THE ANNUAL TAX EXPENDITURE REPORT

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University Research Center
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INTRODUCTION

The Tax Expenditure Annual Report Act and the Economic Development Reorganization Act require the University Research Center to prepare an annual tax expenditure report. This document is the twenty-sixth 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. 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 § 27-65-103 of the Mississippi Code of 1972 (Supp.) from the sales tax and as such could be considered a tax expenditure. However, § 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: 2014 income tax returns, statistical information obtained from sales and use tax returns filed with the Mississippi Department of Revenue, 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.), § 27-21-3 through § 27-21-9

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 2016 Tax Expenditure: $250,000

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

(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 the Mississippi Development Authority as air and transportation maintenance facilities, resort hotels having a minimum of 150 rooms, recreational facilities that impact tourism, movie industry studios, telecommunications companies, data or information processing companies, computer software development enterprises, or any technology-intensive facilities. 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.

County Classification	Minimum Number of New Jobs Created	Credit Per Job
Tier Three (Less Developed)	10 or more	10% of payroll
Tier Two (Moderately Developed)	15 or more	5% of payroll
Tier One (Developed)	20 or more	2.5% of payroll

In lieu of those provided for in § 57-73-21, a jobs 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 twenty full-time jobs located on the project site. The taxpayer can select the date the credit commences, but it cannot be more than five years after commercial production has begun. Permanent business enterprises and members of its affiliated group operating the project are allowed a credit equal to $5,000 annually for each net new full-time employee for a period of twenty years. This credit can offset 100% of the income tax due from the earnings of the project. Integrated suppliers are allowed a credit equal to $1,000 annually for each new net full-time employee for five years and cannot exceed 50% of the total income tax due.

Estimated FY 2016 Tax Expenditure: $1,400,000

National Headquarters Credit - Mississippi Code of 1972 (Supp.), § 57-73-21

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 twenty jobs at the headquarters. The minimum increase of twenty jobs must occur within one year.

An additional credit, the Headquarters Relocation Credit, is authorized for any company that transfers or relocates its national or regional headquarters to the State of Mississippi from outside the State of Mississippi in an amount equal to the actual relocation costs paid by the company. A minimum of twenty jobs must be created in order to qualify for the additional credit. The tax credit shall be applied for the taxable year in which the relocation costs are paid. The total of the Jobs Tax Credit, the Headquarters Credit and the R&D Skills Credit cannot exceed 50% of the total income tax due. The credit is limited to 50% of the income tax liability in each year and any credit claimed but not used in any taxable year may be carried forward five years from the close of the tax year in which the relocation costs were paid. A company may not receive a credit for the relocation of an employee more than one time in a twelve-month period for that employee. The maximum cumulative amount of tax credit that may be claimed by all taxpayers in any one fiscal year shall not exceed $1,000,000.

Estimated FY 2016 Tax Expenditure: $0

Research and Development Job Skills Credit - Mississippi Code of 1972 (Supp.), § 57-73-21

A credit of $1,000 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 year college or university, employment in the area of expertise and compensation at a professional level. The total of the Jobs Tax Credit, the Headquarters Credit and the R&D Skills Credit cannot exceed 50% of the total income tax due. The credit can be carried forward for up to five years.

Estimated FY 2016 Tax Expenditure: $9,500

Dependent Care Credit - Mississippi Code of 1972 (Supp.), § 57-73-23

An income tax credit is allowed to any employer providing dependent day care (both children and adult) for its employees during the employees' working hours or assisting community-provided day care. The expenses must be incurred in the operation of a program certified by the Mississippi Department of Health and may only be claimed in the tax year in which the expenses are actually paid. The credit is equal to 50% of the income tax liability. Any excess credit will not be refunded, but can be carried forward for up to five years.

Estimated FY 2016 Tax Expenditure: $550,000

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

A training credit is allowed for all employer-sponsored training programs provided through any community or junior college in the district within which the employer is located or training approved by such community or junior college. The training offered must enhance skills related to the job that the employee is performing, improve job performance, or relate to a career path that is anticipated for the employee. If the employer provides pre-employment training, only the portion of the pre-employment training that involves skills training will be eligible for the credit. The credit is applied to qualified training expenses, which are expenses related to instructors, instructional materials and equipment, and the construction and maintenance of facilities by such employer designated for training purposes. The credit shall not to exceed $2,500 per employee per year. The credit is limited to 50% of the income tax liability and may be carried forward for up to five years. The repeal date is July 1, 2016.

Estimated FY 2016 Tax Expenditure: $0

Gambling License Fees Credit - Mississippi Code of 1972 (Supp.), § 75-76-177 and § 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 2016 Tax Expenditure: $19,250,000

Financial Institution Credit - Mississippi Code of 1972 (Supp.), § 27-7-22.13

A tax credit is allowed to a Mississippi employer which is a financial institution against the income taxes based upon the net gain, if any, in the number of employees of the financial institution where there is a merger, consolidation or purchase of all or substantially all of the assets of another entity that qualifies as a financial institution as defined in Miss. Code Ann. § 27-7-24.1.1. The credit is earned when the transactions are between in-state and out-of-state financial institutions and is based on the net gain in the number of employees by comparing the employment level in the month the transaction was completed to the employment level for the same month one year following completion of the transaction. The base amount of the credit is $1,500 per employee and may be claimed against the income tax over five years in an amount equal to 100% of the base amount in the tax year the determination was made, 80% in the next year, 60% in the third year, 40% in the fourth year and 20% in the fifth year. The credit allowed shall not exceed the amount of taxes due and shall not be refunded or carried forward to any other taxable year.

Estimated FY 2016 Expenditure: $0

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

An income tax credit is available equal to the total debt service paid on industrial revenue bonds issued by the Mississippi Business Finance Corporation to finance economic development projects to induce the location of manufacturing, telecommunications, data processing, distribution or warehouse facilities within this state. The credit is limited to the lesser of 80% of the total income tax liability or the income tax liability attributable to the income generated by the economic development project as determined by the Mississippi Business Finance Corporation. Any excess credit shall not be refunded and may be carried forward three years.

For any economic development project bonds that were issued prior to July 1, 1997, a job development assessment fee may be levied upon employees whose job was created as a result of the economic project. The assessment fee shall not exceed the following percentages of gross wages of the employee: (a) 2%, if the gross wages are equivalent to $5.00 or more but less than $7.00 per hour; (b) 4%, if the gross wages are equivalent $7.00 or more but less than $9.00 per hour; and (c) 6% if the gross wages are equivalent to $9.00 or more per hour. An income tax credit is allowed for each employee required to pay the assessment fee in an amount equal to the amount of job assessment fee imposed. Any excess credit shall not be refundable or carried forward to any other taxable year. The repeal date is October 1, 2015.

Estimated FY 2016 Expenditure: $11,650,000

Manufacturing Investment Tax Credit - Mississippi Code of 1972 (Supp.), § 27-7-22.30

An income tax credit is available for a manufacturing enterprise that has operated in Mississippi for two or more years and is equal to 5% of the enterprise’s investment in buildings or equipment used in the manufacturing operation. The eligible investment must be at least $1,000,000. The credit can offset up to 50% of the income tax liability in each year reduced by the sum of all other income tax credits. Any excess credit may be carried forward for five years. The maximum credit allowed on any project is $1,000,000.

Estimated FY 2016 Expenditure: $10,400,000

Ad Valorem Inventory Tax Credit - Mississippi Code of 1972 (Supp.), § 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. An income tax credit is also for individuals, firms or corporations for ad valorem taxes paid on rental equipment. The tax credit allowed may be claimed for each location where such commodities, raw material, works-in-process, products, goods, wares, merchandise and/or rental equipment are found and upon which the ad valorem taxes have been paid. Any tax credit claimed but not used in any taxable year may be carried forward for five consecutive years from the close of the tax year in which the credit was earned. The credit shall be used as follows: (a) For the 1997 taxable year and each taxable year thereafter through taxable year 2013, the tax credit for each location of the taxpayer shall not exceed the lesser of $5,000 or the amount of income taxes paid attributed to such location; (b) For the 2014 taxable year, the tax credit for each location of the taxpayer shall not exceed the lesser of $10,000 or the amount of income taxes due that are attributable to such location; (c) For the 2015 taxable year, the tax credit for each location of the taxpayer shall not exceed the lesser of $15,000 or the amount of income taxes due that are attributable to such location; and (d) For the 2016 taxable year and each taxable year thereafter, the tax credit of the taxpayer shall be the lesser of the amount of the ad valorem taxes paid or the amount of income taxes due that are attributable to such location

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.

Estimated FY 2016 Expenditure: $15,000,000

Brownfield Sites Credit - Mississippi Code of 1972 (Supp.), § 27-7-22.16

This is an income tax credit to provide incentives for the cleanup and redevelopment of brownfield sites in the state. An income tax credit is allowed for any party that conducts remediation at a brownfield agreement site and incurs remediation costs for activities under § 49-35-1 through § 49-35-25. The tax credit is equal to 25% of the remediation costs at the site. The annual credit cannot exceed the lesser of $40,000 or the amount of the income tax due. Any unused credit may be carried forward to succeeding tax years with the maximum total credit of $150,000.

Estimated FY 2016 Expenditure: $40,000

Export Charges Credit - Mississippi Code of 1972 (Supp.), § 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 five years. The maximum cumulative credit that may be claimed by a taxpayer beginning January 1, 1994 and ending December 31, 2005 is limited to $1,200,000. To obtain the credit a taxpayer must provide to the Department of Revenue 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 Department of Revenue. The repeal date is July 1, 2016.

