line 19** should be entered on line 1, Form 84-105.

Treatment of A QSSS and Its Owner - Income and Franchise Taxes

A federal election to be treated as a Qualified Subchapter S Subsidiary (QSSS) is considered an election for state purposes and as such the QSSS will be treated the same for state income and franchise tax purposes. Thus the QSSS's activity is treated as a division of its parent S Corporation for federal income tax purposes and will be treated in the same manner for state income and franchise tax purposes.

A parent S corporation that is required to file and report for Federal income tax purposes on the activity conducted in Mississippi by its QSSS is considered doing business in Mississippi for both income and franchise tax purposes and shall include the activity of the QSSS when making income

and franchise tax return filings to this state. **The QSSS will not make separate return filings. Attached a copy of the approved federal QSSS election when filing the parent S Corporation return.**

An S corporation, that does not have a QSSS election in effect, will make return filings in the same manner as any other S corporation. An S corporation is subject to the franchise tax and must compute its Mississippi income. Unless a composite return election is in effect, each shareholder will make a filing to this state reporting its Mississippi taxable income and, if a corporation, will make at least the minimum franchise tax payment.

Partnership

Treatment of a SMLLC and Its Owner – Income Taxes

A Single Member Limited Liability Company (SMLLC) that is disregarded for federal reporting purposes will, likewise, be disregarded for state reporting purposes.

The SMLLC's activity in this state will be reported by the owner of the SMLLC when making its return filings. A corporate owner of an SMLLC will make income and franchise tax return filings based on its activities and the activities of any disregarded entities. If the owner of the SMLLC is itself an SMLLC or other type of disregarded entity, then such amounts will be reported by the ultimate owners which are not disregarded entities.

INSTRUCTIONS FOR COMPUTING TAXABLE INCOME

Generally, all domestic and foreign pass-through entities having income from sources within Mississippi must complete Form 84-122, Computation of Net Taxable Income Schedule, which makes adjustments for additions to and deductions from Federal ordinary income due to differences in Federal and Mississippi laws, in arriving at the net income (loss) for State purposes.

Total Assignment of Income

If the business activity in respect to any trade or business of the pass-through entity occurs within this state, and if by reason of such business activity the pass-through entity is not taxable in another state, the total net income (loss) of the pass-through entity is assigned to Mississippi.

Direct or Separate Accounting Method

Producers of Mineral or Natural Resource Products and construction contractors are required to use direct accounting in computing their taxable income to this state. For more details see Title 35, Part III, Subpart 08, Chapter 06 of the Miss Admin Code. Other taxpayers may not employ a direct accounting method unless they have obtained written authority from the Commissioner to do so.

Apportionment of Business Income

If the business activity in respect to any trade or business of a taxpayer occurs both within and without this state, and if by reason of such business activity the taxpayer is taxable in another state, the portion of the net income (loss) arising from such trade or business which is derived from sources within this state, shall be determined by apportionment in accordance with the formulas prescribed by Title 35, Part III, Subpart 08, Chapter 06 of the Miss Admin Code unless prescribed otherwise. In such case, the taxpayer must complete Form 84-125, Mississippi Business Income Apportionment Schedule. Multistate contractors use Form 84-124.

Allocation of Nonbusiness Income

Nonbusiness income (loss) shall be allocated by multistate corporations within and without this state in accordance with the provisions of Title 35, Part III, Subpart 08, Chapter 06 of the Miss Admin Code.

INSTALLMENT SALES

Mississippi does not follow federal rules concerning installment sales. Gain from the sale of casual property will be recognized in the year of sale. However, tax on the gain may be deferred.

Deferred taxes are generally paid as the proceeds from the sale are received. However, the following will result in acceleration of payments.

1. Transfer, disposition, sale, or disposal of the note in any manner will result in deferred tax payments becoming immediately due and payable.
2. Liquidation, dissolution, withdrawal from this state, and certain merger transactions will result in deferred tax payments becoming immediately due and payable.
3. Failure to comply with the necessary filing requirements.

Taxpayer's who elect the installment method for federal income tax purposes should include as a part of their return filing both a Federal Form 6252 and a schedule of any differences between the federal and Mississippi amounts.

DEDUCTIBILITY OF CERTAIN INTANGIBLE EXPENSES AND RELATED INTEREST EXPENSES INCURRED WITH RELATED MEMBERS

A taxpayer will be required to add back to its computation of net income:

1. Intangible expenses and costs and interest expenses and costs in relation to or in connection with the direct or indirect maintenance or management, ownership, sale, exchange, or other disposition of intangible property,
 2. Royalty, patent, technical, and copyright fees, licensing fees, and other similar expenses,
 3. Expenses and costs associated directly or indirectly with factoring transactions or discounting transactions.
- Intangible property includes patents, patent applications, trade names, trademarks, service marks and similar types of intangible assets.

Limitations

The adjustment will not apply to such portion of intangible expenses and costs and interest expenses and costs which are not with a related member or the related member is not primarily engaged in the acquisition use maintenance, management, ownership, sale, exchange or other disposition of intangible property and the transaction(s) were done for a valid business purpose.

ARMS-LENGTH TRANSACTIONS

The state definition of "arms-length" is not tied to that of the Federal definition. See Miss Code Ann. § 27-7-9(j)(6). The Commissioner can adjust a transaction when income has been shifted between related parties and/or taxes have been avoided in this state.

NET OPERATING LOSSES (NOL)

For any taxable year ending after December 31, 2001, the period for net operating loss carrybacks and net operating loss carryovers is two periods back and twenty periods forward.

This is **NOT** in accordance with federal carryback and carryover provisions that provide for a five-year carryback period.

