

THE ANNUAL TAX EXPENDITURE REPORT



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INTRODUCTION

The Tax Expenditure Annual Report Act and the Economic Development Reorganization Act require the Center for Policy Research and Planning to prepare an annual tax expenditure report. This document is the fifteenth of such annual reports.

The Tax Expenditure Annual Report Act defines a tax expenditure as "any statutory provision or state agency regulation which exempts, in whole or in part, any specific class or classes of persons, income, goods, services, or property from the impact of established state taxes, including, but not limited to, those provisions known as tax deductions, tax allowances, tax exclusions, tax credits, and tax exemptions."

The purpose of preparing a tax expenditure report is to show that revenues foregone due to provisions in the tax codes have the same effect as direct budgetary expenditures. Another purpose is to provide a vehicle for annual legislative review of tax expenditures similar to the review that direct expenditures receive through the appropriation process.

For instance, it may be the intent of the governor and the legislature that the state finance a portion of the cost of energy conservation and thereby reduce energy consumption. One approach to achieving this goal would be to appropriate, through the general fund, money to supplement the purchase and installation of home insulating materials. An alternative would be to provide a tax credit, exemption, or deduction for expenditures for home insulation. Both approaches achieve the same general purpose, but there are predictable differences in the distribution of the impact among taxpayers in different income categories. Using the first approach keeps more money in the general fund and prevents tax revenues from declining, while the second approach causes the general fund budget to remain unchanged and tax revenues to decline. Because there is a clear political preference for cutting revenues over raising expenditures, the second approach is more likely to be approved although it has the same net budgetary effect as the first. Furthermore, since most tax expenditures, once enacted, become permanent provisions in the tax code, they are more likely to reoccur year after year. A general fund direct expenditure can only be made in a particular fiscal year after an appropriation of state funds is made. In almost all cases, such appropriations are approved for only

one year, and the continuation of an expenditure or a similar expenditure in a subsequent year requires another appropriation.

The primary difficulty in establishing a tax expenditure report is the accurate identification of the relevant tax base that is to be used as a point of departure for tax expenditures. In some cases, the language of the law is clear, and original intent can easily be inferred from the statutes. In other cases, the original intent of the statute can only be surmised, and in these cases there will exist differences of opinions. In fact, a careful examination of the language of the statutes reveals that several tax code provisions generally perceived to be tax expenditure items do not fall within the usual definition.

In this document strict adherence to the language of the statutes is always the basis for developing tax expenditures. However, in keeping with implied legislative intent and in consideration of the intensity of debate concerning certain provisions in the tax laws, provisions in the law other than those which conform to the strictest definition of a tax expenditure have also been included. However, in each of these cases, the departure from strict interpretation is clearly noted. For instance, the sale of feed, seed, fertilizers, herbicides, and other materials used in farming is exempted in Section 27-65-103 of the Mississippi Code of 1972 (supp.) from the sales tax and as such could be considered a tax expenditure. However, Section 27-65-7 of the 1972 Code states that retail sales do not include sales made to a wholesaler, jobber, manufacturer, or custom processor for resale or for further processing. Section 27-65-7 appears to suggest that inputs into production processes are not items subject to the sales tax; it can be inferred from a practical, if not from a strictly legal, position that sales of feed, seed, fertilizers, herbicides, and other materials when sold to persons who are engaged in the business of producing agricultural products are not, indeed, part of the relevant tax base and that the exemption is not a true tax expenditure.

Measuring Tax Expenditures

The estimates in this report are based on the following: 1998 income tax returns, statistical information obtained from sales and use tax returns filed with the Mississippi State Tax Commission, information obtained from specific taxpayers, trade organizations, etc.

In accordance with the Tax Expenditure Annual Report Act, an estimate is provided in this report for most of the tax expenditures listed. In some cases where a tax base is established and the tax expenditure involves only a differential tax rate, these estimates are considered fairly reliable. In other cases where there is no existing statutory tax base and no tax experience to draw from, such as in an outright exemption or exclusion, the estimation procedure must be less exact and the estimates are considerably less reliable. In this report, those estimates which are clearly less reliable are enclosed in parentheses. In certain cases there exists no reliable basis for estimation and any attempt to estimate would be at best worthless and could, in fact, be misleading and therefore detrimental. These cases have been noted "Information Not Available."

Regardless of the accuracy of the estimates, it must be noted that any change in taxation normally brings a change in taxpayer behavior in order to avoid or reduce taxes. Resources and economic activity always tend to flow away from heavily taxed sectors and towards untaxed or less heavily taxed sectors. Thus, while the estimates of tax expenditures are unbiased with respect to *current* economic activity receiving preferential treatment, eliminating that preferential treatment would cause some of that activity to disappear and the tax expenditure estimate would overstate actual revenues realized.

There is also an overlap problem in tax expenditures. Some of the tax expenditures related to individual income tax overlap each other. In particular, the standard deduction overlaps part of the sum of all itemized deductions. For example, under Mississippi law, a married taxpayer filing jointly may take the standard deduction of \$4,600 or the sum of all itemized deductions, presumably only if they exceed \$4,600. If the mortgage interest deduction is \$2,000 for a particular taxpayer whose total itemized deductions equal \$4,000, the loss of the mortgage interest deduction would generate \$600 rather than \$2,000 in taxable income taxed at 3%, 4%, or 5% unless the standard deduction also was eliminated. In fact, the elimination of all itemized deductions would increase taxable income by only \$600 in this example. Therefore, in the separate estimates for itemized deductions and the standard deduction, there is an overlap which would exist unless both standard and itemized deductions were eliminated simultaneously.

CORPORATE INCOME TAX EXPENDITURES

In taxing the earnings of corporations, the state of Mississippi uses a definition of taxable income which corresponds closely to the federal definition of taxable income. Corporations are allowed to deduct from their gross earnings certain operating expenses and other items of expenditure. Corporations are also allowed to credit certain expenses against their state tax liability.

Corporate Credits

Credit for Finance Company Privilege Tax Paid for Same Tax Year.-- Mississippi Code of 1972 (supp.), Section 27-21-9, 27-21-3.

Those corporations whose business includes lending money secured by mortgages, trust receipts, retained title, or purchase contracts including discounting on motor vehicles, furniture, etc., or any other tangible personal property are levied an annual statewide privilege tax based upon the value of securities held. Mississippi finance companies to which this privilege tax applies are allowed a tax credit on their corporate income tax equal to the amount of privilege tax paid for such calendar year based on income derived exclusively from the business which measures the annual statewide privilege tax levied. However, the credit allowed shall not exceed the amount of income tax due. The apparent purpose of this measure is to eliminate a potential source of double taxation.

Estimated FY 2002 Tax Expenditure: \$900,000.

Credit for Qualified Businesses in Designated "High-Tech" and Enterprise Zones. -- Mississippi Code of 1972 (supp.), Section 27-7-22.

For any qualified business, there shall be allowed as a credit against the tax imposed, an amount equal to \$1,000 per net full-time employee as determined by the average annual employment of the business reported to the Employment Security Commission. Such credit shall be allowed annually to each qualified business for a period not to exceed 10 years. If the amount allowable as a credit exceeds the tax imposed, the amount of such excess shall not be refundable or carried forward to any other taxable year.

If either the Mississippi Enterprise Zone Act or the Mississippi Advanced Technology Initiative Act is repealed, any qualified business which had been granted a tax credit under these subsections prior to the date of such repeal shall be entitled to such tax credit until the period for which it was granted expires.

Estimated FY 2002 Tax Expenditure: \$200,000.

Jobs Tax Credit-- Mississippi Code of 1972 (supp.), Section 57-73-21 and Mississippi Code of 1972 (supp.), Section 27-7-22.17 and Section 27-7-22.19

Mississippi Code of 1972 (supp.), Section 57-73-21

(1) A credit is allowed for increasing employment levels in certain types of business. For a credit to be allowed, 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 total of the Jobs Tax Credit, the Headquarters Credit and the R&D Skills Credit, cannot exceed 50% of the total income tax due.

(2) The amount of the credit is determined by the classification of the county in which the qualified job is located. The 82 counties are divided into 3 groups or classifications.

<u>County Classification</u>	<u>Minimum No. of Jobs in a Given Year</u>	<u>Dollar Credit Per Job</u>
Tier Three (Less Developed)	10 or More	\$2,000 Annually
Tier Two (Moderately Developed)	15 or More	\$1,000 Annually
Tier Three (Developed)	20 or More	\$500 Annually

Mississippi Code of 1972 (supp.), Section 27-7-22.17 and Section 27-7-22.19

This job tax credit is earned by a permanent business enterprise and members of the affiliated group operating certain projects that create at least 3,000 new full-time jobs and to integrated suppliers who create at least 20 full-time jobs located on the project site. The taxpayer can select the date the credit commences, but it cannot be more than five (5) years after commercial production has begun. Permanent business enterprises and members of its affiliated group operating the project are allowed a credit equal to Five Thousand Dollars (\$5,000) annually for each net new full-time employee for a period of twenty (20) years. Integrated suppliers are allowed a credit equal to One Thousand Dollars (\$1,000) annually for each new net full-time employee for five (5) years. This credit can offset one hundred percent (100%) of the income tax due from the earnings of the project. This credit is in lieu of those provided for in Section 57-73-21.

Estimated FY 2002 Tax Expenditure: \$5,000,000.

National and Regional Headquarters Credit. -- Mississippi Code of 1972 (supp.), Section 57-73-21.

Beginning January 1, 2001, a credit of \$500, \$1,000, or \$2,000 (dependent upon average annual wage) for each net new full-time employee is authorized for any company establishing or transferring its national or regional headquarters from within or outside the State of Mississippi and creating a minimum of 35 jobs at the headquarters. The minimum increase of 35 jobs must occur within one year.

Estimated FY 2002 Tax Expenditure: \$200,000.

Research and Development Jobs Skills Credit. -- Mississippi Code of 1972 (supp.), Section 57-73-21.

Beginning January 1, 2001, this credit increased from \$500 to \$1,000 for those hired after such date. It is authorized for each full-time employee in any new job requiring research and development skills. Specific examples of jobs requiring research and development skills are chemists and engineers. Qualification of other jobs for this credit would require as a minimum a bachelor's degree

in a scientific or technical field of study from an accredited four(4)-year college or university, employment in the area of expertise and compensation at a professional level.

Estimated FY 2002 Tax Expenditure: \$200,000.

Dependent Care Credit. -- Mississippi Code of 1972 (supp.), Section 57-73-23.

An income tax credit is allowed to any employer providing dependent child care for its employees during the employees' working hours. The credit allowed is 50% of qualified expenses. This credit can offset 100% of income tax. Any excess credit will not be refunded, but can be carried forward for up to five (5) years.

Estimated FY 2002 Tax Expenditure: \$50,000.

Job Training or Retraining Credit. -- Mississippi Code of 1972 (supp.), Section 57-73-25.