Estimated FY 2016 Expenditure: $80,000

Import Charges Credit - Mississippi Code of 1972 (Supp.), § 27-7-22.23

An income tax credit is allowed for certain taxpayers that utilize the port facilities at state, county and municipal ports equal to certain charges paid by the taxpayer on the import of cargo. In order to be eligible, a taxpayer must locate its United States headquarters in Mississippi on or after July 1, 2004, employ at least five permanent full-time employees who actually work at such headquarters and have a minimum capital investment of $2,000,000 in Mississippi. The amount of the credit allowed shall be the total of the following charges on import of cargo paid by the corporation: [however, it does not apply to the import of forest products] (1) receiving into the port; (2) handling from a vessel; and (3) wharfage. The amount of the credit 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 allowable to such taxpayers, except credit for tax payments made by or on behalf of the taxpayer. Any unused portion of the credit may be carried forward for the succeeding five years. To obtain the credit, a taxpayer must provide to the Department of Revenue 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 Department of Revenue.

Estimated FY 2016 Expenditure: $108,000

<u>Broadband Technology Credit</u> - Mississippi Code of 1972 (Supp.), § 57-87-5

An income tax and franchise tax credit is available for telecommunications enterprises for investments made after June 30, 2003 and before July 1, 2020. The credit is based on a percentage of the cost of equipment used in the deployment of broadband technology. The credit percentage amount is determined on where the equipment is being deployed or placed in service. The percentage amount for each county is 5%, 10% and 15% for Tier 1, Tier 2 and Tier 3 counties respectively. The annual credit is available beginning in the year the equipment is placed into service and may be taken for that equipment each year for the following nine years. The total amount of credit taken in any one year is only allowed against 50% of the aggregate income and franchise tax liability for that year. The credit is not refundable and any excess credit amount can be carried forward for up to ten consecutive years from the close of the original year in which the excess credit could not be used. The total amount of credits taken over the ten consecutive year period cannot exceed 100% of the original investment in the equipment.

Estimated FY 2016 Expenditure: $7,900,000

<u>Reforestation Tax Credit</u> - Mississippi Code of 1972 (Supp.), § 27-7-22.15

This credit, based on the costs incurred for certain approved reforestation practices, is an amount equal to the lessor of 50% of the actual cost of approved practices or 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 lessor of $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 $75,000 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 corporations which manufacture products or provide public utility services of any type or any subsidiary of such corporations.

Estimated FY 2016 Expenditure: $2,000

<u>New Markets Credit</u> - Mississippi Code of 1972 (Supp.), § 57-105-1

An income tax credit and insurance premium tax credit is allowed for taxpayers making investments that qualify for Federal income new markets tax credit as defined in § 45D of the Internal Revenue Service Code. The amount of the credit shall be equal to the applicable percentage of the adjusted purchase price paid to the qualified community development entity for the qualified equity investment. The amount of the credit that may be utilized in any one year shall be limited to the total tax liability of the taxpayer for the applicable income, insurance premium, or premium retaliatory tax. The credit shall not be refundable or transferable. Any unused portion of the credit may be carried forward for seven years beyond the credit allowance date on which the credit was earned. The total amount of credit for all taxpayers is capped at $15,000,000 per year.

Estimated FY 2016 Expenditure: $4,800,000

<u>Biomass Energy Credit</u> - Mississippi Code of 1972 (Supp.), § 57-105-1

An income investment tax credit is allowed for enterprises owning or operating certain electrical and thermal energy producing facilities. The credit is equal to 5% of investments made by the enterprise in the initial establishment of an eligible facility. The commencement date shall not be more than two years from the date the eligible facility becomes fully operational. The credit is limited to 50% of the total state income tax liability of the enterprise for that year that is generated by, or arises out of, the eligible facility. Any credit claimed but not used in any taxable year may be carried forward for five consecutive years.

Estimated FY 2016 Expenditure: $0

<u>Historical Structure Rehabilitation Credit</u> - Mississippi Code of 1972 (Supp.), § 27-7-22.31

An income tax credit is allowed for certain costs and expenses in rehabilitating eligible property certified as historic structure or structure in a certified historic district that has been determined eligible for the National Register of Historic Places by the Secretary of the United States Department of the Interior and will be listed within thirty months of claiming the credit authorized by this section. The income tax credit is equal to 25% of the total costs and expenses of rehabilitation incurred after January 1, 2006, which shall include, but not be limited to, qualified rehabilitation expenditures as defined under § 47(c)(2)(A) of the IRC. If the amount of the tax credit exceeds the total state income tax liability for the year in which the rehabilitated property is placed in service, the amount that exceeds the total state income tax liability may be carried forward for ten succeeding tax years.

If the amount of the tax credit established by this section exceeds $250,000, the taxpayer may elect to claim a refund in the amount of 75% of the excess credit in lieu of the ten-year carry forward. The election must be made in the year in which the rehabilitated property is placed in service. Refunds will be paid in equal installments over a two-year period and shall be made from current collections.

Estimated FY 2016 Expenditure: $650,000

<u>Insurance Guaranty Credit</u> - Mississippi code of 1972 (Supp.), § 83-23-218

A credit is allowed for a member insurer to offset against its premium, franchise, or income tax liability (or liabilities) to this state an assessment as described in § 83-23-217(8) to the extent of 20% of the amount of such assessment, if any, for each year over the next five succeeding years. However, if the offset is less than 20%, any unused balance may be carried over to any succeeding year until such time as the offset provided herein is fully used.

Estimated FY 2016 Expenditure: $0

<u>Prekindergarten Credit</u> – Mississippi Code of 1972 (Supp.), § 27-7-22.37

An income tax credit is allowed for qualified prekindergarten program support contributions paid to approved providers, lead partners or collaboratives, not to exceed $1,000,000, by any individual, corporation or other entity having taxable income during calendar year 2013 or during any calendar year thereafter. In order to qualify for the credit, such contributions shall support the local match requirement of approved providers, lead partners, or collaboratives as is necessary to match state-appropriated funds, and any such providers, lead partners, or collaboratives shall be approved by the State Department of Education. Any unused portion of the credit may be carried forward for three years. The maximum amount of donations accepted for year 2014 shall not exceed

$8,000,000, in calendar year 2015 shall not exceed $15,000,000, and in calendar year 2016 and calendar years thereafter shall not exceed $32,000,000 or what is appropriated by the Legislature each year.

Estimated FY 2016 Expenditure: $22,000

CORPORATE INCENTIVES

Redevelopment Project Incentive Fund - Mississippi Code of 1972 (Supp.), § 57-91-9

An incentive program to encourage economic development in areas where environmentally contaminated sites are located. Income and franchise taxes paid by enterprises located on approved sites shall be deposited in to the Redevelopment Project Incentive Fund. Incentive payments from this fund shall be made by the Mississippi Development Authority to developers in connection with a redevelopment project. The Mississippi Development Authority shall make the calculations necessary to make the payments provided for in this section. Payments will be made to approved participants on a semiannual basis with payments being made in the months of January and July. These incentive payments differ from a credit because the developer receives these payments from the taxes paid by businesses locating within the approved development site.

Estimated FY 2016 Tax Expenditure: Information not available

CORPORATE DEDUCTIONS

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

No gain shall be recognized from the sale of authorized shares in financial institutions domiciled in Mississippi and domestic corporations or partnership interests in domestic limited partnerships and domestic limited liability companies that have been held for more than one year; however, any gain that would otherwise be excluded by this provision shall first be applied against, and reduced by, any losses determined from sales or transactions described by this provision if the losses were incurred in the year of the gain or within the two years preceding or subsequent to the gain.

Estimated FY 2016 Expenditure: Information not available

General Expenses Associated with the Cost of Doing Business - Mississippi Code of 1972 (Supp.), § 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 generated for this report.

Charitable Contributions - Mississippi Code of 1972 (Supp.), § 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 2016 Tax Expenditure: Information not available

Reserve Funds - Mississippi Code of 1972 (Supp.), § 27-7-17(l)

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 2016 Tax Expenditure: Information not available

Annuity Income - Mississippi Code of 1972 (Supp.), § 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 2016 Tax Expenditure: Information not available

Contributions to Employee Pension Plans - Mississippi Code of 1972 (Supp.), § 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 employees or beneficiaries, shall be deductible from income only to the extent that, and for the taxable year in which, the contribution is deductible for federal income tax purposes under the IRC 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, 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 2016 Tax Expenditure: Information not available

Net Operating Loss Carryback and Carryover - Mississippi Code of 1972 (Supp.), § 27-7-17(l)

For any taxable years ending after December 31, 2001, net operating losses have a carryback of two periods and a carryforward of twenty periods. 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 2016 Tax Expenditure: Information not available

Dividend Distributions - Mississippi Code of 1972 (Supp.), § 27-7-17(n)

Real estate investment trust, or REIT, shall have the meaning ascribed to such term in IRC § 856. A REIT is allowed a dividend distributed deduction if the dividend distributions meet the requirements of IRC § 857 or is otherwise deductible under IRC § 858 or § 860. In addition:

- Dividend distributed deductions are only allowed for dividends paid by a publicly traded REIT;
- Restrictions are placed on deduction of certain other dividend distributions.

Estimated FY 2016 Tax Expenditure: Information not available

Dividends for Holding Companies - Mississippi Code of 1972 (Supp.), § 27-13-1

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

Estimated FY 2016 Tax Expenditure: Information not available

Growth and Prosperity Area Exemption - Mississippi Code of 1972 (Supp.), § 57-80-3 and § 57-80-5

Income generated by a new or expanded business enterprise in a GAP Area is exempt from income tax for a period of ten years.