A short taxable year counts as a taxable year. A taxpayer may elect to forgo the carryback and carryforward the net operating loss on Form 83-155. Once this election is made, it cannot be changed. **Form 83-155 must be completed and attached, or a NOL deduction will not be allowed. Taxpayer must indicate the income year NOL was applied (Column C of Form 84-155).**

LONG TERM CAPITAL GAINS FROM SALES OF STOCK/INTEREST IN DOMESTIC (MISSISSIPPI) CORPORATIONS, LIMITED PARTNERSHIPS OR LIMITED LIABILITY COMPANIES

Gains from the sale of certain stocks in domestic entities are not recognized as a part of income. However, the gain must be reduced by losses from the sale of certain stocks in domestic entities if the losses were incurred in the year of the gain or within the two years preceding or subsequent to the gain. See Miss Code Ann. §27-7-9(f)(10).

EXTRATERRITORIAL INCOME

Mississippi has not adopted Federal provisions related to Extraterritorial Income Exclusion. The amount related to this exclusion of income on the Federal Return must be added back in the Mississippi income tax return prior to the apportionment of income. The proper placement for this Mississippi adjustment to federal income on Form 84-122 on the line titled "Other Additions Required by Law". A copy of Federal Form 8873 should be attached to the Mississippi return when this adjustment is being made for federal purposes.

In addition, a FSC (foreign sales corporation) that is organized under the laws of a U.S. territory is treated as a domestic corporation and, thus, dividends received from it are considered apportionable business income.

BUSINESS INCOME OF PRODUCERS OF MINERAL OR NATURAL RESOURCE PRODUCTS

Taxpayers engaged in the trade or business of producing oil, gas, other liquid hydrocarbons, sulfur, coal, sand, gravel and other mineral or natural resource products, except timber, shall determine Mississippi net business income from such activity on a direct or separate accounting basis.

The Mississippi gross business income from the production of mineral or natural resources shall include: (a) Sales of natural or mineral resources produced in Mississippi and sold in this state; (b) the market value, at the time of transfer, of all natural or mineral resources produced in this state and transferred by the taxpayer to another state for sale, refining, processing or manufacturing, provided that if the natural or mineral resources are sold by means of an "arms-length" transaction prior to refining, processing or manufacturing, the market value prescribed herein shall not exceed the selling price; and (c) the market value at the time of transfer, of all natural or mineral resources produced by the taxpayer in Mississippi and transferred to a refinery, processing plant, or manufacturing facility of the taxpayer in Mississippi.

A natural resource product shall be deemed to be sold in Mississippi if it is located in this state at the time title there to passes to the purchaser. In the absence of specific proof of value of natural resources at the time of transfer from the state, the value of natural resources at the time of production shall be determined in accordance with the methods prescribed for the determination of "gross income from the

property" for purposes of percentage depletion for federal income tax purposes.

UNRELATED BUSINESS TAXABLE INCOME OF OTHERWISE EXEMPT ORGANIZATIONS

For tax years beginning on or after January 1, 2002, every exempt organization, as described in Miss Code Ann. § 27-7-27 or § 27-7-29 and not otherwise exempt from the income tax levy (federal & state agencies, etc.), is required to file an income tax return with this state if the organization:

- 1) earns or receives unrelated business taxable income as determined under IRC Section 512 or is an ESOP with an interest in an "S" corporation, and
- 2) is a resident of this state, doing business in this state, or receiving income from sources within this state.

Corporate organizations file Form 83-105 and any necessary supplemental schedules.

Trust organizations file Form 81-110 and any necessary supplemental schedules. In computing taxable income, enter on line 1 of Form 84-122 (line 1, page 2 of Form 81-110 for trust organizations) the amount of unrelated business taxable income before any net operating loss and specific deduction as reported on Federal Form 990-T. A complete and signed copy of Federal Form 990-T must be attached to the back of the Mississippi schedules as a part of the return filing. Make any necessary adjustments for income/expenses otherwise included/excluded under the income tax laws of this state such as income from sources without this state, add-back of nondeductible income taxes, etc.

Exempt corporate organizations required to file Form 84-105 which are not subject to the franchise tax levy should leave lines 1 through 4 blank.

Corporate organizations with unrelated business taxable income are subject to the same estimated payment requirements as other corporate taxpayers. Corporate organizations must make all required tax payments by the 15th day of the third month following the close of the tax year. While the filing deadline is also the 15th day of the third month following the close of the tax year, an automatic six-month filing extension is granted. If a taxpayer files an extension for federal tax purposes, the Mississippi filing deadline will be extended through the date of the federal extension as well.

Trust organizations, including employee and retirement trusts having unrelated business taxable income must file Form 81-110. Employee Stock Ownership Plans that receive Mississippi income as a shareholder in an "S" corporation must include such income as a part of Mississippi taxable income. The source of the income is determined by the "S" corporation's activities and is reported on Form 84-132 to the ESOP shareholder.

Trust organizations must make all required tax payments by the 15th day of the fourth month following the close of the tax year. Generally, if a filing extension is granted for federal tax purposes, it will be granted for state purposes as well. A copy of the federally approved extension must be attached with the return filing.

INCENTIVE CREDITS

Incentive credits arising at the s corporation, partnership, LLC or LLP level are passed through to the shareholders, partners/interest owners based on their percentage of ownership in the entity earning the credit.

As a general rule, the credit passed through to the shareholder, partner/interest owner can be applied only to the income tax attributable to the shareholder's, partner's/interest owner's income derived from the entity earning the credit.

In the case of a Mississippi resident who is a partner in a multistate s corporation or partnership, credits passed through from the s corporation or partnership may be used to offset only the amount of income tax attributable to the owner's share of pass-through entity income assigned to Mississippi. For any of these credits to be allowed, schedules must be attached showing the computations. Form 84-401, Income Tax Credit Summary, should be completed and attached as a part of the return.