A job training credit is allowed to any employer that provides basic skills training to its employees. A retraining credit is also allowed to any employer that provides retraining programs to its employees that are designed to increase opportunity for employee advancement with the employer. The retraining credit is allowed only for employees paid on an hourly wage basis and excludes employees engaged in retail services. The training can be provided by the community/junior college in the district where the employer is located. Also, any training approved by the community/junior college district may also be included. A community/junior college may commit to provide employer-sponsored basic skills training or retraining programs for an employer for a multiple number of years, not to exceed five years. The credit allowed is 50% of qualified expenses, not to exceed 50% of the income tax liability. The credit cannot exceed \$2,500 per employee over a three (3) year period. Any excess credit will not be refunded, but can be carried forward for up to five (5) years.

Estimated FY 2002 Tax Expenditure: \$400,000.

Gambling License Fees Credit. -- Mississippi Code of 1972 (supp.), Section 75-76-177, 75-76-179.

Each gambling licensee is subject to a license fee based on the licensee's gross revenue. License fees paid to Mississippi on gross revenues are allowed as a credit against the licensee's Mississippi income tax liability for the same tax year.

Estimated FY 2002 Tax Expenditure: \$5,000,000.

Temporary Assistance for Needy Families. -- Mississippi Code of 1972 (Supp.), Section 27-7-22.1.

This income tax credit is for employers who hire persons who are receiving Temporary Assistance for Needy Families (TANF) at the date of hire. The credit is calculated by applying either 20%, 25% or 40% to the first \$5,200 in wages paid annually to the employee. If the employee is paid \$4 or more above the federal minimum wage (FMW), the employer credit percentage is 40%. If the employee is paid less than \$4 but more than \$3 above the FMW, the employer credit percentage is 25%. If the employee is paid \$3 or less above the FMW, the employer credit percentage is 20%.

No credit shall be claimed for wages paid to any person for more than 36 months, regardless of the number of employers who employ such person. An employer shall not receive the credit if such employer dismisses an employee to create a position for an TANF recipient. This credit can be used against 100% of the total income tax due. Any unused credit cannot be carried forward. The tax credit authorized shall apply only in cases in which the person whose wages are used to calculate the credit was hired after July 1, 1993. Shall be repealed from and after January 1, 1999.

Estimated FY 2002 Expenditure: \$50,000.

Mississippi Business Finance Corporation Revenue Bond Service Credit. -- (referred to as the RED Program) Mississippi Code of 1972 (Supp.), Section 27-7-22.3 and Section 57-10-401 through Section 57-10-449.

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. The law also provides for a job development assessment fee which may be levied upon those employees whose job was

created due to the increased development for projects induced prior to 7-1-97. The assessment fee cannot exceed the following percentages of gross wages: (a) 2%, if the gross wages are or between \$5.00 and \$6.99 per hour; (b) 4%, if the gross wages are or between \$7.00 and \$8.99 per hour; (c) 6%, if the gross wages are \$9.00 or more per hour. The employee who has paid this fee is allowed to use as a credit on his Mississippi personal income tax return, however, any excess credit shall not be refunded or carried forward to any other taxable year.

Estimated FY 2002 Expenditure: \$15,000,000.

Ad Valorem Inventory Tax Credit. -- Mississippi Code of 1972 (Supp.), Section 27-7-22.5.

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. For the 1994 taxable year, the tax credit for each location of the taxpayer shall not exceed the lesser of \$2,000 or the amount of income taxes due the State of Mississippi that are attributable to such location. For the 1995 taxable year, the tax credit shall not exceed the lesser of \$3,000 or the amount of income taxes paid. For the 1996 taxable year, the tax credit shall not exceed the lesser of \$4,000 or the amount of income taxes paid. For the 1997 taxable year and each year thereafter, the tax credit shall not exceed the lesser of \$5,000 or the amount of income taxes paid.

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. Also, if the taxpayer is a partnership or an S corporation, the credit may be applied only to the tax attributable to the partnership or an S corporation income. Effective January 1, 1994.

Estimated FY 2002 Expenditure: \$5,500,000.

Export Charges Credit. -- Mississippi Code of 1972 (Supp.), Section 27-7-22.7.

This is an income tax credit that allows taxpayers that utilize the port facilities at state, county, and municipal ports an income tax credit equal to the total export cargo charges paid by the taxpayer for: (a) receiving in the port; (b) handling to a vessel; (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 December 31, 2002 is limited to \$1,200,000. To obtain the credit a taxpayer must provide to the State Tax Commission a statement from the governing authority of the port certifying the amount of charges paid by the taxpayer for which a credit is claimed and any other information required by the State Tax Commission. This act is effective January 1, 1994, and shall stand repealed after December 31, 1998.

Estimated FY 2002 Expenditure: \$400,000.

Reforestation Tax Credit. -- Mississippi Code of 1972 (Supp.), Codification Not Available

Beginning in 1999, 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 Reforestation Tax Credit (RTC) shall not exceed the lesser of ten thousand (\$10,000) or 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 ten thousand (\$10,000) in the aggregate. Any unused portion of the RTC may be carried forward to succeeding years. If a taxpayer receives state or federal cost share assistance funds to defray the cost of an approved reforestation practice, the cost of the practice on the same acre or acres of land within the same tax year is not eligible for the credit unless the taxpayer's adjusted gross income is less than the federal earned income credit level. To be eligible for the tax credit, a taxpayer must have a reforestation prescription or plan prepared by a graduate forester of a college, school, or university accredited by the Society of American Foresters or by a registered forester under the Foresters Registration Law of 1977, and the forester must verify in writing that the reforestation practices were

completed and the reforestation prescription or plan was followed. The RTC is not available to private corporation which manufacture products or provide public utility services of any type or any subsidiary of such corporations.

Estimated FY 2002 Expenditure: \$250,000.

Corporate Deductions

Capital Gains Exempt. -- Mississippi Code of 1972 (Supp.), Section 27-7-9.

Capital gains are exempt from investments held for more than one year in financial institutions domiciled in Mississippi, domestic corporations, domestic limited partnerships or domestic limited liability companies. No capital gain shall be recognized from the sale of all or substantially all of the assets in domestic corporations held for more than one year if the corporation is totally liquidated and dissolved within one calendar year from the date of the sale of all or substantially all the assets of the corporation. However, the depreciation that has been taken on the corporation shall be recaptured and taxed as ordinary income in the same manner as provided for in Section 1245 of the IRS code.

Estimated FY 2002 Expenditure: Information not available.

General Expenses Associated with the Cost of Doing Business. -- Mississippi Code of 1972 (supp.), Section 27-7-17.

Mississippi statutes allow for deduction from gross corporate income all reasonable expenses associated with operating a taxable business. These provisions are consistent with the concept of taxable income and are not considered to be tax expenditures. They include the following:

Miscellaneous Business Expenses

Interest Expense

Taxes

Business Losses

Depreciation

Depletion

Bad Debts

Since each of these business expenses is outside the relevant tax base, no estimated fiscal impact has been estimated for this report.

Charitable Contributions. -- Mississippi Code of 1972 (supp.), Section 27-7-17(h).

Contributions or gifts made by corporations within the taxable year are deductible when made to: corporations, organizations, associations, or institutions, including Community Chest funds, foundations, and trusts created solely and exclusively for religious, charitable, scientific, or educational purposes, or for the prevention of cruelty to children or animals. This deduction is allowed in an amount not to exceed 20% of net income.

Estimated FY 2002 Tax Expenditure: Information not available.

Reserve Funds. -- Mississippi Code of 1972 (supp.), Section 27-7-17(i).

In the case of insurance companies, the net additions required by law to be made within the taxable year to reserve funds are deductible when such reserve funds are maintained for the purposes of liquidating policies at maturity.

Estimated FY 2002 Tax Expenditure: Information not available.

Annuity Income. -- Mississippi Code of 1972 (supp.), Section 27-7-17(j).

The sums, other than dividends, paid within the taxable year on policy or annuity contracts are deductible when such income has been included in gross income. The purpose of this provision is to comply with federal tax codes.

Estimated FY 2002 Tax Expenditure: Information not available.

Contributions to Employee Pension Plans. -- Mississippi Code of 1972 (supp.), Section 27-7-17(k).

Contributions made by an employer to a plan or a trust forming part of a pension plan, stock bonus plan, disability or death-benefit plan, or profit-sharing plan of such employer for the exclusive benefit of some or all of his, their, or its employees, or their beneficiaries, shall be deductible from his, their, or its income only to the extent that, and for the taxable year in which, the contribution is

deductible for federal income tax purposes under the Internal Revenue Code of 1986 and any other provisions of similar purport in the Internal Revenue Laws of the United States, and the rules, regulations, rulings, and determinations promulgated thereunder, provided that:

(1) The plan or trust be irrevocable.

(2) The plan or trust constitute a part of a pension plan, stock bonus plan, disability or death-benefit plan, or profit-sharing plan for the exclusive benefit of some or all of the employer's employees and/or officers, or their beneficiaries, for the purpose of distributing the corpus and income of the plan or trust to such employees and/or officers, or their beneficiaries.

(3) No part of the corpus or income of the plan or trust can be used for purposes other than for the exclusive benefit of employees and/or officers, or their beneficiaries.

Contributions to all plans or to all trusts of real or personal property (or real and personal property combined) or to insured plans created under a retirement plan for which provision has been made under the laws of the United States of America, making such contributions deductible from income for federal income tax purposes, shall be deductible only to the same extent under the income tax laws of the state of Mississippi. The purpose of this provision is to comply with federal tax codes.

Estimated FY 2002 Tax Expenditure: Information not available.

Net Operating Loss Carryover. -- Mississippi Code of 1972 (supp.), Section 27-7-17(1).

A net operating loss for any taxable year ending on or after December 31, 1966, shall be a net operating loss carryover to each of the five taxable years following the taxable year of such loss. A net operating loss for any taxable year ending on or after December 31, 1992 shall be a carry back for three years and a carryover for 15 years, subject to a three-year phase-in for carry backs. The term "net operating loss," for the purposes of this paragraph, shall be the excess of the deductions allowed over the gross income; provided, however, the following deductions shall not be allowed in computing same:

(1) No net operating loss deduction shall be allowed.

(2) No personal exemption deduction shall be allowed.

(3) Allowable deductions which are not attributable to taxpayer's trade or business shall be allowed only to the extent of the amount of gross income not derived from such trade or business.

Estimated FY 2002 Tax Expenditure: Information not available.

Dividend Distributions. -- Mississippi Code of 1972 (supp.), Section 27-7-17(n).

Dividend distributions during the taxable year by an investment trust as defined in Section 79-15-3 are deductible if, during the taxable year, the dividend distributions meet the requirements of Sections 857, 858, and 860, Federal Internal Revenue Code of 1986, as amended. The deductions allowed are effective for the 1985 taxable year of the investment trust and for each taxable year thereafter. The purpose of this provision is to comply with federal tax codes.