Estimated FY 2016 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.), § 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 2016 Tax Expenditure: Information not available

"Fee-In-Lieu" - Mississippi Code of 1972 (Supp.), § 57-75-5

A fee-in-lieu may be negotiated by the Mississippi Development Authority 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 $25,000 annually.

Estimated FY 2016 Tax Expenditure: Information not available

Credits

Bank Share Tax Credit - Mississippi Code of 1972 (Supp.), § 27-35-35

Any tax assessed and paid by a bank to any county, district, or municipality on the assessed value of its intangibles pursuant to § 27-35-35 through § 27-35-39 shall be a credit against the corporation franchise tax.

Estimated FY 2016 Tax Expenditure: $550,000

Broadband Technology Credit - Mississippi Code of 1972 (Supp.), § 57-87-5

An income tax and franchise tax credit is available for telecommunications enterprises for investments made after June 30, 2003 and before July 1, 2020. The credit is based on a percentage of the cost of equipment used in the deployment of broadband technology. The credit percentage amount is determined on where the equipment is being deployed or placed in service. The percentage amount for each county is 5%, 10% and 15% for Tier 1, Tier 2 and Tier 3 counties respectively. The annual credit is available beginning in the year the equipment is placed into service and may be taken for that equipment each year for the following nine years. The total amount of credit taken in any one year is only allowed against 50% of the aggregate income and franchise tax liability for that year. The credit is not refundable and any excess credit amount can be carried forward for up to ten consecutive years from the close of the original year in which the excess credit could not be used. The total amount of credits taken over the ten consecutive year period cannot exceed 100% of the original investment in the equipment.

Estimated FY 2016 Tax Expenditure: $8,000,000

Insurance Guaranty Credit - Mississippi Code of 1972, § 83-23-218

A credit is allowed for a member insurer to offset against its premium, franchise, or income tax liability to this state an assessment as described in § 83-23-217(8) to the extent of 20% of the amount of such assessment, if any, for each year over the next five succeeding years. However, if the offset is less than 20%, any unused balance may be carried over to any succeeding year until such time as the offset provided herein is fully used.

Estimated FY 2016 Tax Expenditure: $0

Incentives

Redevelopment Project Incentive Fund - Mississippi Code of 1972 (Supp.), § 57-91-9

An incentive program to encourage economic development in areas where environmentally contaminated sites are located. Income and franchise taxes paid by enterprises located on approved sites shall be deposited in to the Redevelopment Project Incentive Fund. Incentive payments from this fund shall be made by the Mississippi Development Authority to developers in connection with a redevelopment project. The Mississippi Development Authority shall make the calculations necessary to make the payments provided for in this section. Payments will be made to approved participants on a semiannual basis with payments being made in the months of January and July. These incentive payments differ from a credit because the developer receives these payments from the taxes paid by businesses locating within the approved development site.

Estimated FY 2016 Tax Expenditure: Information not available

WITHHOLDING TAX EXPENDITURES

In Mississippi an employer must withhold income tax from wages paid to an employee. The income tax withheld is shown on an individual's W-2, which is filed with the individual's income tax return after the year-end. The individual may owe additional income taxes or may be due a refund of taxes withheld.

Incentive Payments

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

The Mississippi Advantage Jobs Incentive Program allows new qualified employers to receive incentive payments from the state in amounts not to exceed 4% of the Mississippi taxable wages of qualifying new employees. The incentive payments will be paid out of the employee withholdings that are diverted into a special fund instead of being paid into the general fund. The incentive payments may be made for a period up to ten years. The diversion of an employee's withholding taxes into such fund will have no effect on an employee's filing of income tax returns.

Estimated FY 2016 Tax Expenditure: $15,500,000

Existing Industry Withholding Rebate Program - Mississippi Code of 1972 (Supp.), § 57-100-3

The Existing Industry Withholding Rebate Program allows qualified existing employers to receive incentive payments from the state equal to the lesser of 3.5% of the taxable wages or the actual withholding paid of qualifying new employees. The incentive payments will be paid out of the employee withholdings that are diverted into a special fund instead of being paid to the general fund. The incentive payments may be made for a period of up to two years. The diversion of an employee's withholding taxes into such fund will have no effect on an employee's filing of income tax returns.

Estimated FY 2016 Tax Expenditure: $0

Mississippi Economic Impact Authority (MEIA) Withholding Rebate Program - Mississippi Code of 1972 (Supp.), § 57-99-23

The Mississippi Economic Impact Authority Withholding Rebate Program allows qualified existing employers to receive incentive payments from the state equal to the lesser of 1% of taxable wages or the actual withholding paid to qualified employees. The incentive payments will be paid out of the employee's withholdings that are diverted into a special fund instead of being paid to the general fund. The diversion of an employee's withholding taxes into such fund will have no effect on an employee's filing of income tax returns. The incentive payments may be made for a period of up to ten years, but cannot exceed $6,000,000 in total rebates. An employer had to apply to MDA by July 1, 2010 to be eligible for this rebate program.

Estimated FY 2016 Tax Expenditure: $880,000

Mississippi Major Economic Impact Authority (MMEIA) Withholding Rebate Program - Mississippi Code of 1972 (Supp.), § 57-99-3

The Mississippi Major Economic Impact Authority Withholding Rebate Program allows qualified companies and their affiliates to receive quarterly incentive payments from the state in an amount equal to the lesser of 3.5% of the wages and taxable benefits or the actual amount of tax withheld by the employer for the qualified jobs. The incentive payments will be paid out of the employee withholdings that are diverted into a special fund instead of being paid to the general fund. The diversion of an employee's withholding taxes into such fund will have no effect on an employee's filing of income tax returns. The incentive payments may be made for a period of up to twenty-five years.

Estimated FY 2016 Tax Expenditure: $3,300,000

Motion Picture Production Rebate Program - Mississippi Code of 1972 (Supp.), § 57-89-7

A rebate is available for a motion picture production company that expends at least $50,000 in base investment, payroll, and/or fringes in this state. The amount of the rebate is 25% of the base investment made. Additionally, payroll and fringes for a Mississippi resident are eligible for a 30% rebate, and payroll and fringes for a non-resident are eligible for a 25% rebate. An additional 5% rebate is available for payroll and fringes of honorably discharged veterans. The total amount of the rebate authorized for a motion picture shall not exceed $10,000,000 for each certified production with the total amount of rebates authorized for any fiscal year shall not exceed $20,000,000.

Estimated FY 2016 Tax Expenditure: $876,000

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.), § 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 2016 Tax Expenditure: $475,000,000

Exemptions for Dependents - Mississippi Code of 1972 (Supp.), § 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 § 152, IRC 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 2016 Tax Expenditure: $75,000,000

Other Exemptions - Mississippi Code of 1972 (Supp.), § 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 2016 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 2016 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 2016 Tax Expenditure: Information not available

4. Amounts paid by the United States to a person as added compensation for hazardous duty pay 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 2016 Tax Expenditure: Information not available

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 IRA shall be treated in the same manner as provided under the IRC 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 2016 Tax Expenditure: $300,000,000

6. Compensation not to exceed the aggregate sum of $15,000 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 2016 Tax Expenditure: $5,000,000

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 maximum enlisted amount received for active service as a commissioned officer in the Armed Forces of the United States for any month served in a combat zone or a qualified hazardous duty area as defined by federal law. Maximum enlisted amount has the same meaning as in 26 USC 112.

Estimated FY 2016 Tax Expenditure: Information not available

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

Estimated FY 2016 Tax Expenditure: Information not available

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 2016 Tax Expenditure: Information not available

10. Interest, dividends, gains, or income of any kind on any account in a qualified tuition program and amounts received as distributions under a qualified tuition program, regardless of where in the United States the original Section 529 plan was established.

Estimated FY 2016 Tax Expenditure: Information not available

11. Amounts received as qualified disaster relief payments are excluded from gross income. These are any amounts paid to or for the benefit of an individual to pay or reimburse reasonable and necessary personal, family, living or funeral expenses as a result of a qualified disaster, amounts for the repair or rehabilitation of a personal residence or contents due to a qualified disaster. These are limited to the amounts not covered by insurance.

Estimated FY 2016 Tax Expenditure: Information not available

Medical Savings Accounts - IRC, § 71. Mississippi Code of 1972 (Supp.), § 71-9-1 through § 71-9-9

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 § 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 2016 Tax Expenditure: Information not available

Health Savings Accounts - Mississippi Code of 1972 (Supp.), § 83-62-1 through § 83-62-9

The amount deposited in a health savings account, and any interest accrued thereon, that is a part of a health savings account program as specified in the Health Savings Account Act created in § 83-62-1 through § 83-62-9; 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 2016 Tax Expenditure: $1,000,000

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

a) *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.
b) *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 2016 Tax Expenditure: Information not available

Individual Adjustments

Individual Retirement Accounts - IRC, § 219 and 408, Mississippi Code of 1972 (Supp.), § 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 definition is limited to the smaller of $5,000 or 100% annual compensation or earned income. For married filers, a separate deduction up to $5,000 is allowed for each spouse provided either spouse has sufficient annual compensation or earned income.

Deductions for IRA contributions are reduced or phased out if an individual is covered by an employer-maintained plan. The IRA deduction is reduced or eliminated when adjusted gross income exceeds certain specified amounts as follows:

1) $56,000 for a single individual or head of household
2) $90,000 for a married couple filing a joint return
3) Zero for a married individual filing separately
4) Non-active participant with active participant spouse, phase-out begins at $169,000

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 $66,000 or more, a married couple filing a joint return with $110,000 or more, or a married individual filing separately with $10,000 or more. The reduction in the maximum IRA deduction is determined by multiplying the maximum IRA deduction by the excess of adjusted gross income over the specified amount and dividing the result by $10,000.