The following is a brief description of the major credits allowed under State statutes:

Jobs Tax Credit

A credit is allowed for increasing employment levels in certain types of business. The business must be primarily engaged in manufacturing, processing, warehousing, distribution, wholesaling, or research and development; or designated by rule and regulation by the Mississippi Development Authority as air transportation and maintenance facilities, final destination or resort hotels having a minimum of 150 guest rooms, recreational facilities that impact tourism, movie industry studios, telecommunications enterprises, data or information processing enterprises or computer software development enterprises or any technology intensive facility or enterprises.

The amount of the credit is based on the number of new jobs created and the county where the jobs are created. The credit is good for a period of five (5) years. This credit may be used in combination with any of the other credits. However, the total of the Jobs Tax Credit is limited to 50% of the income tax liability attributable to the income derived from operations in this state for that year. Any credit claimed but not used in a taxable year may be carried forward for 5 years.

Effective January 1, 2005, the calculation of the credit was changed to a percentage of payroll for new full-time jobs:

<u>County Ranking</u>	<u>Avg. Min. Inc. of Jobs</u>	<u>Percentage of Payroll</u>
Tier One (Developed)	20 or More	2.5%
Tier Two (Moderately Developed)	15 or More	5%
Tier Three (Less Developed)	10 or More	10%

The number of jobs must be created within one (1) year and is measured at the end of the fiscal year. They cannot be accumulated over several years. The credit is available for each net new full-time job created as long as the minimum number has been achieved and maintained. The credit is for full-time positions only. You cannot combine part-time jobs to add up to a full-time job. The credit is based on filled positions and the employees must be employed in this state and subject to Mississippi Withholding Tax. Form 83-450, New Jobs Credit Schedule, must be completed and attached to the return. Please attach to this form, a schedule listing the new full-time jobs created (titles/pins, date created and payroll amount for the year).

A job tax credit is authorized for each full-time employee employed in a new cut and sew job by enterprises that own or operate an upholstered household furniture manufacturing facility. The repeal date on this provision is extended to July 1, 2016.

Skills Training Credit

A credit is allowed for certain employer-sponsored basic skill training and retraining programs. The credit allowed is 50% of qualified expenses not to exceed 50% of the income tax liability. Any excess credit will not be refunded, but can be carried forward for up to five (5) years. In addition, the credit shall not exceed \$2,500 per employee per year. The job training and retraining tax credit shall be in addition to all other tax credits heretofore granted by the laws of this state. The repeal date on this provision is extended to July 1, 2016.

National or Regional Headquarters Tax Credit

An income tax credit is available for a five (5) year period for each position assigned to the national or regional headquarters of a business created in or transferred to Mississippi. The credit is \$500 for each new full-time employee, \$1,000 for each new full-time employee whose salary is one hundred twenty-five percent (125%) of the average annual state wage, or \$2,000 for each new full-time employee whose salary is two hundred percent (200%) of the average state wage. A minimum number of (20) new headquarters jobs must be created to receive the credit. A TAXPAYER CLAIMING REFUND ON THIS CREDIT MUST FILE A SEPARATE RETURN, IT CANNOT BE INCLUDED IN A COMBINED RETURN.

Mississippi Business Finance Corporation Revenue Bond Service Credit

Only debt service paid on revenue bonds issued by the Mississippi Business Finance Corporation to finance economic development projects to induce the location of manufacturing facilities within this state can be taken as a credit. This credit can be used against the taxes due from the income generated by or arising out of the economic development project. For more information on the benefits of this program contact: Mississippi Development Authority, P.O. Box 849, Jackson, MS 39205-0849.

Ad Valorem Inventory Tax Credit

This is an income tax credit for manufacturers, distributors and wholesale or retail merchants for a certain amount of ad valorem taxes paid on commodities, goods, wares and merchandise held for resale. The credit may be claimed only in the year in which the ad valorem taxes are paid and may be claimed for each location where such commodities, products, goods, wares and merchandise are found and upon which the ad valorem taxes have been paid.

The tax credit for each location on which ad valorem taxes have been paid, shall not exceed the lesser of \$5,000 or the amount of income taxes attributable to such location. Previously, the credit may be claimed only in the year in which the ad valorem taxes are paid; however, Senate Bill 2934 amended MS Code Ann. §27-7-22.5 increasing the income tax credit for ad valorem taxes paid on certain inventory and authorizes any unused tax credit claimed to be carried forward for five (5) consecutive years effective July 1, 2012.

The act also provides that any ad valorem taxes paid by a taxpayer that is applied toward the tax credit may not be used as a deduction by the taxpayer for state income tax purposes.

A COPY OF THE TAX RECEIPT FROM THE COUNTY THAT SHOWS THE INVENTORY VALUATION AND A SCHEDULE SHOWING THE CALCULATION OF THE AD VALOREM TAX PAID BASED ON THE VALUATION MUST BE ATTACHED TO THE RETURN.

Export Port Charges Credit

An income tax credit is authorized for taxpayers that utilize the port facilities at state, county, or municipal ports. The income tax credit is equal to the total export cargo charges paid by the taxpayer for: (a) receiving in the port; (b) handling to a vessel; and (c) wharfage. The credit provided shall not exceed 50% of the amount of tax imposed upon the taxpayer for the taxable year reduced by the sum of all other credits. Any unused portion of the credit may be carried forward for the succeeding 5 years. The maximum cumulative credit that may be claimed by a taxpayer pursuant to this act beginning January 1, 1994 and ending July 1, 2012 is limited to \$1,200,000.

Import Port Charges Credit

An income tax credit is authorized for taxpayers that utilize the port facilities at state, county, or municipal ports for the import of cargo. To be eligible, a taxpayer must locate its United States headquarters in Mississippi on or after January 1, 2005, employ at least five (5) permanent full-time employees who actually work at such headquarters and have a minimum capital investment of Five Million Dollars (\$5,000,000.00) in Mississippi. The income tax credit is equal to the charges paid by the taxpayer for: (a) receiving in the port; (b) handling to a vessel; and (c) wharfage. The credit provided shall not exceed 50% of the amount of tax imposed upon the taxpayer for the taxable year reduced by the sum of all other credits. Any unused portion of the credit may be carried forward for the succeeding 5 years. The maximum cumulative credit that may be claimed ranges between \$1,000,000 (one million) and \$4,000,000 (four million) depending on the number of permanent full-time employees of the taxpayer.