Estimated FY 2002 Tax Expenditure: Insignificant.

Dividends for Holding Companies. – Mississippi Code of 1972 (supp.), Section 27-13-1.

Dividends received by a holding corporation from a subsidiary corporation are excluded from income.

Estimated FY 2002 Tax Expenditure: Information not available.

Growth and Prosperity Area Exemption. – Mississippi Code of 1972 (supp.), Section 57-80-3 and 57-80-5.

Income generated by a new or expanded business enterprise in a “growth and prosperity area” (GAP Area) is exempt from income tax for a period of ten years.

Estimated FY 2002 Tax Expenditure: Information not available.

CORPORATE FRANCHISE TAX EXPENDITURES

In taxing the capital of corporations, the State of Mississippi uses the basis of valuation of such capital as found in the Mississippi Code of 1972 (supp.) 27-13-9. Certain capital employed in this state is exempted from taxation. A “fee-in-lieu” agreement may be negotiated in certain instances where the taxpayer would normally be subject to franchise tax on the capital employed in Mississippi.

Exemptions

Growth and Prosperity Area Exemption. – Mississippi Code of 1972 (supp.), Section 57-80-3 and 57-80-5.

The value of capital employed by a new or expanded business enterprise in a growth and prosperity area is exempt from franchise tax for a period of ten years.

Estimated FY 2002 Tax Expenditure: Information not available.

“Fee-In-Lieu.” – Mississippi Code of 1972 (supp.), Section 57-75-5.

A “fee-in-lieu” may be negotiated by the MDA in which the fee will represent the franchise tax to be paid by the entity for capital employed in this state by the project. The fee-in-lieu shall not be less than Twenty-Five Thousand Dollars (\$25,000.00) annually.

Estimated FY 2002 Tax Expenditure: Information not available.

INDIVIDUAL INCOME TAX EXPENDITURES

The income of individuals is taxed based upon the definition of taxable income, which is gross income less certain exemptions, adjustments, and deductions. Mississippi taxpayers are also allowed certain credits against their state tax liability.

Individual Exemptions

Personal Exemptions. -- Mississippi Code of 1972 (supp.), Section 27-7-21(a-d).

In the case of resident individuals, exemptions are listed below and are allowed as deductions in computing taxable income.

\$6,000	Single Individuals
\$12,000	Married, Joint Return or Surviving Spouse
\$6,000	One-half of additional personal exemptions for Married-Separate returns.
\$9,500	Head of Household

Nonresidents and part-year residents are allowed the same personal and additional exemptions as are authorized for resident individuals except exemptions are prorated as to the proportion of net income from sources which the state of Mississippi bears to total or entire net income from all sources. The purpose of this provision is to shift income tax burden away from low-income taxpayers.

Estimated FY 2002 Tax Expenditure: \$363,400,000.

Exemptions for Dependents. -- Mississippi Code of 1972 (supp.), Section 27-7-21(e-g).

The exemption for an individual having a dependent other than husband or wife is \$1,500 for each such dependent. The term "dependent" means any person or individual who qualifies as a dependent under provisions of Section 152, Internal Revenue Code of 1954, as amended.

In the case of any taxpayer or the spouse of the taxpayer who has attained the age of 65 before the close of his taxable year, an additional exemption of \$1,500 is allowed.

In the case of any taxpayer or the spouse of any taxpayer who is blind at the close of the taxable year, an additional exemption of \$1,500 is allowed. This measure recognizes that the ability to pay taxes declines with increases in the number of dependents.

Estimated FY 2002 Tax Expenditure: \$45,000,000.

Other Exemptions. -- Mississippi Code of 1972 (supp.), Section 27-7-15(4).

1. Interest under the obligation of the United States or its possessions, or securities issued under the provisions of the Federal Farm Loan Act of July 17, 1916, or bonds issued by the War Finance Corporation, or obligations of the state of Mississippi or political subdivisions thereof.

Estimated FY 2002 Tax Expenditure: Information not available.

2. Income received by any religious denomination or by any institution or trust for moral or mental improvements, religious, Bible, tract, charitable, benevolent, fraternal, missionary, hospital, infirmary, educational, scientific, literary, library, patriotic, historical, or cemetery purposes or for two or more of such purposes, if such income be used exclusively for carrying out one or more of such purposes.

Estimated FY 2002 Tax Expenditure: Information not available.

3. Income from dividends that has already borne a tax as dividend income under the provisions of this article, when such dividends may be specifically identified in the possession of the recipient.

Estimated FY 2002 Tax Expenditure: Information not available.

4. Amounts paid by the United States to a person as added compensation for hazardous duty as a member of the Armed Forces of the United States in a combat zone designated by Executive Order of the President of the United States.

Estimated FY 2002 Tax Expenditure: Insignificant.

5. Amounts received as retirement allowances, pensions, annuities, or optional retirement allowances paid under the Federal Social Security Act, the Railroad Retirement Act, the Federal

Civil Service Retirement Act, or any other retirement system of the United States government, retirement allowances paid under the Mississippi Public Employees' Retirement System, Mississippi Highway Safety Patrol Retirement System or any other retirement system of the State of Mississippi or any political subdivision thereof. The exemption shall be available to the spouse or other beneficiary at the death of the primary retiree.

Amounts received as retirement allowances, pensions, annuities, or optional retirement allowances paid by any public or governmental retirement system not designated above or any private retirement system or plan of which the recipient was a member at any time during the period of his employment. Amounts received as a distribution under a ROTH Individual Retirement Account shall be treated in the same manner as provided under the Internal Revenue Code of 1986, as amended. The exemption allowed under this paragraph shall be available to the spouse or other beneficiary at the death of the primary retiree.

Estimated FY 2002 Tax Exemption: \$153,205,000.

6. Compensation not to exceed the aggregate sum of \$5,000 for any taxable year received by a member of the National Guard or Reserve Forces of the United States as payment for inactive duty training, active duty training, and state active duty.

Estimated FY 2002 Tax Expenditure: Information not available.

7. Compensation received for active service as a member below the grade of commissioned officer and so much of the compensation as does not exceed the aggregate sum of \$500 per month received for active service as a commissioned officer in the Armed Forces of the United States for any month during any part of which such members of the Armed Forces served in a combat zone as designated by Executive Order of the President of the United States; or was hospitalized as a result of wounds, disease, or injury while serving in such combat zone.

Estimated FY 2002 Tax Expenditure: Insignificant.

8. Proceeds received from federal and state forestry incentives programs.

Estimated FY 2002 Tax Expenditure: Insignificant.

9. The amount representing the difference between the increase of gross income derived from sales for export outside the United States as compared to the preceding tax year wherein gross income from export sales was highest, and the net increase in expenses attributable to such increased exports. In the absence of direct accounting, the ratio of net profits to total sales may be applied to the increase in export sales. This shall only apply to businesses located in this state engaging in the international export of Mississippi goods and services. Such goods or services shall have at least 50% of value added at a location in Mississippi.

Estimated FY 2002 Tax Expenditure: Information not available.

Medical Savings Accounts -- Internal Revenue Code, Section 71.

The amount deposited in a medical savings account, and any interest accrued thereon, that is a part of a medical savings account program as specified in the Medical Savings Account Act under Sections 71-9-1 through 71-9-9; provided, however, that any amount withdrawn from such account for purposes other than paying eligible medical expense or to procure health coverage, shall be included in gross income.

Estimated FY 2002 Tax Expenditure: \$30,000.

Prisoners of War, Missing in Action. -- Mississippi Code of 1972 (supp.), Section 27-7-15(5).

Members of the Armed Forces. Gross income does not include compensation received for active service as a member of the Armed Forces of the United States for any month during any part of which such member is in missing status during the Vietnam Conflict as a result of such conflict.

Civilian employees. Gross income does not include compensation received for active service as an employee for any month during any part of which such employee is in a missing status during the Vietnam Conflict as a result of such conflict.

Estimated FY 2002 Tax Expenditure: Insignificant.

Individual Adjustments

Individual Retirement Accounts. -- Internal Revenue Code, Section 219 and 408, Mississippi Code of 1972 (supp.), Section 27-7-16.

An individual is allowed to deduct from gross income the amount paid to an individual retirement account if the individual is not covered by an employer's plan or a self-employed plan. This deduction is limited to the smaller of \$2,000 or 100% of annual compensation or earned income. If both spouses are employed, each may establish an IRA subject to the \$2,000/100% limitations.

Beginning in 1998, deductions for IRA contributions are reduced or phased out if an individual is covered by an employer-maintained retirement plan. The phase-out amount is increased annually through tax year 2007. For tax year 2000, the IRA deduction is reduced or eliminated when adjusted gross income exceeds certain specified amounts as follows:

- (1) \$32,000 for a single individual;
- (2) \$52,000 for a married couple filing a joint return; or
- (3) Zero for a married individual filing separately.
- (4) Non-active participant with active participant spouse, phase-out begins at \$150,000.

If adjusted gross income exceeds one of the specified amounts, the maximum IRA deduction is phased out over the next \$10,000 of adjusted income. Thus, no IRA deduction is allowed to a single person with adjusted gross income of \$42,000 or more, a married couple filing a joint return with \$62,000 or more, or a married individual filing separately with \$10,000 or more. The reduction in the maximum IRA deduction is determined by (1) multiplying the maximum IRA deduction by the excess of adjusted gross income over the specified amount and (2) dividing the result by \$10,000.

Except in the case of death, disability, periodic payments, medical related distributions, higher education expenses, certain first-time homebuyer expenses, post '99 IRS liens or domestic relations orders, the retirement money cannot be withdrawn without a federal penalty tax of 10% until the individual reaches the age of 59½. Amounts withdrawn from an IRA are subject to federal taxation at the time of withdrawal. In addition, taxation of interest or other income of an IRA is deferred until such income is withdrawn from the IRA. At that time, it is subject to federal taxation as ordinary

income. The purpose of this provision is to comply with federal tax codes.

Estimated FY 2002 Tax Expenditure: \$2,785,000.

Keogh Plans. -- Internal Revenue Code, Sections 219, 401-405, and 408-415
Mississippi Code of 1972 (supp.), Section 27-7-16.

Self-employed individuals (sole proprietors, partners, etc.) may deduct payments to Self-Employed Retirement Plans, commonly referred to as Keogh or HR 10 Plans. The maximum contribution is the lesser of \$30,000 or 20% of earned income (25% for employee). The definition of earned income includes the retirement plan deduction (i.e., earnings from self-employment must be reduced by the retirement plan contribution for purposes of determining the maximum deduction). To simplify, contribution is equal to 20% of earnings subject to \$30,000 limitation. The purpose of this provision is to comply with federal tax codes.

Estimated FY 2002 Tax Expenditure: \$2,700,000.