Individuals who turn age 50 before the close of the tax year may increase the maximum permitted annual contribution by $1,000.

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 2016 Tax Expenditure: $1,200,000

<u>Keogh Plans</u> - IRC, § 219, 401-405, and 408-415. Mississippi Code of 1972 (Supp.), § 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 2016 Tax Expenditure: $1,000,000

<u>Interest Penalty on Early Withdrawal of Savings</u> - IRC, § 62(12). Mississippi Code of 1972 (Supp.), § 27-7-16

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 § 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 2016 Tax Expenditure: $7,000

<u>Unreimbursed Moving Expense</u> - IRC § 62 and 217. Mississippi Code of 1972 (Supp.), § 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 IRC, and rules, regulations and revenue procedures relating to moving expenses not in direct conflict with provisions of Mississippi income tax law.

Estimated FY 2016 Tax Expenditure: $370,000

<u>Contributions or Payments to a Mississippi College Savings Plan (MACS & MPACT)</u> - Mississippi Code of 1972 (Supp.), § 27-7-18 and § 37-155-17

Contributions or payments to a Mississippi Affordable College Savings (MACS) program account and payments made under a prepaid tuition contract entered into under the Mississippi Prepaid Affordable College Tuition (MPACT) program are deductible from gross income.

Estimated FY 2016 Tax Expenditure: $253,000

<u>Self-Employed Medical Insurance</u> - Mississippi Code of 1972 (Supp.), § 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 IRC.

Estimated FY 2016 Tax Expenditure: $1,213,000

Organ Donation Deduction - Mississippi Code of 1972 (Supp.) § 27-7-18

A one-time deduction not to exceed $10,000 from gross income is allowed for unreimbursed travel expenses, lodging expenses and lost wages an individual incurred as a result of, and related to, the donation, while living, of one or more of his or her organs for human organ transplantation. The term organ means all or a part of a liver, pancreas, kidney, intestine, lung or bone marrow.

Estimated FY 2016 Tax Expenditure: Information not available

INDIVIDUAL CREDITS

Credit for Income Tax Paid to another State - Mississippi Code of 1972 (Supp.), § 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 2016 Tax Expenditure: $54,986,000

Long-Term Care Premiums Credit - Mississippi Code of 1972 (Supp.), § 27-7-22.33

An income tax credit is allowed for premiums paid during the taxable year for certain qualified long-term care insurance policies. This credit cannot exceed $500 or the taxpayers' income tax liability, whichever is less, for each qualified long-term care insurance policy. Any unused credit cannot be carried forward to apply to the succeeding tax year's liability.

Estimated FY 2016 Tax Expenditure: $1,500,000

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:

a. MS Natural Heritage Program and MS Scenic Streams Stewardship Program - § 27-7-22.21
   A credit is allowed for certain costs associated with donations of land which are conservation sites under the MS Natural Heritage Program or which are along streams nominated to the MS Scenic Streams Stewardship program.
b. Credit for Certain Qualified Adoption Expenses - § 27-7-22.32
   A credit against Mississippi income tax of the amount of the qualified adoption expenses paid or incurred, not to exceed $2,500, for each dependent child legally adopted by a taxpayer during calendar year 2006 or thereafter.
c. Historical Structure Rehabilitation Credit - § 27-7-22.31
   A credit for costs incurred for the rehabilitation of eligible property which is a certified historic structure or a structure in a certified historic district.

d. Job Development Assessment Fee - § 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.

e. 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.

f. Finance Company Privilege Tax - § 27-21-9

g. Gaming Control Act License Fees Credit - § 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.

h. Reforestation Credit - § 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 $75,000.

Estimated FY 2016 Tax Expenditure: $9,000,000

INDIVIDUAL DEDUCTIONS

Standard Deduction - Mississippi Code of 1972 (Supp.), § 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 2016 Tax Expenditure: $170,000,000

ITEMIZED DEDUCTIONS

Medical and Dental Expenses - IRC, § 63(f) and 213. Mississippi Code of 1972 (Supp.), § 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 2016 Expenditure: $38,000,000

Real Estate Taxes - IRC, § 63(f) and 164; Mississippi Code of 1972 (Supp.), § 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 2016 Tax Expenditure: $58,000,000

Home Mortgage Interest - IRC, § 63(f) and 163; Mississippi Code of 1972 (Supp.), § 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 2016 Tax Expenditure: $65,250,000

Investment Interest - IRC, § 63(f) and 163; Mississippi Code of 1972 (Supp.), § 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 2016 Tax Expenditure: Information not available

Charitable Contributions - IRC, § 63(f) and 170(c); Mississippi Code of 1972 (Supp.), § 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 2016 Tax Expenditure: $83,400,000

Casualty and Theft Losses - IRC, § 165(c)(3); Mississippi Code of 1972 (Supp.), § 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 2016 Tax Expenditure: $1,000,000

Employee Expenses and Miscellaneous Deductions Subject to 2% Limitation - IRC, § 162 and 212; Mississippi Code of 1972 (Supp.), § 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 2016 Tax Expenditure: $86,000,000

Deductions Not Subject to the 2% Limitation - IRC, § 72, 162, 165, 691(c), 1341, and 212; Mississippi Code of 1972 (Supp.) § 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. Casualty and theft losses from income-producing property - IRC 165
B. Federal estate tax on income in respect of a decedent - IRC 691(c)
C. Repayments of more than $3,000 under a claim of right - IRC 1341
D. Impairment-related work expenses of persons with disabilities - IRC 162
E. Unrecovered investment in a pension - IRC 72

Estimated FY 2016 Tax Expenditure: $6,740,000

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, § 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.), § 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.

	Estimated FY 2016 Tax Expenditure
Retail sales of farm tractors, farm implements & logging equipment taxed at 1.5%	$10,806,013
Aircraft, trucks, semi-trailers and mobile homes taxed at 3%	$20,971,587
Autos, light trucks: (10,000 lbs. or less) taxed at 5%	$102,924,885
Manufacturing machinery and certain port facility equipment taxed at 1.5%	$113,361,151
Materials used in railroad tracks taxed at 3%	$1,032,233
Sales to electric power associations taxed at 1%	$8,608,888

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

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

Estimated FY 2016 Tax Expenditure: $14,000,000

Exemptions

Sale of utilities to residential consumers - Mississippi Code of 1972 (Supp.), § 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.

Estimated FY 2016 Tax Expenditure: $133,529,000

Sale of utilities to manufacturers – Mississippi Code of 1972 (Supp.), § 27-65-107(b)

The sale of utilities to manufacturers is exempt from sales tax. This constitutes a wholesale transaction and should not be considered a true tax expenditure.

Estimated FY 2016 Tax Expenditure: $44,424,086

Sale of utilities to nonprofit water associations - Mississippi Code of 1972 (Supp.), § 27-65-107(c)

Sales to nonprofit water associations in which no part of the net earnings inures to the benefit of any private shareholder, group, or individual are exempt from sales tax. Only sales which are ordinary and necessary to the operation of such organizations are exempt from tax.

Estimated FY 2016 Tax Expenditure: $1,402,000

Sale of utilities to farmers – Mississippi Code of 1972 (Supp.), § 27-65-107(g)

The sale of utilities to farmers is exempt from sales tax. This constitutes a wholesale transaction and should not be considered a true tax expenditure.

Estimated FY 2016 Tax Expenditure: $1,373,941

Sales of home medical equipment and supplies - Mississippi Code of 1972 (Supp.), § 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 in part or in whole under the provisions of the Medicare and Medicaid program.

Mississippi Code of 1972 (Supp.), § 27-65-111(dd) provides that all sales of durable medical equipment and home medical supplies when ordered or prescribed by a licensed physician for medical purposes of the patient are exempt from sales tax. As used in this paragraph, durable medical equipment means equipment, including repair and replacement parts for the equipment which: can withstand repeated use; is primarily and customarily used to serve a medical purpose; generally is not useful to a person in the absence of illness or injury; and is not worn in or on the body.

Estimated FY ~~2015~~ Tax Expenditure: $22,940,000
2016

Industrial exemptions - Mississippi Code of 1972 (Supp.), § 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:

	Estimated FY 2016 Tax Expenditure
Sales of boxes, crates, cartons, etc. to manufacturers and wholesalers	($2,216,000)
Raw materials used in manufacturing	$132,122,000
Gross proceeds of sales of dry docks, offshore drilling equipment, and large vessels	($2,216,000)
Sales to commercial fishermen of specified commercial fishing boats	$2,236,000
Gross income from repairs to vessels engaged in foreign trade or interstate transport	$6,219,000
Rolling stock used in interstate commerce	($3,325,000)
Sales of parts used in the repair of aircraft	Not Available
Raw materials used in manufacturing rolling stock	Insignificant
Machinery or parts used in repairing large ships	$796,000
Tangible personal property consumed on ships in international commerce	$65,000

Industrial Exemptions – (continued)	Estimated FY 2016 Tax Expenditure
Income from storage/handling of perishable goods by public storage warehouses	Insignificant
Natural gas used in oil production	($2,771,000)
Gross collections from self-service commercial laundering, drying, and cleaning equipment	$1,679,000
Economic Development Reform Act incentives	$6,751,000
Growth and Prosperity Act incentives	Not Available
Pollution control equipment	Not Available
Sales of broadband technology equipment	Not Available
Sales of machinery or equipment to nonprofit organizations created by the Oil Pollution Control Act of 1990	Not Available
Sales of component materials and equipment used to repair buildings and equipment damaged or destroyed as a result of a natural disaster	Not Available
National and Regional Headquarters	Not Available
Clean Energy Initiative Incentives Program	Not Available
Aerospace Initiative Incentives Program	Not Available