Reforestation Tax Credit (RTC)

This credit, based on the costs incurred for certain approved reforestation practices, is an amount equal to the lesser of fifty percent (50%) of the actual cost of approved practices or fifty percent (50%) of the average cost of approved practices as established by the Mississippi Forestry Commission. In any taxable year, the maximum amount of RTC shall not exceed the lesser of (\$10,000) or 6 the amount of income tax imposed upon the eligible owner for the taxable year reduced by the sum of all other credits allowable to the eligible owner. The lifetime maximum reforestation tax credit that an eligible owner may utilize is (\$10,000) in the aggregate.

Effective January 1, 2007, the lifetime maximum RTC that an eligible owner may utilize is \$75,000.00. Any unused portion of the RTC may be carried forward to succeeding years.

Reforested acreage on which the eligible owner receives any state or federal cost share assistance funds to defray the cost of an approved reforestation practice is not eligible for the RTC. The RTC is not available to private corporations which manufacture products or provide public utility services of any type or any subsidiary of such corporations.

Broadband Technology Credit (BTC)

A tax credit is provided for telecommunications enterprises making investments in equipment used in the deployment of broadband technologies.

The credit applies to both income and franchise taxes. The credit is a percentage of the cost of the investments incurred after June 30, 2003 and before July 1, 2013. The percentage applied is 5%, 10%, and 15% for Tier 1, Tier 2, & Tier 3 counties respectively. For more details on eligibility, computation of the credit, qualifying expenditures, limitations, carryovers, as well as any necessary forms or work sheets, please contact the Corporate Tax Division at 601-923-7099. Enterprises qualifying for this credit are able to receive certain sales tax exemptions as well. For more information please contact the Sales Tax Bureau at 601-923-7015.

Manufacturing Investment Tax Credit

A manufacturing enterprise who falls within the definition of the term "manufacturer" in Miss Code Ann § 27-65-11 and has operated in the state for at least two (2) years is allowed a manufacturing investment tax credit for income tax equal to five percent (5%) of the eligible investments made by the manufacturing enterprise. "Eligible investment" means an investment of at least One Million Dollars (\$1,000,000.00) in buildings and/or equipment for the manufacturing enterprise.

The maximum credit that may be claimed by a taxpayer on any project shall be limited to One Million Dollars (\$1,000,000.00). The Manufacturing Investment Tax Credit shall not exceed fifty percent (50%) of the taxpayer's state income tax liability in any one tax year. Any Manufacturing Investment Tax Credit claimed but not used may be carried forward for five (5) years from the close of the tax year in which the eligible investment was made. For more details on eligibility, computation of the credit, qualifying expenditures, limitations, carryovers, as well as any necessary forms or work sheets, please contact the Corporate Tax Division at 601-923-7099.

Wildlife Land Use Credit

Effective January 1, 2010, a state income tax credit is allowed that provides a \$5.50 per acre tax credit for certain taxpayers that allow land to be used as a natural area preserve, wildlife refuge, wildlife management area or public outdoor recreation area. Land must first be approved to be suitable for the uses listed above by the Mississippi Commission on Wildlife, Fisheries and Parks. Any unused credit amount may be carried forward for five (5) years from the close of the taxable year in which the land was approved for such a use.

General Restrictions on the Incentive Credit

The only credits whose usage are dependent on another credit are the Export Port Charges Credit, Import Port Charges Credit, and the Reforestation Tax Credit. The RTC should be used last.

The total of the Jobs Tax Credit, the Headquarters Credit and the R & D Skills Credit, cannot exceed 50% of the total income tax due. The other credits are not limited in such a manner and their usage will be independent of one another.

When one credit is limited to 50% of the income tax due and another one is also limited to 50% then combined they may offset 100% of the income tax due. It will be up to the taxpayer to list which credits are to be used on the tax return. Please keep in mind that a number of the credits do not have carry forward provisions.

When a deduction on the Mississippi tax return also gives rise to a tax credit, the amount of that credit which is being used in the current return must be added back to Mississippi income (loss) after any apportionment of income.

The adding back of the credit to taxable income will increase the tax liability, which may increase the amount of credit that may be taken. When this is the case, continue to increase the amount of credit being used and add back to income until there is a difference of \$1,000.00 or less between the two. Therefore, the credit added back may be, at most, \$1,000.00 less than the credit being used.

Some credits are based on a percentage of an expense, and in this case only the credit used should be added back. Those credits which are affected are: Finance Company Privilege, Child/Dependent Care, Skills Training, Gaming, Rural Economic Development (RED), Export Port Charges, Import Port Charges, Reforestation, and Ad Valorem tax credits.

The credits allowed shall not be used by any business enterprise or corporation other than the business enterprise actually qualifying for the credit.

Growth and Prosperity (GAP) Areas Tax Exemption

The Growth and Prosperity (GAP) Areas Tax Exemption was created to encourage businesses to locate facilities and hire individuals in areas that have a certain percentage of the population below the federal poverty level or have an unemployment rate that is 200% of the state's average unemployment rate.

The income and franchise tax exemption is available for a period of ten (10) years for certain businesses locating in a designated GAP area. The eligible businesses include ones that manufacture, process, assemble, store, warehouse, service, distribute, sell any products or goods including products of agriculture, research and development, and others as determined by MDA which will create at least ten (10) jobs.

Businesses that cannot claim the exemption are retail establishments, gaming businesses or casinos and electrical generation facilities. An eligible business that constructs a new facility or expands an existing facility located in one of the designated GAP areas can apply to MDA to be exempted from state and local taxes for a period of ten (10) years or until December 31, 2022, whichever occurs first.