Interest Penalty on Early Withdrawal of Savings. -- Internal Revenue Code, Section 62, (12).

Penalties forfeited because of premature withdrawal of funds from time savings accounts or deposits are allowed as an adjustment to gross income. An adjustment is provided for deductions allowed by IRC, Section 165 for losses incurred in any transaction entered into for profit, though not connected with a trade or business, to the extent that such losses include amounts forfeited to a bank, mutual savings bank, savings and loan association, cooperative bank, or homestead association as a penalty for premature withdrawal of funds from a time savings account, certificate of deposit, or similar class of deposit. The purpose of this provision is to comply with federal tax codes.

Estimated FY 2002 Tax Expenditure: \$78,000.

Unreimbursed Moving Expense -- Internal Revenue Code, Sections 62 and 217, Mississippi Code of 1972 (supp.), Section 27-7-18(2).

Individual taxpayers are allowed to deduct unreimbursed moving expenses paid during the tax year as an adjustment to gross income in accordance with provisions of the Internal Revenue Code, and rules, regulations and revenue procedures relating to moving expenses not in direct conflict with provisions of the Mississippi Income Tax Law.

Estimated FY 2002 Tax Expenditure: \$570,000.

Contributions or Payments to a Mississippi College Savings Plan (MACS & MPACT). -- Mississippi Code of 1972 (Supp.), Sec. 27-7-18.

Contributions or payments to a Mississippi Affordable College Savings (MACS) program account are deductible from gross income as provided in section 7, Senate Bill 2298, 2000 Regular Session. Payments made under a prepaid tuition contract entered into under the Mississippi Prepaid Affordable College Tuition (MPACT) program are deductible as provided in Section 37-155-17.

Estimated FY 2002 Tax Expenditure: Information not available.

Self-Employed Medical Insurance. -- Mississippi Code of 1972 (Supp.), Section 27-7-18.

Self-employed individuals may deduct as an adjustment to gross income amounts paid during the tax year for insurance which constitute medical care for the taxpayer, his/her spouse and dependents in accordance with provisions of the Internal Revenue Code.

Estimated FY 2002 Tax Expenditure: \$2,250,000.

Individual Credits

Credit for Income Tax Paid Another State. -- Mississippi Code of 1972 (supp.), Section 27-7-77.

Individual resident taxpayers of Mississippi whose gross income is derived from sources both within and without the state of Mississippi are eligible for a tax credit for income tax paid to another state, territory of the United States, or the District of Columbia against the amount of tax found to be due to the state of Mississippi.

The credit is limited in amount as follows:

- 1) The tax credit may not exceed the amount of income tax due the state of Mississippi.
- 2) The tax credit may not exceed the amount of income tax actually paid to other states.
- 3) The tax credit may not exceed an amount computed by applying the highest Mississippi rates to the net taxable income reported to the other state.

This measure is a recognition of the principle that Mississippi tax laws extend only to the state's boundary as they apply to individuals.

Estimated FY 2002 Tax Expenditure: \$19,580,000.

Mississippi Advantage Jobs Incentive Program. -- Mississippi Code of 1972 (supp.),
Section 57-62-9.

“Mississippi Advantage Jobs Act” is an incentive payment program for the support of the establishment of quality business and industry that holds the promise of significant development of the economy of the State of Mississippi through the creation of quality jobs. The Mississippi Development Authority will determine the eligibility of the businesses that qualify. To qualify, certain requirements must be met such as the level of average annual wage and number of new jobs. The amount of the incentive payments the qualified business will receive are directly tied to a certain portion of the withholding taxes paid by the qualified business. The incentive payments may be made for a period up to ten years.

Estimated FY 2002 Tax Expenditure: \$0.

Other Credits - Mississippi Code of 1972 (supp.)

Certain credits are allowed on the Mississippi individual income tax return as direct credits or as pass-through credits from Partnerships, S-Corporations, and LLC's: Liquidating Dividend Credit-Section 27-7-9(j)(2). A credit for tax paid by a liquidation corporation on the gain from sale or exchange of property is allowed to the extend of tax liability of the shareholders. The purpose is to collect tax on the sale only once. Employer's TANF Credit - Section 27-7-22.1. Any employer who employs a person who was receiving Temporary Assistance for Needy Families (TANF) at the time the person was hired is allowed a credit against income tax of 20% - 40% of wages paid. Computation is based on the hourly rate paid and total compensation. Job Development Assessment

Fee - Section 27-7-22.3. A credit to employees whose wages have been assessed to help pay for Business Finance Corporation issued bonds which created their jobs. Business Ad Valorem Tax Credit - 27-7-22.5. Credit allowed to manufacturers, distributors, wholesalers or retail merchants who pay ad valorem taxes in Mississippi imposed on commodities, products, goods, wares and merchandise held for resale. Venture Capital Act of 1994 Tax Credit - 27-7-22.11. 30% of qualified investments under the Venture Capital Act of 1994 are allowed as a tax credit against total income tax liability. Unused credit may be carried over for ten years. Finance Company Privilege Tax - Section 27-21-9. Gaming Control Act License Fees Credit - Section 75-76-179. License fees paid under the Gaming Control Act are allowed as a credit against income tax. The credit may not exceed the amount of income tax due. Reforestation Credit - Section 27-7-22.15. A credit for eligible owners who incur costs for approved reforestation practices for eligible tree species on eligible lands, in the amount of 50% of the average cost. The lifetime maximum credit is \$10,000.

Estimated FY 2002 Tax Expenditure: \$1,365,000.

Individual Deductions

Standard Deduction. -- Mississippi Code of 1972 (supp.), Section 27-7-17(2)(b).

For all Mississippi taxpayers who cannot itemize their deductions, there is a standard deduction available. The deduction is as follows:

- \$4,600 Married Individuals - Joint Return
- \$4,600 Married-Spouse died in tax year
- \$2,300 Married Individuals-Separate Returns
- \$3,400 Head of Household
- \$2,300 Single Individuals

Estimated FY 2002 Tax Expenditure: \$75,000,000.

Itemized Deductions

Medical and Dental Expenses. -- Internal Revenue Code, Sections 63(f) and 213; Mississippi Code of 1972 (supp.), Section 27-7-17(2)(a).

Taxpayers are allowed a deduction for expenses incurred for medical treatment, medicines, health care, health insurance, and transportation which are essential to medical care. The deduction is equal to that portion of all qualified medical expenses exceeding 7.5% of taxpayer's federal adjusted gross income. On a joint return, the percentage limitation is based on the total adjusted gross income of both husband and wife. The purpose of this provision is to comply with federal tax codes.

Estimated FY 2002 Expenditure: \$13,300,000.

Real Estate Taxes. -- Internal Revenue Code, Sections 63(f) and 164; Mississippi Code of 1972 (supp.), Sections 27-7-17(2)(a).

Real estate taxes paid during the taxable year may be deductible from Mississippi gross income in arriving at Mississippi taxable income. However, special assessments are not considered real estate taxes and, as such, may not be deducted. The purpose of this provision is to comply with federal tax codes.

Estimated FY 2002 Tax Expenditure: \$9,300,000.

Home Mortgage Interest. -- Internal Revenue Code, Sections 63(f) and 163; Mississippi Code of 1972 (supp.), Section 27-7-17(2)(a).

When computing Mississippi taxable income, a taxpayer may deduct the full amount of all mortgage interest paid on his owner-occupied home but only to the extent that the interest is attributable to loans that do not exceed \$1,000,000 (\$500,000 if married filing separately). Home equity debt may be deducted on mortgages totaling \$100,000 (\$50,000 if married filing separately). Grandfathered debt taken out prior to October 13, 1987 is subject to exceptions. The purpose of this provision is to comply with federal tax codes.

Estimated FY 2002 Tax Expenditure: \$57,000,000.

Investment Interest. -- Internal Revenue Code, Sections 63(f) and 163; Mississippi Code of 1972 (supp.), Section 27-7-17(2)(a) and (1)(c).

Investment interest is interest on a debt incurred in the purchase of certain life insurance policies; interest on a debt incurred in the earning of a tax-exempt income, such as loans taken to buy

government bonds; and interest on debt for which the taxpayer is not legally liable. The purpose of this provision is to comply with federal tax codes.

Estimated FY 2002 Tax Expenditure: \$4,600,000.

Charitable Contributions. -- Internal Revenue Code, Sections 63(f) and 170(c); Mississippi Code of 1972 (supp.), Section 27-7-27(2)(a).

Contributions to recognized charities may be deducted from Mississippi adjusted gross income. A recognized charity is any government body or any public or private corporation, trust, or foundation organized and operated principally for charitable, religious, scientific, literary or educational purposes. Contribution deductions are generally limited to 50% of adjusted gross income; however, there is a 20% adjusted gross-income limit that applies to gifts of long-term capital gain appreciated property to private foundations and to charities to which the 30% adjusted gross income limit applies to contributions of other than capital gain property. The purpose of this provision is to comply with federal tax codes.

Estimated FY 2002 Tax Expenditure: \$42,800,000.

Casualty and Theft Losses. -- Internal Revenue Code, Section 165(c)(3); Mississippi Code of 1972 (supp.), Section 27-7-17(2)(a).

A casualty loss includes losses due to fire, storm, shipwreck, theft, or any sudden, unexpected, or unusual event. Casualty losses are deductible, provided that the loss is more than 10% of adjusted gross income decreased by \$100 per incident. The amount of loss is the lesser of:

- a) The decrease in fair market value of the property as a result of the casualty or theft, or value before minus value after.
- b) Taxpayer's adjusted basis in the property before the casualty loss or theft.

Losses must be reduced by any insurance reimbursement. The purpose of this provision is to comply with federal tax codes.

Estimated FY 2002 Tax Expenditure: \$1,050,000.

Employee Expenses & Miscellaneous Deductions Subject to 2% Limitation. -- Internal Revenue Code, Sections 162 & 212; Mississippi Code of 1972 (supp.), Section 27-7-17(2)(a).

Certain expenses may be claimed as miscellaneous itemized deductions. The deduction allowed is the total amount of these expenses that exceeds 2% of federal adjusted gross income.

A. Unreimbursed Employee Expenses - IRC 162

1. Expenses for carrying on trade or business of being an employee
2. Ordinary and necessary business expenses

B. Miscellaneous Deductions - IRC 212

Expenses incurred to:

1. Produce or collect income that must be included in gross income
2. Manage, conserve, or maintain property held for producing income
3. Determine, contest, pay or claim a refund of any tax

Estimated FY 2002 Tax Expenditure: \$13,600,000.

Deductions Not Subject to the 2% Limitation. – Internal Revenue Code, Sections 72; 162; 165; 691(c); 1341; & 212; Mississippi Code of 1972 (supp.) Section 27-7-17(2)(a)

Certain other expenses may be claimed as miscellaneous itemized deductions not subject to the 2% federal adjusted gross income limitation.