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

Agricultural exemptions - Mississippi Code of 1972 (Supp.), § 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 2016 Tax Expenditure
Sales of lint, seed cotton, baled cotton, feed, seed, fertilizers, baling wire, packaging materials, etc.	$59,196,000
Sales of agricultural produce to be further processed	$98,810,000
Retail sales of mules, horses, and other livestock	Insignificant
Sales of antibiotics, hormones, drugs, medicines, etc.	$1,506,000

Governmental exemptions - Mississippi Code of 1972 (Supp.), § 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 2016 Tax Expenditure
Sales to U.S. Government or State of Mississippi	$197,619,000
Sales to public schools	($27,709,000)
Sales of school textbooks	($3,325,000)
Sales to the Mississippi Band of Choctaw Indians	$221,000
Sales of firefighting equipment to governmental or volunteer fire departments	$168,000

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

Miscellaneous exemptions - Mississippi Code of 1972 (Supp.), § 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 2016 Tax Expenditure
Sales to nonprofit hospitals and infirmaries	($87,334,000)
Sales of newspapers, periodicals, and subscription magazines	$5,886,930
Sales of coffins and caskets	($2,216,000)
Sales of goods for immediate export	Insignificant
Sales to nonprofit orphanages, old men's or old ladies' homes	($277,000)
Sales to YMCA, YWCA, or Boys or Girls Clubs	$1,562,000
Sales to nonprofit private schools	($1,109,000)
Gross proceeds of retail sales and the use or consumption of drugs and medicines	$162,005,340
Retail sales of vehicles and semi-trailers exported within 48 hours	$2,328,000
Sales to Salvation Army or Muscular Dystrophy Association, Inc.	$221,000
Sales of alcohol-blended fuel using Mississippi distilled alcohol	Insignificant
Sales to the Institute for Technology Development	$629,000
Sales of food and drink through full-service vending (taxed at 8% of the wholesale purchase price)	Insignificant
Gross proceeds of sales of motor fuel	$345,660,294
Sales of food purchased with food stamps or instruments provided by the Women, Infants and Children's (WIC) Program	$63,908,985
Sales of cookies by the Girl Scouts of America	$286,000
Gifts or sales to public or private 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 which qualify for state funding	Insignificant
Sales to the Mississippi Chapter of the National Multiple Sclerosis Society	Insignificant
Sales to the Mississippi Technology Alliance	Not Available
Sales to nonprofit organizations providing foster care, adoption services and temporary housing for unwed mothers and their children	Not Available
Sales to nonprofit organizations that provide residential rehabilitation for persons with alcohol and drug dependencies	Not Available
Retail sales of specified articles of clothing/footwear when purchased during the 'Annual Clothing Sales Tax Holiday'	Not Available
Gross proceeds of sales made for the sole purpose of raising funds for a school (k-12)	Not Available
Sales to Mississippi Blood Services	Not Available
Retail sales of specified firearms, ammunition, and hunting supplies when purchased during the 'Mississippi Second Amendment Weekend' sales tax holiday	Not Available
Sales of non-perishable food to food banks, food pantries, and food lines	Not Available
Sales to The United Way of the Pine Belt Region, Inc.	Not Available
Sales to Mississippi Children's Museum	Not Available
Sales to Jackson Zoological Park	Not Available
Sales to Diabetes Foundation of Mississippi/Mississippi Juvenile Diabetes Research Foundation	Not Available

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

Miscellaneous Exemptions – (continued)	Estimated FY 2016 Tax Expenditure
Sales of potting soil, mulch and other soil amendments for use in growing ornamental plants when sold to wholesale commercial plant nurseries	Not Available
Sales to University of Mississippi Medical Center Research and Development Foundation	Not Available
Sales to Keep Mississippi Beautiful, Inc.	Not Available
Sales to Friends of Children's Hospital	Not Available
Sales to Pinecrest Weekend Snackpacks for Kids, Corinth MS	Not Available
Hearing aids prescribed by a licensed physician, audiologist, or hearing aid specialist	Not Available

SEVERANCE TAX EXPENDITURES

An annual privilege tax is assessed against oil and gas severed from the ground at the rate of 6% of the value of the oil or gas at the point of production. The exceptions are for Enhanced Oil Recovery oil wells which are taxed at 3%, and Horizontally Drilled oil wells which are taxed at 1.3%.

EXEMPTIONS

Enhanced Recovery - Mississippi Code of 1972 (Supp.), § 27-25-503(b)

Oil produced by an enhanced recovery is taxed at 3% of the value of the oil at the point of production. The purpose of this tax exemption is to encourage continued production in fields which otherwise might become uneconomical.

Estimated FY 2016 Tax Expenditure: $30,000,000

Horizontally Drilled – Mississippi Code of 1972 (Supp.), § 27-25-503(c)

Oil produced by qualified horizontally drilled wells is taxed at 1.3%. The purpose of this tax exemption is to encourage companies to invest in oil and gas exploration in the state.

Estimated FY 2016 Tax Expenditure: $8,300,000

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. 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.), § 27-15-119

Policies and contracts issued to fund a retirement, thrift, or deferred compensation plan qualified under § 401 or § 403 or an individual retirement annuity qualified under § 408 or § 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 2016 Tax Expenditure: Information not available

CREDITS

Income Taxes Paid - Mississippi Code of 1972 (Supp.), § 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 2016 Tax Expenditure: $14,200,000

Retaliatory Tax Deduction - Mississippi Code of 1972 (Supp.), § 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 2016 Tax Expenditure: $534,000

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

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

Estimated FY 2016 Tax Expenditure: $26,000,000

Guaranty Association Credit - Mississippi Code of 1972 (Supp.), § 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 2016 Tax Expenditure: $26,000

Coast Area Credit - Mississippi Code of 1972 (Supp.), § 27-15-133

Premium taxes shall be reduced by 10% of the premium received from new policies written or covering risks for essential property within the coast area. The coastal area includes Hancock, Harrison, Jackson, Stone, Pearl River and George counties. The reduction cannot exceed $100,000.

Estimated FY 2016 Expenditure: $500,000

New Markets Credit - Mississippi Code of 1972 (Supp.), § 57-105-1

An income tax credit and insurance premium tax credit is allowed for taxpayers making investments that qualify for Federal income new markets tax credit as defined in § 45D of the IRC. The amount of the credit shall be equal to the applicable percentage of the adjusted purchase price paid to the qualified community development entity for the qualified equity investment. The amount of the credit that may be utilized in any one year shall be limited to the total tax liability of the taxpayer for the applicable income, insurance premium, or premium retaliatory tax. The credit shall not be refundable or transferable. Any unused portion of the credit may be carried forward for seven years beyond the credit allowance date on which the credit was earned. The total amount of credit for all taxpayers is capped at $15,000,000 per year.

Estimated FY 2016 Expenditure: $1,300,000

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 5% of the true value of the motor vehicle as calculated by using the most current official motor vehicle assessment schedule supplied by the Department of Revenue.

EXEMPTIONS - Mississippi Code of 1972 (Supp.), § 27-65-201(7)(a-c)

a) Transfers of legal ownership of motor vehicles currently registered or licensed in the transferor's name 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.
b) 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.
c) Transfers of legal ownership of motor vehicles ten or more years after the date of the manufacture of such vehicle.

Estimated FY 2016 Tax Expenditure: $2,630,735

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 Department of Revenue 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.), § 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 Department of Revenue. However, the exemption shall not exceed a period of forty days for any annual period without a second resolution of approval by the board of supervisors who shall have the authority to extend the exemption not to exceed an additional period of twenty days during any annual period. § 27-19-11.
b) No tax shall be levied upon 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's thereof. § 27-19-17(1).
c) No tax shall be imposed on 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 the state of Mississippi by railroad, and use such streets and highways only in the transporting of such trailers or wagons from the railroad to be placed where such circus, carnival, fair, or other show is to be held or staged, and in returning such trailers and wagons from such place to the railroad for reloading. § 27-19-17(4).
d) No privilege tax shall be imposed upon any motor vehicle owned by the U.S. 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 upon any motor vehicle owned by any school district, fire protection district, or levee or drainage district in the state. Exemption of motor vehicles owned by a county or municipality or any agency or instrumentality thereof from motor vehicle privilege taxes does not waive payment of the registration fee imposed in § 27-19-43. § 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 $l.00; 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. One motor vehicle owned by the surviving spouse of a deceased person who was issued a Purple Heart Medal distinctive license plate may apply for or retain one such license plate and may continue to renew as long as the spouse remains unmarried. § 27-19-56.5.

m) Motor vehicles that are designed or adapted to be used exclusively in the preparation and loading of chemical or other materials for aerial agriculture application to crops and only incidentally used on public roadways in this state. § 27-19-30.

n) One private carrier of passengers owned by any religious society, ecclesiastical body or any congregation thereof which is used exclusively for such society and not for profit. § 27-19-3.

o) All motor vehicles owned by any such religious society or any educational institution having a seating capacity greater than seven passengers and used exclusively for transporting passengers for religious or educational purposes and not for profit. § 27-19-3.

p) Motor vehicles that are eligible to display an authentic historical license plate. § 27-19-56.11.

q) Antique pickup, upon payment of $25 permanent fee, shall be exempt from all ad valorem and other taxes. § 27-19-47.2.

r) One motor vehicle owned by the mother or the un-remarried spouse of a service member killed in action or died in a combat zone after 09/11/2001. § 27-19-56.162.