A business that relocates from a county in Mississippi to a GAP Area is not eligible for the exemption. When filing the state income and franchise tax return claiming the exemption, attach a schedule showing the calculation of how the exemption was calculated, a copy of the certification from the MDA and the completed application, and the Income and Franchise Tax Credit Summary (Form 84-401) showing all credits taken.

The GAP Area Exemption is authorized under Miss Code Ann. § 27-7-21, § 27-13-5 and § 57-80-1 through § 57-80-11. For more information on the GAP Areas, please contact Mississippi Development Authority, Financial Resources Division – GAP Program at P.O. Box 849, Jackson, MS 39205.

Completing the Return

Round to the Nearest Dollar

All dollar amounts should be rounded to the nearest whole dollar (no pennies). Round down to the next lower dollar amounts under \$.50 and round up to the next higher dollar amounts of \$.50 and over. For example: \$2.15 becomes \$2.00; \$4.75 becomes \$5.00; and \$3.50 becomes \$4.00. Additional schedules or attachments may be stapled to the return. Follow the line instructions on the return. Additional specific instructions are on the following page.

LINE ITEM INSTRUCTIONS FOR FORM 84-105 PAGE 1

Taxpayer Information

Please provide all information requested. County codes are listed in the following table. Enter the code corresponding to your principal business location.

County	Codes	County	Code	County	Code
Adams	01	Itawamba	29	Pike	57
Alcorn	02	Jackson	30	Pontotoc	58
Amite	03	Jasper	31	Prentiss	59
Attala	04	Jefferson	32	Quitman	60
Benton	05	Jefferson-Davis	33	Rankin	61
Bolivar	06	Jones	34	Scott	62
Calhoun	07	Kemper	35	Sharkey	63
Carroll	08	Lafayette	36	Simpson	64
Chickasaw	09	Lamar	37	Smith	65
Choctaw	10	Lauderdale	38	Stone	66
Claiborne	11	Lawrence	39	Sunflower	67
Clarke	12	Leake	40	Tallahatchie	68
Clay	13	Lee	41	Tate	69
Coahoma	14	Leflore	42	Tippah	70
Copiah	15	Lincoln	43	Tishomingo	71
Covington	16	Lowndes	44	Tunica	72
Desoto	17	Madison	45	Union	73
Forrest	18	Marion	46	Walthall	74
Franklin	19	Marshall	47	Warren	75
George	20	Monroe	48	Washington	76
Greene	21	Montgomery	49	Wayne	77
Grenada	22	Neshoba	50	Webster	78
Hancock	23	Newton	51	Wilkinson	79
Harrison	24	Noxubee	52	Winston	80
Hinds	25	Oktibbeha	53	Yalobusha	81
Holmes	26	Panola	54	Yazoo	82
Humphreys	27	Pearl River	55	Out-of-State	83
Issaquena	28	Perry	56		

Partnerships/LLC/LLP's filing an informational return should start on Page 2, line 1.

S Corporations - Franchise Tax (Lines 1 through Line 4)

Line 1. Enter the amount of taxable capital from Form 84-110 line 19.

Line 2. Enter the amount of franchise tax due. Franchise tax is due by the original due date of the return. The automatic six-month extension of time only extends the time for filing the return, not the payment of any tax. If the franchise tax is not paid by the original due date, interest and penalty for late payment should be computed and entered on line 15 and 16.

Line 3. For each credit claimed From Form 84-401, line 1, enter the total amount of franchise tax credit.

Line 4. Enter the net franchise tax due (line 2 less line 3). If line 3 equals or exceeds the amount shown on line 2, enter a zero.

Composite Income Tax Only (Lines 5 through Line 8)

Line 5. Enter zero UNLESS the taxpayer is filing a composite return or is required to make a payment of tax because it failed to obtain an agreement from a nonresident shareholder required by subsection (3)(a) of section 10 of the Mississippi S Corporation Income Tax Act. In either of these situations, enter the total of the nonresident shareholders' distributions included in the composite return from Line 32, Form 84-122 or on which payment of tax is required by the S Corporation for failure to secure the above mentioned agreement.

An S corporation cannot join in the filing of a combined income tax return. However, an S corporation and all of its Qualified Subchapter S Subsidiaries will be included in a single return filing by the parent S corporation. All of the assets, liabilities, and items of income, deductions, and credits of the QSSS are treated for income tax purposes as if they belong to the parent, and its income, deductions and credits are to be included in the parent's income tax return. In such a case, the owner of the QSSS is considered doing business in Mississippi for both income and franchise purposes. If applicable, enter the name and FEIN of the subsidiary. This same rule applies with respect to the corporate owner that is required to file and report for Federal income tax purposes on the activity conducted in Mississippi by a SMLLC.

Line 6. Enter the amount of income tax due. The rates of tax are: 3% on the first \$5,000 of taxable income; 4% on the next \$5,000 of taxable income; and 5% on taxable income in excess of \$10,000.

An S corporation is not subject to the income tax imposed by Miss Code Ann. § 27-7-5. However, if the S corporation either (a) files a composite return and makes composite payments of tax on behalf of some or all of its nonresident shareholders, or (b) makes a payment of tax because it failed to obtain an agreement from a nonresident shareholder required by subsection (3)(a) of section 10 of the Mississippi S Corporation Income Tax Act or because a nonresident shareholder fails to file a return and to make timely payments of all taxes imposed on the shareholder by this state, the amount of the payments should be entered here. See the instructions on page 11 for filing a composite return and for rates of tax for composite returns and the other payments indicated above.

Line 7. As a general rule, all credits generated by the s corporation or partnership are passed through to the shareholders based on their respective ownership percentages.

In the event that a composite return is filed on behalf of some or all of the nonresident shareholders, or in the event that a liability for taxes arises due to the failure to secure an agreement from a nonresident shareholder as discussed above or a nonresident shareholder fails to file a return and make timely payment of taxes due,

any credit which would otherwise be passed through to the shareholder(s) involved may be utilized against the tax liability shown on line 6.