- A. Gambling losses up to the amount of gambling winnings - IRC 165
- B. Casualty and theft losses from income-producing property - IRC 165
- C. Federal estate tax on income in respect of a decedent - IRC 691(c)
- D. Repayments of more than \$3,000 under a claim of right - IRC 1341
- E. Impairment-related work expenses of persons with disabilities - IRC 162
- F. Unrecovered investment in a pension - IRC 72

Estimated FY 2002 Tax Expenditure: \$10,070,000.

SALES AND USE TAX EXPENDITURES

Section 27-65-17 Mississippi Code of 1972 (supp.) established a 7% sales tax on gross proceeds of retail sales except as provided elsewhere in the statutes. Likewise, Section 27-67-5 of the Code establishes a use tax which corresponds very closely to the sales tax and which is applied to goods purchased out of state and brought into Mississippi. In general, a retail sale is considered a sale of a final good to the final consumer of that good. Gross proceeds from the sale of specifically named services are also subject to the general sales tax. Retail sales typically do not include sales of raw materials or capital equipment to manufacturers, producers, or refiners of goods although they may be the final consumers of these goods in their recognizable form. Goods which lose their identity, including machinery used in production, are normally not considered to be retail goods.

Mississippi statutes blur the distinction between wholesale and retail goods. Section 27-65-17 lists several goods which are taxed at rates below the general sales tax rate of 7%, but most of these exceptions refer to sales which should not be considered as retail sales in the strictest sense. These are included in this report for completeness, but the reader is cautioned that although these items are tax expenditures in the letter of the law, they are not considered to be expenditures in the spirit of the law. In each of the items listed below, the estimated fiscal impact is based upon the difference between actual revenues and estimated revenues if a 7% sales or use tax were imposed.

Exceptions

Exceptions to the General Sales Tax Rate. -- Mississippi Code of 1972, (supp.),
Section 27-65-17.

The following items are explicit exceptions to the 7% tax on gross proceeds from retail sales. Each of these, with the partial exception of aircraft, autos, trucks, semi-trailers and mobile homes, is a wholesale transaction and as such is not a true tax expenditure. However, according to the letter of the law, each qualifies as a tax expenditure and is included for that reason.

Exceptions (Continued)

Estimated FY 2002
Tax Expenditure

Retail Sales of Farm Tractors Taxed at 1%	\$ 3,997,000
Other Farm Implements Taxed at 3%	3,660,000
Aircraft, Trucks, Semi-Trailers and Mobile Homes Taxed at 3%	25,450,000
Autos, Light Trucks: (10,000 lbs. or less) Effective 1/1/95 at 5%	81,110,000
Manufacturing Machinery and Certain Port Facility Equipment Taxed at 1½%	175,740,000
Materials Used in Railroad Tracks Taxed at 3%	801,000
Sales to Electric Power Associations Taxed at 1%	5,880,000

Discount for Timely Filing. -- Mississippi Code of 1972 (supp.), Section 27-65-33.

Taxpayers are allowed to discount their tax liability by 2% in return for meeting their legal filing deadline.

Estimated FY 2002 Tax Expenditure: \$10,000,000.

Exemptions

Sale of Utilities. -- Mississippi Code of 1972 (supp.), Section 27-65-19.

The sale of utilities and water to residential consumers is exempt from the sales tax. The reason for this exemption is to eliminate the burden of taxation from low-income taxpayers and from those goods which are considered to be necessities. There is no evidence that this exemption accomplishes this purpose better than the exemption of the sales tax on food which is not exempt. However, it should be noted that sales of food purchased with food stamps or instruments provided by the Women, Infants and Children's (WIC) Program are exempt from sales tax.

Estimated FY 2002 Tax Expenditure - \$102,000,000.

The sale of utilities to manufacturers is taxed at 1½%. This constitutes a wholesale transaction and should not be considered a true tax expenditure.

Estimated FY 2002 Tax Expenditure - \$39,150,000.

The sale of utilities to farmers is also a wholesale transaction which is taxed at 1½% and should not be considered a tax expenditure.

Estimated FY 2002 Tax Expenditure - \$1,200,000.

Sales of Home Medical Equipment and Supplies. – Mississippi Code of 1972 (supp.), Section 27-65-105(g).

An exemption is allowed for sales of home medical equipment and home medical supplies listed as eligible for payment under Title XVIII of the Social Security Act or under the state plan for medical assistance under Title XIX of the Social Security Act, prosthetics, orthotics, hearing aids, hearing devices, prescription eyeglasses, oxygen and oxygen equipment, when ordered or prescribed by a licensed physician for medical purposes for a patient, and when payment for such equipment or supplies, or both, is made under the provisions of the Medicare and Medicaid program. The exemption only applies to the portion of the sales price of such equipment or supplies, or both, paid for under the provisions of the Medicare and Medicaid program.

Estimated FY 2002 Tax Expenditure: \$5,950,000.

Industrial Exemptions. -- Mississippi Code of 1972 (supp.), Section 27-65-101.

Several different categories of sales to manufacturers, refiners, producers, and transporters are exempt from the general sales tax. These are wholesale transactions and should not be considered as true tax expenditures but are included in this report for information purposes only. They are as follows:

	<u>Estimated FY 2002 Tax Expenditure</u>
Boxes, Crates, and Cartons	\$ (2,452,000)
Raw Materials Used in Manufacturing	(119,925,000)
Offshore Drilling Equipment Large Vessels	(2,452,000)
Commercial Fishing Boats	1,750,000
Repairs to Vessels	4,867,000
Rolling Stock Used in Interstate Commerce	(3,678,000)
Raw Materials Used in Manufacturing Rolling Stock	Insignificant
Machinery or Parts Used in Repairing Large Ships	623,000
Tangible Personal Property Consumed on Ships in International Commerce	(59,000)
Storage of Perishable Goods	Insignificant
Sales of Machinery or Equipment to Nonprofit Organizations Created by the Oil Pollution Control Act of 1990	Not Available
Pollution Control Equipment	0
Natural Gas Used in Oil Production	(3,100,000)

NOTE: Numbers in parentheses should be considered very inexact estimates.
No established data base exists for determining these values.

Industrial Exemptions (Continued)

Estimated FY 2002
Tax Expenditure

Income from Self-Service Commercial Laundry	\$ 1,314,000
Economic Development Reform Act Incentives	5,284,000
Growth and Prosperity Act Incentives	0

Agricultural Exemptions. -- Mississippi Code of 1972 (supp.), Section 27-65-103.

Several different categories of sales to farmers are exempt from the general sales tax. These are wholesale transactions and should not be considered as true tax expenditures. They are included in this report for information purposes only. They are as follows:

Estimated FY 2002
Tax Expenditure

Sales of Lint, Seed Cotton, Baled Cotton, Feed, Seed, Fertilizers, Baling Wire, Packaging Materials, etc.	\$ 46,333,000
Sales of Agricultural Produce to Be Further Processed	(89,688,000)
Retail Sales of Mules, Horses, and Other Livestock	Insignificant
Sales of Antibiotics, Hormones, Drugs, Medicines, etc.	\$1,180,000

Governmental Exemptions -- Mississippi Code of 1972 (supp.), Section 27-65-105.

Sales of normally taxable goods are exempt from sales tax when sales are made to the U.S. government, to the state of Mississippi, to public schools, to the Mississippi Band of Choctaw Indians, or to governmental or volunteer fire departments.

Estimated FY 2002
Tax Expenditure

Sales to U.S. Government or State of Mississippi	\$ (179,375,000)
Sales to Public Schools	(31,519,000)

NOTE: Numbers in parentheses should be considered very inexact estimates.
No established data base exists for determining these values.

Governmental Exemptions (Continued)

Estimated FY 2002
Tax Expenditure

Sales of School Textbooks	\$ (3,678,000)
Sales to the Mississippi Band of Choctaw Indians	(1,000,000)
Sales of Firefighting Equipment to Governmental or Volunteer Fire Departments	152,000

Utility Exemptions -- Mississippi Code of 1972 (supp.), Section 27-65-107.

In addition to those exempted under Section 27-65-19, certain utility sales are exempt.
This includes sales to nonprofit water associations.

Estimated FY 2002 Tax Expenditure: \$1,097,000.

Miscellaneous Exemptions -- Mississippi Code of 1972 (supp.), Section 27-65-111.

Specific exemptions which benefit nonprofit organizations or the sale of particular items such as drugs and medicine or alcohol-blended fuels are provided for under this section. The purpose of each of these exemptions is inherent in the particular object of the exemption. They are as follows:

	Estimated FY 2002 <u>Tax Expenditure</u>
Sales to Nonprofit Hospitals and Infirmaries	\$ (91,930,000)
Newspapers and Periodicals	4,869,000
Coffins and Caskets	(2,469,000)
Sales of Goods for Immediate Export	Insignificant
Sales to Nonprofit Orphanages, Old Men's or Ladies' Homes	(311,000)
Sales to YMCA, YWCA, or Boys or Girls Clubs	1,222,000

NOTE: Numbers in parentheses should be considered very inexact estimates.
No established data base exists for determining these values.

Miscellaneous Exemptions (Continued)

	<u>Estimated FY 2002 Tax Expenditure</u>
Sales to Nonprofit Private Schools	\$ (1,261,000)
Drugs and Medicines	24,305,000
Sales to Salvation Army or Muscular Dystrophy Association, Inc.	174,000
Sales of Alcohol-Blended Fuel Using Mississippi Distilled Alcohol	Insignificant
Sales to the Institute for Technology Development	492,000
Retail Sales of Motor Vehicles and Semi-Trailers Exported Within 48 Hours	1,822,000
Sales of Food and Drink Through Full-Service Vending	Insignificant
Sales of Motor Fuel	175,518,000
Sales of Food Purchased with Food Stamps or Instruments Provided by the Women, Infants and Children's (WIC) Program	(24,088,000)
Sales of Cookies by the Girl Scouts of America	224,000
Sales to Public or Nonprofit Museums of Art	Insignificant
Sales to Alumni Associations of State-Supported Colleges or Universities	Insignificant
Sales to National Association of Junior Auxiliaries, Inc.	Insignificant
Sales to Domestic Violence Shelters	Insignificant
Sales to the Mississippi Chapter of the National Multiple Sclerosis Society	Insignificant

NOTE: Numbers in parentheses should be considered very inexact estimates.
No established data base exists for determining these values.

SEVERANCE TAX EXPENDITURES

An annual privilege tax is assessed against oil and gas severed from the ground at the rate of 6% of the market value of the oil or gas at the point of production. All of the following exemptions with the exception of enhanced oil recovery methods, marginal wells, and carbon dioxide shall lapse if the average monthly sales price exceeds \$20.00 per barrel for oil or \$2.50 per MCF for gas.

Exemptions

Enhanced Recovery. -- Mississippi Code of 1972 (supp.), Section 27-25-503.