Estimated FY 2016 Tax Expenditure: Information not available

SUMMARY OF TAX EXPENDITURES

CORPORATE INCOME TAX	Estimated FY 2016 Tax Expenditure
Credits:	
Credit for Finance Company Privilege Tax Paid for Same Tax Year	$250,000
Jobs Tax Credit	$1,400,000
National Headquarters Credit	-0-
Research and Development Job Skills Credit	$9,500
Dependent Care Credit	$550,000
Job Training or Retraining Credit	-0-
Gambling License Fees Credit	$19,250,000
Financial Institution Credit	-0-
Mississippi Business Finance Corporation Revenue Bond Service Credit	$11,650,000
Manufacturing Investment Tax Credit	$10,400,000
Ad Valorem Inventory Tax Credit	$15,000,000
Brownfield Sites Credit	$40,000
Export Charges Credit	$80,000
Import Charges Credit	$108,000
Broadband Technology Credit (Corporate Income)	$7,900,000
Reforestation Tax Credit	$2,000
New Markets Credit	$4,800,000
Biomass Energy Credit	-0-
Historic Structure Rehabilitation Credit	$650,000
Insurance Guaranty Credit	-0-
Prekindergarten Credit	$22,000
Incentives:	
Redevelopment Project Incentive Fund	Not Available
Deductions:	
Capital Gains Exempt	Not Available
General expenses associated with the cost of doing business	Not Available
Charitable contributions	Not Available
Reserve funds	Not Available
Annuity income	Not Available
Contributions to employee pension plans	Not Available
Net operating loss carryback and carryover	Not Available
Dividend distributions	Not Available
Dividends for holding companies	Not Available
Growth and Prosperity Area Exemption	Not Available

CORPORATE FRANCHISE TAX	
Exemptions:	
Growth and Prosperity Area Exemption	Not Available
"Fee-In-Lieu"	Not Available

Credits:	
Bank Share Tax Credit	$550,000
Broadband Technology Credit (Corporate Franchise)	$8,000,000
Insurance Guaranty Credit	-0-
Incentives:	
Redevelopment Project Incentive Fund	Not Available

WITHHOLDING TAX

Incentive Payments:	
Mississippi Advantage Jobs Incentive Program	$15,500,000
Existing Industry Withholding Rebate Program	-0-
Mississippi Economic Impact Authority Withholding Rebate Program (MEIA)	$880,000
Mississippi Major Economic Impact Authority Withholding Rebate Program (MMEIA)	$3,300,000
Motion Picture Production Rebate Program	$876,000

INDIVIDUAL INCOME TAX

Exemptions:	
Personal Exemptions	$475,000,000
Exemptions for Dependents	$75,000,000
Other Exemptions	$305,000,000
Medical Savings Accounts	Not Available
Health Savings Accounts	$1,000,000
Prisoners of War, Missing in Action	Not Available
Adjustments:	
Individual Retirement Accounts	$1,200,000
Keogh Plans	$1,000,000
Interest penalty on early withdrawal of savings	$7,000
Unreimbursed moving expense	$370,000
Contributions or payments to a Mississippi college savings plan (MACS & MPACT)	$253,000
Self-employed medical insurance	$1,213,000
Credits:	
Credit for income tax paid to another state	$54,986,000
Long-Term Care Premiums Credit	$1,500,000
Other credits	$9,000,000
Deductions:	
Standard Deduction	$170,000,000
Itemized Deductions:	
Medical and dental expenses	$38,000,000
Real estate taxes	$58,000,000
Home mortgage interest	$65,250,000
Investment interest	Not Available
Charitable contributions	$83,400,000
Casualty and theft losses	$1,000,000

Employee expenses and miscellaneous deductions subject to 2% limitation	$86,000,000
Miscellaneous deductions not subject to 2% limitation	$6,740,000
Organ Donation Deduction	Not Available

Sales and Use Tax

Exceptions to the General Sales Tax Rate:	
Retail sales of farm tractors, farm implements and logging equipment taxed at 1.5%	$10,806,013
Aircraft, trucks, semi-trailers and mobile homes taxed at 3%	$20,971,587
Autos, light trucks: (10,000 lbs. or less) taxed at 5%	$102,924,885
Manufacturing machinery and certain port facility equipment taxed at 1.5%	$113,361,151
Materials used in railroad tracks taxed at 3%	$1,032,233
Sales to electric power associations taxed at 1%	$8,608,888
Discount for timely filing 2%	$14,000,000
Sale of Utilities:	
To residential consumers: 0%	$133,529,000
To manufacturers: 0%	$44,424,086
To nonprofit water associations: 0%	$1,402,000
To farmers: 0%	$1,373,941
Sales of home medical equipment and supplies	$22,940,000
Industrial Exemptions:	
Sales of boxes, crates, cartons, etc. to manufacturers and wholesalers	($2,216,000)
Raw materials used in manufacturing	$132,122,000
Gross proceeds of sales of dry docks, offshore drilling equipment, and large vessels	($2,216,000)
Sales to commercial fishermen of specified commercial fishing boats	$2,236,000
Gross income from repairs to vessels engaged in foreign trade or interstate transport	$6,219,000
Rolling stock used in interstate commerce	($3,325,000)
Sales of parts used in the repair of aircraft	Not Available
Raw materials used in manufacturing rolling stock	Insignificant
Machinery or parts used in repairing large ships	$796,000
Tangible personal property consumed on ships in international commerce	$65,000
Income from storage/handling of perishable goods by public storage warehouses	Insignificant
Natural gas used in oil production	($2,771,000)
Gross collections from self-service commercial laundering, drying, and cleaning equipment	$1,679,000
Economic Development Reform Act Incentives	$6,751,000
Growth and Prosperity Act Incentives	Not Available
Pollution control equipment	Not Available
Sales of broadband technology equipment	Not Available
Sales of machinery or equipment to nonprofit organizations created by the Oil Pollution Control Act of 1990	Not Available
Sales of component materials and equipment used to repair buildings and equipment damaged or destroyed as a result of a natural disaster	Not Available
National and Regional Headquarters	Not Available
Clean Energy Initiative Incentives Program	Not Available

Aerospace Initiative Incentives Program	Not Available
<u>Agricultural Exemptions:</u>	
Sales of lint, seed cotton, baled cotton, feed, seed, fertilizers, baling wire, packaging materials, etc.	$59,196,000
Sales of agricultural produce to be further processed	$98,810,000
Retail sales of mules, horses, and other livestock	Insignificant
Sales of antibiotics, hormones, drugs, medicines, etc.	$1,506,000
<u>Governmental Exemptions:</u>	
Sales to U.S. Government or State of Mississippi	$197,619,000
Sales to public schools	($27,709,000)
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Sales to Mississippi Band of Choctaw Indians	$221,000
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<u>Miscellaneous Exemptions:</u>	
Sales to nonprofit hospitals and infirmaries	($87,334,000)
Sales of newspapers, periodicals, and subscription magazines	$5,886,930
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Sales of goods for immediate export	Insignificant
Sales to nonprofit orphanages, old men's or old ladies' homes	($277,000)
Sales to YMCA, YWCA, or Boys or Girls Clubs	$1,562,000
Sales to nonprofit private schools	($1,109,000)
Gross proceeds of retail sales and the use or consumption of drugs and medicines	$162,005,340
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Sales of alcohol-blended fuel using Mississippi distilled alcohol	Insignificant
Sales to the Institute for Technology Development	$629,000
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Gross proceeds of sales of motor fuel	$345,660,294
Sales of food purchased with food stamps or WIC instruments	$63,908,985
Sales of cookies by Girl Scouts of America	$286,000
Gift or sales to public or private 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 which qualify for state funding	Insignificant
Sales to the Mississippi Chapter of the National Multiple Sclerosis Society	Insignificant
Sales to the Mississippi Technology Alliance	Not Available
Sales to nonprofit organizations providing foster care, adoption services and temporary housing for unwed mothers and their children	Not Available
Sales to nonprofit organizations that provide residential rehabilitation for persons with alcohol and drug dependencies	Not Available
Retail sales of specified articles of clothing/footwear when purchased during the 'Annual Clothing Sales Tax Holiday'	Not Available
Gross proceeds of sales made for the sole purpose of raising funds for a school (k-12)	Not Available

Sales to Mississippi Blood Services	Not Available
Retail sales of specified firearms, ammunition, and hunting supplies when purchased during the 'Mississippi Second Amendment Weekend' sales tax holiday	Not Available
Sales of non-perishable food to food banks, food pantries, and food lines	Not Available
Sales to The United Way of the Pine Belt Region, Inc.	Not Available
Sales to Mississippi Children's Museum	Not Available
Sales to Jackson Zoological Park	Not Available
Sales to Diabetes Foundation of Mississippi/Mississippi Juvenile Diabetes Research Foundation	Not Available
Sales of potting soil, mulch and other soil amendments for use in growing ornamental plants when sold to wholesale commercial plant nurseries	Not Available
Sales to University of Mississippi Medical Center Research and Development Foundation	Not Available
Sales to Keep Mississippi Beautiful, Inc.	Not Available
Sales to Friends of Children's Hospital	Not Available
Sales to Pinecrest Weekend Snackpacks for Kids, Corinth MS	Not Available
Hearing aids prescribed by a licensed physician, audiologist, or hearing aid specialist	Not Available

SEVERANCE TAX

Exemptions:	
Enhanced Recovery	$30,000,000
Horizontally Drilled	$8,300,000

INSURANCE PREMIUM TAX

Exemptions	Not Available
Credits:	
Income Taxes Paid	$14,200,000
Retaliatory Tax Deduction	$534,000
Reductions for Qualifying Mississippi Investments	$26,000,000
Guaranty Association Credit	$26,000
Coast Area Credit	$500,000
New Markets Credit	$1,300,000

CASUAL AUTO SALES TAX

Exemptions	Not Available

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

All tax expenditure items, the purpose of which is to directly or indirectly shift the burden of taxation from one income class to another.