For limitations, please see the credits section on pages 6 through 8.

Line 8. Enter the net income tax due (line 6 less line 7). If line 7 equals or exceeds the amount shown on line 6, enter a zero.

Line 9. Enter the total franchise and income tax due. (Add lines 4 and 8).

Line 10. Enter the credit due for previous payment. The amount of overpayment from the prior year should be the amount shown on the previous return as an overpayment to be credited to the next year.

Line 11. Enter the total amount of estimated tax payments and payments with extensions. This should equal the total of quarterly estimated income tax payments and the amount of income and franchise tax paid with the request for an automatic six-month extension of time to file.

Line 12. Enter the total previous payments made for the tax year (add lines 10 and 11).

Line 13. Enter the net total franchise and income tax due. This is the amount of total tax due less previous payments (line 9 minus line 12).

Line 14. If the current Mississippi Income Tax liability (line 8) is \$200 or less, then estimated income tax payments were not required for this year. If the current year Mississippi Income Tax liability exceeds \$200, Form 83-305 (s corporations) and Form 80-320 (partnerships) should be completed and attached to the return **if filing a composite return**. S corporations enter the amount from Form 83-305, line 19. Partnerships enter the amount from Form 80-320, line 12.

Line 15. Enter the amount of interest due on late payment of the tax. An extension of time only extends the time for filing a return, not payment of the tax. If the income and franchise tax is not paid by the original due date of the return, then interest is due at the rate of 1% per month.

Line 16. Enter the amount of penalty due on late payment of the tax. An extension of time only extends the time for filing a return, not the payment of tax. The penalty imposed for failure to pay the tax when due 1/2% per month, not to exceed 25% in the aggregate.

Line 17. Enter the amount of penalty due for failure to file a return by the due date of the return. The penalty for failure to file a return is 5% per month not to exceed 25% in the aggregate. Such failure to file penalty shall not be less than \$100 for income tax.

Line 18. Enter the balance of tax due. This is the amount of total tax due less previous payments plus interest and penalties (line 9 minus line 12 plus lines 14 through line 17).

Line 19. If there is an overpayment (line 12 minus line 9), enter the amount of the total overpayment on this line.

Line 20. Enter the portion of line 19 that you wish to carry forward and credit against your next year's tax liability. This credit will be considered for estimated income tax purposes as a first quarter payment.

Line 21. Enter the portion of line 19 that you wish refunded. The total of line 20 and line 21 should equal line 19.

Mississippi Schedule K-1

The amounts to be shown on the Mississippi Schedule K-1 should represent Mississippi income and/or deductions. Due to the differences in treatment of various elements of income, expenses and/or credits for Federal and State purposes, the amounts shown on the Mississippi K-1 will not necessarily be the same amounts as shown on the Federal K-1. Determination of the amounts to be reported on the Mississippi K-1 should be made using the same procedure as used for determining amounts shown on the Federal K-1.

INSTRUCTIONS FOR COMPLETING FORM 84-122 COMPUTATION OF NET TAXABLE INCOME SCHEDULE

General Instructions

- Taxpayers must make certain adjustments to federal taxable income in arriving at Mississippi net income. This schedule highlights some of the differences but is not an all-inclusive list.
- The Mississippi Administrative Code is available at our web site (www.dor.ms.gov). The Mississippi Code is available at the Secretary of State's web site (www.sos.ms.gov).
- Multistate construction contractors and producers of mineral or natural resource products are required to use direct accounting as provided for on Form 84-124. In this situation lines 1 through 13 of Form 84-122 are not completed unless the taxpayer also has income apportionable to this state from another line of business.

LINE INSTRUCTIONS:

Line 1. Enter the amount of taxable income (loss) (before Net operating Loss and Special Deductions) per Federal Form 1120S (s corporations) and Federal Form 1065 (partnerships).

Line 2. Enter the combined amount of the pass-through income items shown on Federal Form 1120S/1065 Schedule K. Long term and short term capital losses are included only to the extent of current year capital gains.

Line 3. Enter the combined amount of pass-through deductions shown on Federal Form 1120S/1065, Schedule K.

Line 4. Enter the total of lines 1 plus 2 less line 3. This amount represents federal net income.

Line 5. Enter the amount of state, local and foreign government income taxes claimed as a deduction on Form 1120S/1065.

Line 6. Enter the amount of interest on obligations of states and political subdivisions thereof (other than Mississippi) received by the corporation, net of expenses.

Line 7. Enter the amount of depletion claimed on Form 1120S/1065 in excess of the cost basis of the asset on which the depletion is claimed.

Line 8. Enter the amount of special depreciation allowance claimed for federal tax purposes. Federal Form 4562 must be completed twice and attached immediately after Form 84-122.

The first submission reflects the deductions taken for federal income tax purposes. The second submission will be labeled Mississippi at the top of the form and will compute the apportionable and/or allocable depreciation deduction without taking into account any special depreciation allowance (generally line 14 of Federal Form 4562).

Any difference between the two submissions resulting from the special depreciation allowance is reported as an increase on this line. Any additional depreciation expense, for purposes of this state, due to the basis adjustment not being made is reported on line 15 of this form.

Line 9. Enter any other additions required by law. Other additions include, but are not limited to, 1) charitable contribution carryovers, 2) unrecognized installment sale gains, and 3) add back of intangible expenses and costs and interest expenses and costs incurred with certain related members. Mississippi allows a 20% deduction for charitable contributions (as compared to 10% for federal), but does not allow a carryover of any unused contributions deduction.

For more information on treatment of installment sales, as well as the years effected, see Section 27-7-9 of the code.

Intangible expenses and costs and interest expenses and costs incurred with certain related members must be added back to income. For details see Section 27-7-17(2).