Beginning 4-1-94, oil produced by an enhanced recovery is taxed at 3% rather than 6%. The purpose of this tax exemption is to encourage continued production in fields which otherwise might become uneconomical.

Estimated FY 2002 Tax Expenditure: \$2,000,000.

Exemption for Oil and Gas Discovery Wells Drilled On or After July 1, 1999. – Mississippi Code of 1972 (supp.), Sections 27-25-503 and 27-25-703.

Oil produced from a discovery well for which drilling commenced on or after July 1, 1999 shall be assessed at the rate of three percent (3%) for five (5) consecutive years beginning on the date of first sale of production from such well. Natural gas produced from a discovery well in which drilling or re-entry commenced on or after July 1, 1999 shall be assessed at a rate of three percent (3%) of the value thereof at the point of production for a period of five (5) years beginning on the earlier of one (1) year from completion of the well or the date of first sale of production from such well. Any such production for which a permit was granted by the Mississippi State Oil and Gas Board and drilling commenced before January 1, 2003, shall be assessed at the reduced rate for an entire period of three (3) years, notwithstanding that the repeal of this provision has become effective.

Estimated FY 2002 Tax Expenditure: \$1,000,000.

Exemption for Two-Year Inactive Oil and Gas Wells. -- Mississippi Code of 1972 (supp.), Sections 27-25-503 and 27-25-703.

Oil or gas produced from a two-year inactive well shall be exempt from the oil or gas severance taxes for three (3) consecutive years beginning on the date of first sale of production from such well. The exemption for oil produced from an inactive well shall apply only to previously produced pools or reservoirs of record as of April 1, 1994 at the State Oil and Gas Board. The inactive well exemption shall be repealed July 1, 2003; however, the production that began before July 1, 2003 shall be exempt for an entire three (3) consecutive years.

Estimated FY 2002 Tax Expenditure: \$300,000.

Development Wells or Replacement Wells. -- Mississippi Code of 1972 (supp.), Sections 27-25-503 and 27-25-703.

Oil or gas produced from development wells or replacement wells drilled in connection with discovery wells for which drilling commenced on or after July 1, 1999, shall be assessed at the rate of three percent (3%) of the value of the oil or gas at the point of production for three (3) consecutive years. Any such production for which drilling commenced before January 1, 2003, shall be assessed at the reduced rate for an entire period of three (3) consecutive years.

Estimated FY 2002 Tax Expenditure: \$300,000.

Development Wells Utilizing 3D Seismic. -- Mississippi Code of 1972 (supp.), Sections 27-25-503 and 27-25-703.

Oil or gas produced from a development well for which drilling commenced on or after July 1, 1999, and for which three-dimensional seismic was used in connection with the drilling of such oil or gas well shall be assessed at the rate of three percent (3%) of the value of the oil or gas at the point of production for five (5) consecutive years. Any such production for which a permit was granted by the Mississippi State Oil and Gas Board before July 1, 2003, shall be assessed at the reduced rate for an entire five (5) consecutive years. Three-dimensional seismic means data that is regularly organized in three orthogonal directions and thus suitable for interpretation with a three-dimensional software package on an interactive work station.

Estimated FY 2002 Tax Expenditure: \$200,000.

Carbon Dioxide Exemption. – Mississippi Code of 1972 (Supp.), Section 27-52-701.

Carbon Dioxide produced after March 29, 1999, shall be exempt from the taxes levied for gas severance. The exemption for carbon dioxide shall be repealed July 1, 2004.

Estimated FY 2002 Tax Expenditure: Information not available.

Marginal Well Exemption. – Mississippi Code of 1972 (Supp.), Section 27-52-503.

The owner of a marginal well shall be entitled to a refund of two-thirds (2/3) of the taxes paid monthly on oil produced from such well if the average monthly sales price of oil produced from such well does not exceed Twelve Dollars (\$12.00) per barrel. In order to receive the refund, the owner shall present the State Tax Commission with a statement from the State Oil and Gas Board certifying that the well is a marginal well. The State Tax Commission shall then determine the average monthly sales price of the oil sold from such well. A marginal well is one the *produces a monthly average of twenty (20) barrels of oil a day or less from a depth of seven thousand five hundred (7,500) feet or less; or a well that produces a monthly average of forty (40) barrels of oil a day or less from a depth that is more than seven thousand five hundred (7,500) feet.* This shall be repealed from and after July 1, 2003.

Estimated FY 2002 Tax Expenditure: \$0.

INSURANCE PREMIUM TAX EXPENDITURES

A premium tax is levied and imposed upon each domestic or foreign insurance company doing business in this state at the rate of 3% of the gross amount of premium receipts collected by such companies on insurance policies and contracts written in, or covering risks located in this state. From July 1, 1994 to June 30, 1995, the tax on annuities shall be 1% on premiums received and from and after July 1, 1995, annuities shall be exempt from insurance premium tax. There is an additional levy of 1% on fire insurance covering risks located in this state and an additional 0.5% on fire insurance covering risks located in the city of Jackson. A retaliatory tax is imposed on foreign companies whose state of domicile imposes a greater tax than Mississippi.

Exemptions. -- Mississippi Code of 1972 (supp.), Section 27-15-119.

Policies and contracts issued to fund a retirement, thrift, or deferred compensation plan qualified under Section 401 or Section 403 or an individual retirement annuity qualified under Section 408 or Section 457 of the Federal Tax Code for federal tax exemption, unless the foreign company's principal place of business is in a state which taxes policies issued by companies having their principal place of business in Mississippi; then, they are taxed as a retaliatory tax at the same rate.

The insurance carriers selected to furnish service to the state of Mississippi under the State Employees' Life and Health Insurance Plan shall not be required to pay the premium tax on premiums collected for coverage under the plan. From and after July 1, 1995, annuity premiums are exempt from insurance premium tax.

Estimated FY 2002 Tax Expenditure: Information not available.

Credits

Income Taxes Paid. -- Mississippi Code of 1972 (supp.), Section 27-15-103.

Premium taxes shall be reduced by the net amount of income tax paid to this state for the

preceding calendar year, provided the credit is to be taken only once. The purpose is to insure that the greater of either the annual insurance premium tax or the income tax shall be paid.

Estimated FY 2002 Tax Expenditure: \$3,800,000.

Retaliatory Tax Deduction. Mississippi Code of 1972 (supp.), Section 27-15-109.

Where an additional premium tax is imposed against a domestic company under retaliatory laws of other states in which the domestic company does business, such company may deduct the total of the additional retaliatory tax from the state income tax due by it to the state of Mississippi.

Estimated FY 2002 Tax Expenditure: Information not available.

Reduction for Qualifying Mississippi Investments. Mississippi Code of 1972 (supp.), Section 27-15-129.

Provision is made for the premium tax to be reduced if the company invests in qualifying Mississippi investments.

Estimated FY 2002 Tax Expenditure: \$14,800,000.

Guaranty Association Credit. Mississippi Code of 1972 (supp.), Section 83-23-218.

Member insurers may reduce their premium or income tax liability by a percentage of their assessment paid to the Mississippi Life and Health Insurance Guaranty Association.

Estimated FY 2002 Tax Expenditure: \$10,700,000.

INSTALLMENT LOAN TAX EXPENDITURES

Also known as the finance company privilege tax, the installment loan tax is levied upon every person, firm, corporation, or association, other than state or national banks, doing business of lending money secured by tangible personal property or doing a business of purchasing, discounting, or acquiring forms of indebtedness secured by tangible personal property, not including cotton, cottonseed, or agricultural products. Tax is levied in lieu of all other privilege taxes upon such business.

Exemptions. -- Mississippi Code of 1972 (supp.), Section 27-21-3.

State and national banks;

Securities representing transactions known as "floor plan;" securities held representing loans for the repayment of wholesale sales price; signature loans; loans secured by real estate, cotton, cottonseed, or other agricultural products;

Persons, firms, or corporations engaged in the general mercantile business who make advancements of money, merchandise, and supplies to their customers and who take liens upon personal property to secure payment of the indebtedness.

A member of an affiliated group as defined by Section 1504 of the Internal Revenue Code of 1986, as amended, on the date of passage of Senate Bill No. 3247, 1995 Regular Session [Laws, 1995, ch. 457, approved March 24, 1995, and effective from and after July 1, 1995], with respect to loans made by one member of the affiliated group to another and who is not otherwise engaged in the business of loaning money secured by tangible personal property.

Estimated FY 2002 Tax Expenditure: Information not available.

CASUAL AUTO SALES TAX EXPENDITURES

The auto sales tax is levied upon every person, firm, or corporation purchasing other than at wholesale outside the state any motor vehicle required to be registered or licensed with the tax collector of any county in this state from any person, firm, or corporation which is not a licensed dealer engaged in selling motor vehicles. This casual auto sales tax is levied and collected at the rate of 3% of the true value of the motor vehicle as calculated by using the most current official motor vehicle assessment schedule supplied by the State Tax Commission.

Exemptions. -- Mississippi Code of 1972 (supp.), Section 27-65-201(7)(a-c).

(1) Transfers of legal ownership of motor vehicles between husband and wife, parent and child, or grandparents and grandchildren, unless the transferor is a licensed dealer of motor vehicles and the transfer of the motor vehicle is made in the regular course of business.

(2) Transfers of legal ownership of motor vehicles pursuant to a will or pursuant to any law providing for the distribution of the property of one dying intestate.

(3) Transfers of legal ownership of motor vehicles ten (10) or more years after the date of the manufacture of such vehicle.

Estimated FY 2002 Tax Expenditure: Insignificant.

AUTO PRIVILEGE TAXES AND AUTO TAG FEES TAX EXPENDITURES

Auto privilege taxes and tag fees are levied upon operators as reasonable compensation for the use of the highways. Highway privilege tax is paid annually during the anniversary month of license tag or during month established by the tax commission when tag is issued for a period of less than 12 months. Upon carriers of property, highway privilege taxes may be paid for periods of 3 months, 6 months, and 12 months.

Exemptions. -- Mississippi Code of 1972 (Supp.), Section 27-19-1 et. seq.