	Estimated FY 2016 Tax Expenditure
Credit for finance company privilege tax paid for same tax year	$250,000
Jobs Tax Credit	$1,400,000
National Headquarters Credit	-0-
Research and Development Job Skills Credit	$9,500
Dependent Care Credit	$550,000
Job Training or Retraining Credit	-0-
Gambling License Fees Credit	$19,250,000
Financial Institution Credit	-0-
Mississippi Business Finance Corporation Revenue Bond Service Credit	$11,650,000
Manufacturing Investment Tax Credit	$10,400,000
Ad Valorem Inventory Credit	$15,000,000
Brownfield Sites Credit	$40,000
Export Charges Credit	$80,000
Import Charges Credit	$108,000
Broadband Technology Credit (Corporate Income)	$7,900,000
Reforestation Tax Credit (Corporate Income)	$2,000
New Markets Tax Credit	$4,800,000
Bank Share Tax Credit	$550,000
Mississippi Advantage Jobs Incentive Program	$15,500,000
Existing Industry Withholding Rebate Program	-0-
Mississippi Economic Impact Authority Withholding Rebate Program (MEIA)	$880,000
Mississippi Major Economic Impact Authority Withholding Rebate Program (MMEIA)	$3,300,000
Personal exemptions	$475,000,000
Exemption for dependents	$75,000,000
Other individual income tax exemptions	$305,000,000
Prisoners of War, Missing in Action	Not Available
Contributions or payments to a Mississippi college savings plan (MACS & MPACT)	$253,000
Long-term care premiums tax credit	$1,500,000
Job development assessment fee	Not Available
Business ad valorem tax credit	Not Available
Finance company privilege tax	Not Available
Standard deduction	$170,000,000
Sale of utilities to residential consumers	$133,529,000
Sale of utilities to nonprofit water associations	$1,402,000
Sales to nonprofit hospitals and infirmaries	($87,334,000)
Sales of coffins and caskets	($2,216,000)

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

TAX EXPENDITURES WHICH REDISTRIBUTE THE TAX BURDEN – (continued)	Estimated FY 2016 Tax Expenditure
Sales to nonprofit orphanages, old men's or old ladies' homes	($277,000)
Gross proceeds of retail sales and the use or consumption of drugs and medicines	$162,005,340
Sales of food purchased with food stamps or WIC instruments	$63,908,985
Retail sales of specified articles of clothing/footwear when purchased during the 'Annual Clothing Sales Tax Holiday'	Not Available
Retail sales of specified firearms, ammunition, and hunting supplies when purchased during the 'Mississippi Second Amendment Weekend' sales tax holiday	Not Available
Retaliatory tax deduction	$534,000

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

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.

	Estimated FY 2016 Tax Expenditure
Biomass Energy Credit	-0-
Historical Structure Rehabilitation Credit (Corporate Income)	$650,000
Prekindergarten Credit	$22,000
Broadband Technology Credit (Corporate Franchise)	$8,000,000
Motion Picture Production Rebate Program	$876,000
Mississippi Natural Heritage Program and Scenic Streams Stewardship Program	Not Available
Credit for certain qualified adoption expenses	Not Available
Historical Structure Rehabilitation Credit (Individual Income)	Not Available
Reforestation Credit (Individual Income)	Not Available
Discount for timely filing	$14,000,000
Sales of home medical equipment and supplies	$22,940,000
Clean Energy Initiative Incentives Program	Not Available
Aerospace Initiative Incentives Program	Not Available
Sales of newspapers, periodicals, and subscription magazines	$5,886,930
Sales of goods for immediate export	Insignificant
Sales to YMCA, YWCA, or Boys or Girls Clubs	$1,562,000
Sales to nonprofit private schools	($1,109,000)
Sales to Salvation Army or Muscular Dystrophy Association, Inc.	$221,000
Sales of alcohol-blended fuel using Mississippi distilled alcohol	Insignificant
Sales to the Institute for Technology Development	$629,000
Sales of cookies by Girl Scouts of America	$286,000
Gifts or sales to public or private 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 which qualify for state funding	Insignificant
Sales to the Mississippi Chapter of the National Multiple Sclerosis Society	Insignificant
Sales to the Mississippi Technology Alliance	Not Available

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

TAX EXPENDITURES A DIRECT BUDGETARY OBJECTIVE – (continued)	Estimated FY 2016 Tax Expenditure
Gross proceeds of sales made for the sole purpose of raising funds for a school	Not Available
Sales to Mississippi Blood Services	Not Available
Sales of non-perishable food to food banks, food pantries, and food lines	Not Available
Sales to the United Way of the Pine Belt Region, Inc.	Not Available
Sales to Mississippi Children's Museum	Not Available
Sales to Jackson Zoological Park	Not Available
Sales to Diabetes Foundation of Mississippi/Mississippi Juvenile Diabetes Research Foundation	Not Available
Sales to UMMC Research and Development Foundation	Not Available
Sales to Keep Mississippi Beautiful, Inc.	Not Available
Sales to Friends of Children's Hospital	Not Available
Sales to Pinecrest Weekend Snackpacks for Kids, Corinth, MS	Not Available
Hearing aids prescribed by a licensed physician, audiologist, or hearing specialist	Not Available
Enhanced Recovery	$30,000,000
Horizontally Drilled	$8,300,000
Insurance Premium Tax Credits including the following:	
Income taxes paid	$14,200,000
Reduction for qualifying Mississippi investments	$26,000,000
Guaranty Association credit	$26,000
Coast Area Credit	$500,000
New Markets Credit	$1,300,000

NOTE: Numbers in parentheses should be considered very inexact estimates. No established database 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.

	Estimated FY 2016 Tax Expenditure
Insurance Guaranty Credit (Corporate Income)	-0-
General expenses associated with the cost of doing business	Not Available
Insurance Guaranty Credit (Corporate Franchise)	-0-
Gaming Control Act License Fees Credit	Not Available
Retail sales of farm tractors, farm implements & logging equipment	$10,806,013
Aircraft, trucks, mobile homes	$20,971,587
Autos and light trucks (10,000 lbs. or less)	$102,924,885
Manufacturing machinery and certain port facility equipment	$113,361,151
Materials used in railroad tracks	$1,032,233
Sales to electric power associations	$8,608,888
Sales of utilities to manufacturers	$44,424,086
Sales of utilities to farmers	$1,373,941
Sales of boxes, crates, cartons, etc. to manufacturers and wholesalers	($2,216,000)

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

Tax Expenditures which are outside the relevant tax base – (continued)	Estimated FY 2016 Tax Expenditure
Raw materials used in manufacturing	$132,122,000
Gross proceeds of sales of dry docks, offshore drilling equipment, and large vessels	($2,216,000)
Sales to commercial fishermen of specified commercial fishing boats	$2,236,000
Gross income from repairs to vessels engaged in foreign trade/interstate transport	$6,219,000
Rolling stock used in interstate commerce	($3,325,000)
Raw materials used in manufacturing rolling stock	Insignificant
Machinery or parts used in repairing large ships	$796,000
Tangible personal property consumed on ships in international commerce	$65,000
Income from storage/handling of perishable goods by public storage warehouses	Insignificant
Natural gas used in oil production	($2,771,000)
Gross collections from self-service commercial laundering/drying/cleaning equipment	$1,679,000
Economic Development Reform Act Incentives	$6,751,000
Sales of lint, seed cotton, baled cotton, feed, seed, fertilizers, baling wire, packaging materials, etc.	$59,196,000
Sales of agricultural produce to be further processed	$98,810,000
Retail sales of mules, horses, and other livestock	Insignificant
(Agricultural) sales of antibiotics, hormones, drugs, medicines, etc.	$1,506,000
Sales to U.S. Government or State of Mississippi	$197,619,000
Sales to public schools	($27,709,000)
Sales of school textbooks	($3,325,000)
Sales to Mississippi Band of Choctaw Indians	$221,000
Sales of firefighting equipment to governmental or volunteer fire depts.	$168,000
Retail sales of vehicles and semi-trailers exported within 48 hours	$2,328,000
Sales of food and drink through full-service vending	Insignificant
Gross proceeds of sales of motor fuel	$345,660,294
Sales of potting soil, mulch and other soil amendments for use in growing ornamental plants when sold to wholesale commercial plant nurseries	Not Available
Casual Auto Sales Tax Exemptions	$2,630,735

NOTE: Numbers in parentheses should be considered very inexact estimates. No established database 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.

	Estimated FY 2016 Tax Expenditure
Medical Savings Account	Not Available
Health Savings Account	$1,000,000
Individual Retirement Accounts	$1,200,000
Keogh Plans	$1,000,000
Interest penalty on early withdrawal of savings	$7,000
Unreimbursed moving expense	$370,000
Self-employed medical insurance	$1,213,000
Credit for income tax paid to another state	$54,986,000
Medical and dental expenses	$38,000,000

Tax Expenditures which conform with federal law – (continued)	Estimated FY 2016 Tax Expenditure
Real estate taxes	$58,000,000
Home mortgage interest	$65,250,000
Investment interest	Not Available
Charitable contributions (Individual Income)	$83,400,000
Casualty and theft losses	$1,000,000
Employee expenses and miscellaneous deductions subject to 2% limitation	$86,000,000
Miscellaneous deductions not subject to 2% limitation	$6,740,000

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.