Line 11. Exempt interest received on direct U. S. Government obligations (see Title 35, Part III, Subpart 02, Chapter 04 of the Miss Admin Code on what constitutes a direct obligation) is not taxable to Mississippi. Enter the amount of such interest reported as income on Form 1120S/1065, net of expenses.

Line 12. Enter the amount of wage expense that was not deducted on Form 1120 because a federal tax credit was taken in lieu of an expense.

Line 13. Enter the income/loss from a partnership or other flow-through entity. Flow-through entity income is allocated based on the source as determined in the hands of the flow-through entity rather than the owner.

Line 14. Multistate construction contractors and producers of mineral or natural resource products must use direct accounting (Form 84-124 - Direct Accounting Income Statement), to report the income from these lines of business. Enter the income (net of expenses) from these lines of business as reported on Federal Form 1120. For further information concerning accounting methods for contractors and mineral producers please see Title 35, Part III, Subpart 08, Chapter 06 of the Miss Admin Code for details. If this is your only line of business in Mississippi, skip lines 20 through 23 and start with line 24.

Line 15. When a special depreciation allowance is taken for federal tax purposes, the depreciable base must be reduced by the amount of the allowance. Enter the additional depreciation expense for purposes of this state due to the basis adjustment not being made for state purposes. Attach supporting computations for any amounts claimed.

Line 16. Enter any other deductions authorized by law. For each adjustment, provide an explanation of the basis for exclusion and a schedule showing how the amount is computed. In particular, gain from the sale of an interest in certain types of domestic entities may not be recognized for state purposes. If this is applicable provide a schedule showing the computation of the non-recognized gain. For more details on what qualifies for this exclusion, see Miss Code Ann. § 27-7-9(f)(10).

Line 18. Adjusted Federal Form 1120S/1065 income (loss) subject to apportionment (line 4 plus line 10 minus line 17). If this corporation is not doing business in other states (as opposed to multiple states) skip lines 19 through 21 and enter the amount of this line on line 22.

Line 19. Enter the amount of nonbusiness income (loss) shown on the Nonbusiness Income Worksheet, Form 84-150, Column E.

Line 23. Enter the amount of nonbusiness income (loss) allocated to this state shown on the Nonbusiness Income Worksheet, Form 84-150, Column F.

Line 24. Enter the amount of Mississippi sourced income (loss) received from flow-through entities (Attach Mississippi K-1's).

Line 25. Enter the amount reported on Form 84-124, Page 2 Line 31 and/or Page 2, line 46.

Line 26. Enter other adjustments required by law.

Line 27. Enter amount of income exemption. When filing the state tax return claiming an exemption, attach a schedule showing the calculation of how the exemption was calculated, a copy of the certification from the Mississippi Development Authority (MDA) and the completed application.

Line 28. Income apportioned and directly allocated to Mississippi (sum lines 22 through 27). Note: Unless you are filing a composite return on behalf of some or all of the nonresident shareholders, stop here and enter zero on Form 84-105, line 5.

Line 30. Composite return filing adjustments (See section below).

Line 31. Deduct any available separate company composite MS net operating loss carryover or carryback to the extent of composite income. Attach a completed Form 84-155. Mississippi does not conform to federal net operating loss rules.

Line 32. Mississippi composite income subject to tax (line 29 less line 30 and line 31). If positive, report this amount on Form 84-105, Pass-Through Entity Tax Return, line 5. **Only income of qualified non-resident partners electing to be in a composite filing is included on this line.** All other partners' income is reported on their respective Mississippi K-1's and as a part of their respective Mississippi income tax filings.

COMPOSITE FILING INSTRUCTIONS

Nonresident individuals/partners without any activity in Mississippi other than that from the pass-through entity may elect to be included in a composite filing. Once an individual elects to be included in a composite filing, they must continue to file in this manner.

Underestimate, late payment, and any other interest and penalties will be determined on the composite income.

The net income for each electing member included in a composite filing will generally be computed in the same manner as in a separate individual filing except that a deduction of \$5,000.00 or 10% of the composite net income, whichever is less, is authorized in lieu of any individual exemption and deduction. Likewise, the tax liability is computed on the combined income of all electing members, that is, on the composite taxable income.

Composite members are allowed tax credits, as well as net operating loss and capital loss deductions, provided they are computed and tracked on an individual basis.

Examples

Example 1:

White Acre, Inc. is a multi-state foreign S corporation doing business in Mississippi. B, C, D, E and F are shareholders of the corporation each with a 20% ownership/profits interest. B, C, D, and E are residents of Texas, while F is a resident of this state. B, C, and D elect to be included in a combined return.

White Acre has the following income computations:

• Ordinary Income per federal 1120S.	\$150,000.00
• Net Income from rental real estate activities (federal schedule K)	\$20,000.00
• Interest Income	\$48,000.00
• Net 1231 Gain	\$11,500.00
• Section 179 Expense	<\$17,500.00>
• Total Federal Income	\$212,000.00

State Additions:

Add back of intangible expenses with related member	\$140,000.00
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State Deductions:

Interest on Obligations of the United States (Net of expenses):	<\$40,000.00>
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• Total Net Income for State purposes	\$312,000.00
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Less: Non-business income allocable within/without this state:	<\$20,000.00>
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• Net Business Income Subject to Apportionment:	\$292,000.00
Apportionment Factor:	40.00%
Mississippi Net Business Income	\$116,800.00
Non-business allocable to MS	\$2,000.00
Mississippi Net Income:	\$118,800.00

This amount corresponds to Line 28 of Form 84-122

Ownership Interest of B, C, & D	60%
Composite Filing MS Net Income	\$71,280.00
Composite Filing Exemption/Deduction	<\$5,000.00>
Composite Filing Net Operating Loss Carryover	<\$20,000.00>
Composite Filing MS Net Taxable Income	\$46,280.00

This amount corresponds to Line 32 of Form 84-122

The difference between lines 28 and 32 is \$72,520.00 and is entered on line 30 of Form 84-122.