(a) Carriers of property duly registered and licensed in another state and being used to transport farm harvesting machinery or equipment to and from a particular county in this state may, upon adoption of a resolution by the board of supervisors of said county where such machinery or equipment is being exclusively used in harvesting farm crops within said county, be exempt from the highway privilege taxes levied when said resolution is filed with the State Tax Commission. Provided, however, that said exemption shall not exceed a 40-day period for any annual period without a second resolution of approval by the board of supervisors who shall have the authority to extend said exemption not to exceed an additional 20-day period, during any annual period. (27-19-11)

(b) Any trailer or farm tractor solely hauling farm products of the soil from the farm to the gin or market, or transporting fertilizer or feed to the farm, where the gross weight does not exceed 8,000 pounds, and where the title to such products is still in the producer. (27-19-17(1))

(c) The wagons or trailers, or tractors drawing same, of circuses, carnivals, fairs and other shows using municipal streets or public highways, when they are shipped into and out of Mississippi by railroad. (27-19-17(4))

(d) Motor vehicles owned by the United States government or any agency or instrumentality thereof, or owned by the state of Mississippi or any county or municipality of the state, or any agency or instrumentality thereof, or owned by any school district or fire protection district in the state. Counties and municipalities are not exempt from tag fees. (27-19-27)

(e) Any tractor, road roller, or road machinery used solely in road building or other highway construction or maintenance work or vehicles permanently equipped with and used exclusively for transporting water well drilling outfits, all of which vehicles are not used upon highways to transport persons or property. (27-19-29)

(f) Antique automobiles, upon payment of \$25 permanent fee, shall be exempt from all ad valorem and other taxes. (27-19-47)

(g) Antique motorcycles, upon payment of \$25 permanent fee, shall be exempt from all ad valorem and other taxes. (27-19-47.1)

(h) One motor vehicle owned by disabled American veterans who have 100% permanent service-connected disability, or the unremarried surviving spouse, upon payment of \$1; pertains only to tags or plates for private passenger motor vehicles or pickup trucks; exempt from all ad valorem and privilege taxes. (27-19-53)

(i) One motor vehicle owned by recipients of the Congressional Medal of Honor or former prisoners of war or the unremarried surviving spouse are exempt from all taxes and fees. (27-19-54) Pertains only to tags for private passenger motor vehicles or pickup trucks.

(j) Street rods, upon payment of \$50, are exempt from all taxes and fees. (27-19-56.6)

(k) One motor vehicle owned by the unremarried surviving spouse of a member of the Armed Forces of the United States, a reserve component of the Armed Forces or of the National Guard who, while on active duty, is killed or dies in time of war or national emergency or in an area of immediate military hazard upon payment of \$1.00 exempt from all taxes. (27-19-169)

(l) One motor vehicle owned by the recipient of the Purple Heart Medal will be exempt from all taxes and fees pertaining to private passenger motor vehicles, pickup trucks or recreational motor vehicles. (27-19-56.5)

Estimated FY 2002 Tax Expenditure: Information not available.

**SUMMARY OF TAX EXPENDITURES
CORPORATE INCOME TAX**

Estimated FY 2002
Tax Expenditure

Credits

Credit for Finance Company Privilege Tax Paid for Same Tax Year	\$ 900,000
Credit for Qualified Businesses in Designated "High-Tech" and Enterprise Zones	200,000
Jobs Tax Credit	5,000,000
National and Regional Headquarters Credit	200,000
Research and Development Jobs Skills Credit	200,000
Dependent Care Credit	50,000
Job Training or Retraining Credit	400,000
Gambling License Fees Credit	5,000,000
Temporary Assistance for Needy Families Wages Paid Credit	50,000
Mississippi Business Finance Corporation Revenue Bond Service Credit	15,000,000
Ad Valorem Inventory Tax Credit	5,500,000
Export Port Charges Credit	400,000
Reforestation Tax Credit	250,000

Deductions

Capital Gains Exempt	Not Available
Charitable Contributions - Corporate	Not Available
Reserve Funds	Not Available
Annuity Income	Not Available
Contributions to Employee Pension Plans	Not Available
Net Operating Loss Carryover	Not Available
Dividends for Holding Companies	Not Available
Dividend Distributions	Not Available
Growth and Prosperity Area	Not Available

CORPORATE FRANCHISE TAX

Estimated FY 2002
Tax Expenditure

Exemptions

Growth and Prosperity Area
“Fee-In-Lieu”

Not Available

Not Available

INDIVIDUAL INCOME TAX

Estimated FY 2002
Tax Expenditure

Exemptions

Personal Exemptions	\$ 363,400,000
Exemptions for Dependents	45,000,000
Other Exemptions	153,205,000
Medical Savings Accounts	30,000
Prisoners of War, Missing in Action	Insignificant

Adjustments

Individual Retirement Accounts	2,785,000
Keogh Plans	2,700,000
Interest Penalty on Early Withdrawal of Savings	78,000
Unreimbursed Moving Expense	570,000
College Savings Plans	Not Available
Self-Employed Health Insurance	2,250,000

Credits

Credit for Income Tax Paid Another State	19,580,000
Mississippi Advantage Jobs Incentive Program	0
Other Credits	1,365,000

Deductions

Standard Deduction	75,000,000
Itemized Deductions	
Medical and Dental Expenses	13,300,000
Real Estate Taxes	9,300,000
Home Mortgage Interest	57,000,000
Investment Interest	4,600,000

Charitable Contributions	42,800,000
Casualty and Theft Losses	1,050,000
Employee Expenses % Miscellaneous Deductions Subject To 2% Limitation	13,600,000
Miscellaneous Deductions Not Subject to 2% Limitation	10,070,000

SALES AND USE TAX

Estimated FY 2002
Tax Expenditure

Exceptions to the General Sales Tax Rate

Retail Sales of Farm Tractors Taxed at 1%	\$ 3,997,000
Other Farm Implements Taxed at 3%	3,660,000
Aircraft, Trucks, Semi-Trailers and Mobile Homes Taxed at 3%	25,450,000
Autos and Light Trucks Taxed at 5% (Effective 1/1/95)	81,110,000
Manufacturing Machinery and Certain Port Facility Equipment Taxed at 1½%	175,740,000
Materials Used in Railroad Tracks Taxed at 3%	801,000
Sales to Electric Power Associations Taxed at 1%	5,880,000

Discount for Timely Filing 2% 10,000,000

Sale of Utilities

To Residential Consumers 0%	102,000,000
To Manufacturers Taxed at 1½%	39,150,000
To Farmers Taxed at 1½%	1,200,000

Industrial Exemptions

Boxes, Crates, and Cartons	(2,452,000)
Raw Materials Used in Manufacturing	(119,925,000)
Offshore Drilling Equipment Large Vessels	(2,452,000)
Commercial Fishing Boats	1,750,000
Repairs to Vessels	4,867,000
Rolling Stock Used in Interstate Commerce	(3,678,000)

NOTE: Numbers in parentheses should be considered very inexact estimates.
No established data base exists for determining these values.

Sales and Use Tax (Continued)

Estimated FY 2002
Tax Expenditure

Industrial Exemptions (continued)

Raw Material Used in Manufacturing Rolling Stock	\$	Insignificant
Machinery or Parts Used in Repairing Large Ships		623,000
Tangible Personal Property Consumed on Ships in International Commerce		(59,000)
Storage of Perishable Goods		Insignificant
Natural Gas Used in Oil Production		(3,100,000)
Income from Self-Service Commercial Laundry		1,314,000
Economic Development Reform Act Incentives		5,284,000
Growth and Prosperity Act Incentives		0
Pollution Control Equipment		0

Agricultural Exemptions

Sales of lint, Seed Cotton, Baled Cotton, Feed, Seed, Fertilizers, Baling Wire, Packaging Materials, etc.		46,333,000
Sales of Agricultural Produce to Be Further Processed		(89,688,000)
Retail Sales of Mules, Horses, and Other Livestock		Insignificant
Sales of Antibiotics, Medicines, Vitamins, etc.		1,180,000

Other Exemptions

Sales to U.S. Government or State of Mississippi		(179,375,000)
Sales to Public Schools		(31,519,000)
Sales of School Textbooks		(3,678,000)
Sales to Mississippi Band of Choctaw Indians		(1,000,000)
Sales of Firefighting Equipment to Governmental or Volunteer Fire Departments		132,000
Sales to Nonprofit Water Associations		1,097,000

NOTE: Numbers in parentheses should be considered very inexact estimates.
No established data base exists for determining these values.

Sales and Use Tax (Continued)

	Estimated FY 2002 <u>Tax Expenditure</u>
<u>Miscellaneous Exemptions</u>	
Sales to Nonprofit Hospitals and Infirmaries	\$ (91,930,000)
Newspapers and Periodicals	4,869,000
Coffins and Caskets	(2,469,000)
Sales of Goods for Immediate Export	Insignificant
Sales to Nonprofit Orphanages, or to Old Men's or Old Ladies' Homes	(311,000)
Sales to YMCA, YWCA, or Boys or Girls Clubs	1,222,000
Sales to Nonprofit Private Schools	(1,261,000)
Drugs and Medicines	24,305,000
Sales to Salvation Army or Muscular Dystrophy Association, Inc.	174,000
Sales of Alcohol-Blended Fuel Using Mississippi Distilled Alcohol	Insignificant
Sales to the Institute for Technology Development	492,000
Retail Sales of Vehicles and Semi-Trailers Exported Within 48 Hours	1,822,000
Sales of Food and Drink in Full-Service Vending	Insignificant
Sales of Motor Fuel	175,518,000
Sales of Food Purchased with Food Stamps or WIC Instruments	(24,088,000)
Sales of Cookies by Girl Scouts of America	224,000
Sales to Public or Nonprofit Museums of Art	Insignificant
Sales to Alumni Associations of State-Supported Colleges or Universities	Insignificant
Sales to National Association of Junior Auxiliaries, Inc.	Insignificant
Sales to Domestic Violence Shelters	Insignificant
Sales to the Mississippi Chapter of the National Multiple Sclerosis Society	Insignificant

NOTE: Numbers in parentheses should be considered very inexact estimates.
No established data base exists for determining these values.

SEVERANCE TAXES

Estimated FY 2002
Tax Expenditure

Exemptions

Enhanced Recovery	\$ 2,000,000
Exemption for Oil and Gas Discovery Wells Drilled On or After July 1,1999	1,000,000
Exemption for 2-Year Inactive Oil and Gas Wells	300,000
Development Wells or Replacement Wells	300,000
Development Wells Utilizing 3D Seismic	200,000
Marginal Well	0
Carbon Dioxide	Not Available

INSURANCE PREMIUM TAX

	Estimated FY 2002 <u>Tax Expenditure</u>
<u>Exemptions</u>	Not Available
<u>Credits</u>	
Income Taxes Paid	3,800,000
Retaliatory Tax Deduction	Not Available
Reduction for Qualifying Mississippi Investments	14,800,000
Guaranty Association	10,700,000

INSTALLMENT LOAN TAX

Estimated FY 2002
Tax Expenditure

Exemptions

Not Available

CASUAL AUTO SALES TAX

Exemptions

Insignificant

AUTO PRIVILEGE TAXES AND AUTO TAG FEES

Exemptions

Not Available

CLASSIFICATION OF TAX EXPENDITURES ACCORDING TO PURPOSE

In order to organize the tax expenditure items documented in the previous pages in a systematic fashion, five categories of tax expenditures have been established for this report. Each of the tax expenditures listed in this report has been placed into one of the five classifications.