• Composite Filing Income Tax Liability	\$2,164.00
• Schedule K Income:	
Shareholder B Mississippi Income	\$17,093.00
Shareholder C Mississippi Income	\$17,093.00
Shareholder D Mississippi Income	\$17,093.00
Shareholder E Mississippi Income	\$23,760.00
Shareholder F Resident Income	\$62,400.00

• Schedule K income for each of the shareholders B, C, and D is determined by multiplying the Composite Filing MS Net Taxable Income and the ratio of the respective shareholders ownership percentage to the total ownership percentage of composite filers ($\$51,280.00 * 20\% / 60\%$).

Income attributable to composite filers is reported on schedule K, but will not be reported on a K-1 since the income is part of the composite filing.

• Schedule K income for shareholder E a nonresident non-composite filer is determined by multiplying Mississippi Net Income and the shareholder's ownership or profits percentage. Any net operating loss carryover would be applied at the shareholder level in a nonresident return filing.

• Schedule K - 1

Shareholder E:	
Ordinary Income (Includes adjustment for add-back of intangible exp.)	\$23,200.00
Net Income from Rental Real Estate Activities	\$400.00
Interest Income (Includes adjustment of exempt inc. from treasury sec.)	\$640.00
Net 1231 Gain	\$920.00
Section 179 Expense	<\$1,400.00>

• This rental real estate Income is classified as non-business in nature. The Mississippi allocable portion is \$2,000.00 of which shareholder E received 20% or \$400.00.

• Schedule K income for shareholder F a resident of this state is determined by multiplying Total Net Income for State Purposes and the shareholder's ownership or profit percentage.

• Schedule K -1

Shareholder F:	
Ordinary Income (Includes adj. for add-back of intangible exp.)	\$58,000.00
Net Income from Rental Real Estate Activities	\$4,000.00
Interest Income	\$1,600.00
Net 1231 Gain	\$2,300.00
Section 179 Expense	<\$3,500.00>

Composite Members are allowed tax credits, as well as net operating and capital loss deductions provided they are computed and tracked on an individual basis.

Example 2:

- Green Acre, Inc. is a multistate foreign S corporation doing business in Mississippi.
- A, B, and C are nonresident shareholders of the corporation with a 20%, 30%, and 50% ownership/profits interest respectively (no special allocations exist).
- For tax year 2008 A, B, and C were included in a composite return filing in which the composite Mississippi net taxable income (after the 10% exemption deduction) is \$30,000.00 with a corresponding tax liability of \$1,350.00.
- On June 30 of 2009, A sold ½ of his interest to D a nonresident shareholder and ¼ of his interest to shareholder B. For the tax year ended 2009, D elected to be included in the composite return filing. A, B, and C were already bound by a prior year election to be included in the composite. For tax year 2009, the composite Mississippi taxable income/loss was <\$40,000.00>.

The amount attributable to each shareholder was determined as follows:

Shareholder	Ownership %	Holding Period (Number of days/365 days)	Annualized Ownership %	Composite Loss	Attributed Loss
A	20.0000%	181/365	9.9178%	(\$40,000.00)	(\$3,967.12)
A	5.0000%	184/365	2.5205%	(\$40,000.00)	(\$1,008.21)
B	30.0000%	365/365	30.0000%	(\$40,000.00)	(\$12,000.00)
B	5.0000%	184/365	2.5205%	(\$40,000.00)	(\$1,008.21)
C	50.0000%	365/365	50.0000%	(\$40,000.00)	(\$20,000.00)
D	10.0000%	184/365	5.0411%	(\$40,000.00)	(\$2,016.46)
Composite Group			100.00%	(\$40,000.00)	(\$40,000.00)
Shareholder	Prior Yr. Inc.	Current Year Loss (2009)	Offset Against 2008 Income	Loss Carryforward	
A	\$6,000.00	(\$4,975.33)	(\$4,975.33)	\$0.00	
B	\$9,000.00	(\$13,008.21)	(\$9,000.00)	(\$4,008.21)	
C	\$15,000.00	(\$20,000.00)	(\$15,000.00)	(\$5,000.00)	
D	\$0.00	(\$2,016.46)	\$0.00	(\$2,016.46)	
Composite Group	\$30,000.00	(\$40,000.00)	(\$28,975.33)	(\$11,024.67)	

District Offices of the Department of Revenue

- Brookhaven** District Service Office
P.O. Box 3999, Brookhaven, MS 39603-7999
1385 Johnny Johnson Dr. Ph: (601) 833-4761
Fax: (601) 833-3096
- Greenwood** District Service Office
P.O. Drawer D, Greenwood, MS 38935-0420
117 B Grand Blvd. Ph: (662) 453-1742
Fax: (662) 453-7981
- Gulf Coast** District Service Office
1141 Bayview Ave., Ste. 400
Biloxi, MS 39530-1601 Ph: (228) 436-0554
Fax: (228) 436-0964
- Hattiesburg** District Service Office
P.O. Box 1709, Hattiesburg, MS 39403-1709 17
JM Tatum Industrial Dr, Ste. 2 Ph: (601) 545-1261
Fax: (601) 584-4051
- Jackson** District Service Office
P.O. Box 1033, Jackson, MS 39215-1033
1577 Springridge Rd., Raymond, MS 39154-9602 Ph: (601) 923-7300
Fax: (601) 923-7318
- Meridian** District Service Office
P.O. Box 3625, Meridian, MS 39303
2600 Old N Hills St. Ph: (601) 483-2273
Fax: (601) 693-2473
- Senatobia** District Service Office
P.O. Box 127, Senatobia, MS 38668
2778 HWY 51 South. Ph: (662) 562-4489
Fax: (662) 562-7392
- Tupelo** District Service Office
P.O. Box 3000, Tupelo, MS 38803
2610 Traceland Dr. Tupelo, MS 38801 Ph: (662) 842-4316
Fax: (662) 842-5041