Tax Expenditures Which Redistribute the Tax Burden

The first classification of tax expenditures consists of those tax expenditures which redistribute the tax burden. This includes all of those tax expenditure items, the purpose of which is to directly or indirectly shift the burden of taxation from one income class to another.

<u>Tax Expenditures</u>	Estimated FY 2002 <u>Tax Expenditure</u>
Credit for Finance Company Privilege Tax Paid for Same Tax Year	\$ 900,000
Credit for Qualified Businesses in Designated "High-Tech" and Enterprise Zones	200,000
Dependent Care Credit	50,000
Gambling License Fees Credit	5,000,000
Temporary Assistance for Needy Families Wages Paid Credit	50,000
Mississippi Business Finance Corporation Revenue Bond Service Credit	15,000,000
Ad Valorem Inventory Credit	5,500,000
Export Port Charges Credit	400,000
Other Corporate Credits	250,000
Personal Exemptions	363,400,000
Income Tax Exemptions For Dependents	45,000,000
Jobs Tax Credit	5,000,000
National and Regional Headquarters Credit	200,000
Research and Development Jobs Skills Credit	200,000
Job Training or Retraining Credit	400,000

Tax Expenditures Which Redistribute the Tax Burden (continued)

<u>Tax Expenditure</u> (continued)	Estimated FY 2002 <u>Tax Expenditure</u>
Other Individual Exemptions	\$ 153,205,000
Prisoners of War, Missing in Action	Insignificant
Standard Deduction	75,000,000
Sale of Utilities to Residential Consumers	102,000,000
Sales to Nonprofit Water Associations	1,097,000
Sales to Nonprofit Hospitals and Infirmaries	(91,930,000)
Coffins and Caskets	(2,469,000)
Sales to Nonprofit Orphanages, or to Old Men's or Old Ladies' Homes	(311,000)
Drugs and Medicines	24,305,000
Sales of Food Purchased with Food Stamps or WIC Instruments	<u>(24,088,000)</u>
Total	915,955,000

Tax Expenditures With a Direct Budgetary Objective

The second category of tax expenditures includes those provisions in the statutes which have a direct budgetary objective, i.e., to encourage private expenditure in lieu of public expenditure for particular purposes or to subsidize private expenditures.

<u>Tax Expenditures</u>	Estimated FY 2002 <u>Tax Expenditures</u>
Discount for Timely Filing	\$ 10,000,000
Mississippi Advantage Jobs Incentive Program	0
Newspapers and Periodicals	4,869,000
Sales of Goods for Immediate Export	Insignificant
Sales to YMCA, YWCA, or Boys or Girls Clubs	1,222,000
Sales to Nonprofit Private Schools	(1,261,000)

NOTE: Numbers in parentheses should be considered very inexact estimates.
No established data base exists for determining these values.

Tax Expenditures With a Direct Budgetary Objective (continued)

<u>Tax Expenditures</u>	Estimated FY 2002 <u>Tax Expenditures</u>
Sales to Salvation Army or Muscular Dystrophy Association, Inc.	\$ 174,000
Sales of Alcohol-Blended Fuel Using Mississippi Distilled Alcohol	Insignificant
Sales to the Institute for Technology Development	492,000
Enhanced Recovery	2,000,000
Exemption for Oil and Gas Discovery Wells Drilled On or After July 1, 1999	1,000,000
Exemption for 2-Year Inactive Oil and Gas Wells	300,000
Development Wells or Replacement Wells	300,000
Development Wells Utilizing 3D Seismic	200,000
Insurance Premium Tax Credits	29,300,000
Sales of Cookies by Girl Scouts of America	224,000
Sales of Home Medical Equipment and Supplies	(5,950,000)
Sales to Public or Nonprofit Museums of Art	Insignificant
Sales to Alumni Associations of State-Supported Colleges and Universities	Insignificant
Sales to National Association of Junior Auxiliaries, Inc.	Insignificant
Sales to Domestic Violence Shelters	Insignificant
Sales to the Mississippi Chapters of the National Multiple Sclerosis Society	<u>Insignificant</u>
Total	57,292,000

NOTE: Numbers in parentheses should be considered very inexact estimates.
No established data base exists for determining these values.

Tax Expenditures Which Are Outside the Relevant Tax Base

The third category of tax expenditures consists of those provisions in the tax code which, although constituting tax expenditures in the strict language of the law, are in fact outside of the relevant tax base according to the implied or stated spirit of the law. These include items such as the levy of the retail sales tax on transactions which are clearly wholesale in nature.

<u>Tax Expenditures</u>	Estimated FY 2002 <u>Tax Expenditure</u>
Retail Sales of Farm Tractors Taxed at 1%	\$ 3,997,000
Other Farm Implements Taxed at 3%	3,660,000
Aircraft, Trucks, Mobile Homes Taxed at 3%	25,450,000
Autos and Light Trucks (10,000 lbs or less) Taxed at 5%	81,110,000
Manufacturing Machinery and Certain Port Facility Equipment Taxed at 1½%	175,740,000
Materials Used in Railroad Tracks Taxed at 3%	801,000
Sales to Electric Power Associations Taxed at 1%	5,880,000
Sale of Utilities to Manufacturers	39,150,000
Sale of Utilities to Farmers	1,200,000
Boxes, Crates, and Cartons	(2,452,000)
Raw Materials Used in Manufacturing	(119,925,000)
Offshore Drilling Equipment Large Vessels	(2,452,000)
Commercial Fishing Boats	1,750,000
Repairs to Vessels	4,867,000
Rolling Stock Used in Interstate Commerce	(3,678,000)
Raw Material Used in Manufacturing Rolling Stock	Insignificant
Machinery or Parts Used in Repairing Large Ships	623,000
Tangible Personal Property Consumed on Ships in International Commerce	(59,000)

NOTE: Numbers in parentheses should be considered very inexact estimates.
No established data base exists for determining these values.

Tax Expenditures Which Are Outside the Relevant Tax Base (continued)

<u>Tax Expenditures</u> (continued)	Estimated FY 2002 <u>Tax Expenditure</u>
Storage of Perishable Goods	\$ Insignificant
Natural Gas Used in Oil Production	(3,100,000)
Economic Development Reform Act Incentives	5,284,000
Income from Self-Service Commercial Laundry	1,314,000
Sales of Lint, Seed Cotton, Baled Cotton, Feed, Seed, Fertilizers, Baling Wire, Packaging Materials, etc.	46,333,000
Sales of Agricultural Produce to Be Further Processed	(89,688,000)
Retail Sales of Mules, Horses, and Other Livestock	Insignificant
Sales to U.S. Government or State of Mississippi	(179,375,000)
Sales to Public Schools	(31,519,000)
Sales of School Textbooks	(3,678,000)
Sales to Mississippi Band of Choctaw Indians	(1,000,000)
Sales of Firefighting Equipment to Governmental or Volunteer Fire Departments	132,000
Casual Auto Sales Tax Exemptions	Insignificant
Retail Sales of Vehicles and Semi-Trailers Exported Within 48 Hours	1,822,000
Sales of Food and Drink in Full-Service Vending	Insignificant
Growth and Prosperity Act Incentives	0
Pollution Control Equipment	0
Sales of Motor Fuel	<u>171,237,000</u>
Total	1,007,276,000

NOTE: Numbers in parentheses should be considered very inexact estimates.
No established data base exists for determining these values.

Tax Expenditures Which Conform With Federal Law

The fourth category of tax expenditures includes those provisions in the Mississippi statutes which conform to federal tax codes.

<u>Tax Expenditures</u>	Estimated FY 2002 <u>Tax Expenditure</u>
Medical Savings Account	\$ 30,000
Individual Retirement Accounts	2,785,000
Keogh Plans	2,700,000
Interest Penalty on Early Withdrawal of Savings	78,000
Credit for Income Tax Paid Another State	19,580,000
Medical and Dental Expenses	13,300,000
Real Estate Taxes	9,300,000
Home Mortgage Interest	57,000,000
Investment Interest	4,600,000
Charitable Contributions	42,800,000
Casualty and Theft Losses	1,050,000
Employee Expenses % of Miscellaneous Deductions Subject to 2% Limitation	13,600,000
Miscellaneous Deductions Not Subject to 2% Limitation	<u>10,070,000</u>
Total	176,893,000

Tax Expenditures Which Cannot Be Accurately Measured

The final category of tax expenditures listed in this document includes all of those items which are considered to be legitimate tax expenditures but for which there exists insufficient information to estimate the value.

<u>Tax Expenditures</u>	Estimated FY 2002 <u>Tax Expenditure</u>
Capital Gains Exempt	Not Available
Charitable Contributions - Corporate	Not Available
Reserve Funds	Not Available
Annuity Income	Not Available
Contributions to Employee Pension Plans	Not Available
Net Operating Loss Carryover	Not Available
Unreimbursed Employee Business Expenses	Not Available
Insurance Premium Tax Exemptions	Not Available
Insurance Premium Retaliatory Tax Deduction	Not Available
Installment Loan Tax Exemption	Not Available
Auto Privilege Taxes and Auto Tax Fee Exemptions	Not Available
Sales of Machinery or Equipment to Nonprofit Organizations Created by the Oil Pollution Control Act of 1990	Not Available
Dividend Distribution	Not Available
College Savings Plans	Not Available
Growth and Prosperity Area	Not Available
“Fee-In-Lieu”	Not Available

APPENDIX A: 2001 LEGISLATION

Income & Franchise Tax Division

House Bill 1695 - Makes the following restrictions and revisions:

1. Revises the method to be used to determine an arms length transaction on sales between affiliated corporations. Effective January 1, 2001.
2. Restricts the method of payment of income tax on installment sales. Effective January 1, 2001.
3. Restricts the deductibility of certain intangible expenses and interest expenses by certain related corporation. Effective January 1, 2001.
4. Revises the definition of "business income" in determining the net income for nonresident and foreign taxpayers. Effective January 1, 2001.
5. Revises the manner in which the assets of certain flow-through entities will be included in the ratio used to determine the value of capital employed in Mississippi for corporate franchise tax purposes. Effective December 31, 2001.

Sales and Use Tax Division

House Bill 483 - This bill removes the repealer date from the provision of law that imposes a waste tire fee on the sale of new tires sold at retail. It also revises the allocation and use of funds generated by such fees. Effective July 1, 2001.

House Bill 756 - This bill provides that the 1 1/2% industrial sales tax rate applies to fuel sold to a producer or processor for use directly in the production of domesticated fish, domesticated fish products, and marine aquaculture products. Effective on passage.

House Bill 897 - This bill exempts from sales taxation the temporary storage of tangible personal property in this state by a public storage warehouse pending shipping or mailing of the property to another state. Effective July 1, 2001.

House Bill 2610 - This bill provides that no credit will be allowed for sales tax or use tax paid in another state on the purchase price or value of trailers, boats, travel trailers, motorcycles, and all-terrain cycles imported and first used in Mississippi. Effective on passage.

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