	Estimated FY 2016 Tax Expenditure
Redevelopment Project Incentive Fund (Corporate Income)	Not Available
Capital Gains Exempt	Not Available
Charitable contributions (Corporate Income)	Not Available
Reserve funds	Not Available
Annuity income	Not Available
Contributions to employee pension plans	Not Available
Net operating loss carryback and carryover	Not Available
Dividend distributions	Not Available
Dividends for holding companies	Not Available
Growth and Prosperity Area Exemption (Corporate Income)	Not Available
Growth and Prosperity Area Exemption (Corporate Franchise)	Not Available
"Fee-In-Lieu"	Not Available
Redevelopment Project Incentive Fund (Corporate Franchise)	Not Available
Organ donation deduction	Not Available
Sales of parts used in the repair of aircraft	Not Available
Growth and Prosperity Act Incentives (Sales and Use)	Not Available
Pollution control equipment	Not Available
Sales of broadband technology equipment (Sales and Use)	Not Available
Sales of machinery or equipment to nonprofit organizations created by the Oil Pollution Control Act of 1990	Not Available
Sales of component materials and equipment used to repair buildings and equipment damaged or destroyed as a result of a natural disaster	Not Available
Sales to nonprofit organizations providing foster care, adoption services and temporary housing for unwed mothers and their children	Not Available
Sales to nonprofit organizations that provide residential rehabilitation for persons with alcohol and drug dependencies	Not Available
Insurance Premium Tax Exemptions	Not Available
Auto privilege taxes and auto tax fee exemptions	Not Available

APPENDIX: 2015 LEGISLATION

SALES & USE TAX BUREAU

Senate Bill 2656 – Effective July 1, 2015
This bill amends § 27-65-111 to provide an exemption for sales of tangible personal property and services to:

- The University of Mississippi Medical Center Research and Development Foundation
- Keep Mississippi Beautiful, Inc., and its affiliates
- Friends of Children's Hospital
- Pinecrest Weekend Snackpacks for Kids in Corinth, Mississippi

This bill also exempts from sales tax the sales of hearing aids when ordered or prescribed by a licensed physician, audiologist, or hearing aid specialist for the medical purposes of a patient.

Senate Bill 2762 – Effective March 29, 2015
"*Facilitating Business Rapid Response to State Declared Disasters Act of 2015*." This bill provides a sales or use tax exemption on equipment brought into the state temporarily for use during qualified disaster response periods.

Senate Bill 2832 – Effective July 1, 2015
This bill amends § 27-65-21 to provide that costs of completing an oil or gas well are included in the 3½% tax rate levied on the contract price or compensation received for drilling an oil and gas well.

CORPORATE INCOME TAX BUREAU

House Bill 33 – Effective January 1, 2016
This bill authorizes an income tax credit for taxpayers that employ persons who are honorably discharged veterans who served on active duty in the Armed Forces of the United States on or after September 11, 2001, and who have been unemployed for six consecutive months immediately prior to being employed by such taxpayers. Likewise, this bill authorizes any tax credit claimed but not used in any taxable year to be carried forward for five consecutive years and the aggregate amount of tax credits that may be awarded shall not exceed $1,000,000.

Senate Bill 2762 – Effective March 29, 2015
"*Facilitating Business Rapid Response to State Declared Disasters Act of 2015*." This bill provides an income and franchise tax exemption for an out-of-state business performing work or services related to a declared state disaster or emergency during the disaster response period.

INDIVIDUAL INCOME TAX BUREAU

House Bill 33 – Effective January 1, 2016
This bill authorizes an income tax credit for taxpayers that employ persons who are honorably discharged veterans who served on active duty in the Armed Forces of the United States on or after September 11, 2001, and who have been unemployed for six consecutive months immediately prior to being employed by such taxpayers. Likewise, this bill authorizes any tax credit claimed but not used in any taxable year to be carried forward for five consecutive years and the aggregate amount of tax credits that may be awarded shall not exceed $1,000,000.

House Bill 1134 – Effective January 1, 2015
This bill authorizes taxpayers to establish a catastrophe savings account to pay the amount of insurance policy deductibles and other uninsured portions of risks of loss to the taxpayer's legal residence from a hurricane, flood, windstorm, or other catastrophic event. A distribution from a catastrophe savings account shall be included in the taxable gross income of the taxpayer unless the amount of the distribution is used to pay qualified catastrophe expenses.

Senate Bill 2762 – Effective March 29, 2015
"*Facilitating Business Rapid Response to State Declared Disasters Act of 2015*." This bill provides an income tax exemption for an out-of-state employee performing work or services related to a declared state disaster or emergency in the state during the disaster response period. The employer is also exempt from being required to withhold on the non-resident individual's wages during this period.

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FINANCIAL GOALS AND PROGRAMMATIC GOALS

House Bill 1365, passed in the 2014 regular session, created the Economic Development Programs and Tax Incentives Evaluation Act of 2014, which directed the University Research Center to conduct an economic analysis of all of the State's economic development incentives that have the explicit purpose of creating or retaining jobs or recruiting or retaining businesses. The economic development incentives included in this report were selected based on the purpose and goals stated in the authorizing legislation, legislative intent or active promotion of the incentive as a business recruitment or retention tool by State agencies.

ECONOMIC DEVELOPMENT INCENTIVES

Economic development incentives are an important tool that state policymakers use to encourage businesses to locate, hire, and invest in the state. The primary goal of economic development incentives should be to improve and enhance the lives of Mississippi's citizens. Although economic development incentives are awarded to businesses, they are awarded with the intent of helping people find jobs, increase their earnings, and become more economically secure. Businesses are merely the vehicle used to accomplish this inherent goal.

Economic development incentives are used to address cost disadvantages for specific types of industries, revitalize local economies, and attract new industries. However, the use of incentives comes at a price; the State must either forego tax revenues or appropriate state funds to provide them. There is a growing concern that the increasing number of economic development incentives and the growing use of economic development incentives are eroding the funding necessary to finance State agencies and programs.

Additionally, an argument can be made that the State should not meddle in the private sector; creating market distortions by helping some firms while harming others. Rather it should concentrate on funding public goods like public education, public health, public safety, and transportation infrastructure. Government, rather than the private sector, typically provides these essential services because they are non-excludable, non-rivalrous in consumption, and provide benefits shared by all members of society. The private sector under-invests in these services because they are unwilling to foot the bill to provide the benefits of these services to individuals who do not pay for them. The provision of public goods is an easily justifiable use of the State's resources. Providing tax dollars in the form of economic development incentives to private sector businesses reduces the resources available to the State to provide these public goods. The State could level the playing field by not intervening in the private sector. It should only spend the taxes it collects from its citizens to provide the goods and services the private sector will not adequately provide.

Pragmatists, however, argue that Mississippi must compete with every other state for businesses and jobs. Every other state offers economic development incentives to the businesses they are attempting to recruit and Mississippi must do likewise.

ECONOMIC DEVELOPMENT INCENTIVES: THE COSTS AND BENEFITS TO THE STATE

The Economic Development Programs and Tax Incentives Evaluation Act of 2014 specifically requests that, for each economic development incentive, the costs to the State and the returns to the state are evaluated to determine whether the state is receiving a positive return (additions to State general fund revenue greater than the cost of the incentive) on its investment. Economic development incentives should be considered an investment in the State's future. And, as with any investment, the State needs to invest wisely. Separate from the cost/benefit evaluation, economic development incentives must have an obvious and specific programmatic goal or purpose.

To that end, this statute states, "The analysis of tax incentives as required by Section 4 of this act shall include....The statutory and programmatic goals and intent of the tax incentive..." Many of the State's economic development incentives do not specifically mention the goal or objective of the incentive. However, the goals of some of these incentives can be inferred based on employment or capital investment requirements to qualify for the incentive.

The importance of goals cannot be overstated. Although policy makers are primarily interested in a positive return on the State's investment, they should be equally interested in the programmatic performance of the incentives. Has the incentive achieved its intended purpose? Has it generated the jobs or the new businesses it was intended to produce? Furthermore, is the incentive's goal a worthwhile use of the State's finite resources? If the goal was not specifically stated in the authorizing legislation, its programmatic prudence is unclear and measures of programmatic success are unknown and thus unachievable. If there are economic development incentives on the books with purposes or goals that are unknown or unclear, they should be revisited and possibly retired.

Furthermore, if the goal of an incentive is truly worthwhile (for example, generating jobs, or recruiting businesses to an economically depressed area of the State) it may not be essential for the incentive to generate a positive return on the State's investment, so long as it is not excessively costly to the State. If a truly worthwhile incentive is successful in fulfilling its programmatic goals, but generates a negative monetary return to the State, it may still be a better economic development tool than an incentive that only marginally improves the lives of the State's residents but generates a modest positive monetary return to the State.

ANALYTICAL METHODOLOGY

In collaboration with the Mississippi Department of Revenue (DOR), the Mississippi Development Authority (MDA) and other State agencies, the University Research Center developed a list of economic development incentives that appeared to have a general goal of economic development.

Incentives were only included in this study if the general goal of the incentive (explicit or implied) was to recruit/retain business or create/retain jobs. However, not all of the incentives that met this requirement could be evaluated. There were three reasons why a particular qualifying incentive was not analyzed in this report:

- No Incentives Awarded – Some incentives were not awarded to any firms/projects in 2014;
- Confidentiality Concerns – Some incentives were awarded to fewer than five firms and detailed analytical results could not be reported to avoid disclosure of confidential information;
- Insufficient Data – Some incentives were not analyzed due to insufficient data.

After determining that an incentive met the objectives outlined in the statute and there was sufficient, credible data available to evaluate its costs and benefits without violating a firm's confidential tax records, we employed the Regional Economic Models, Inc. (REMI) Tax-PI model to estimate indirect and induced (secondary) jobs, income, and the additions to State general fund revenue created by the direct jobs reported by the Mississippi Development Authority and the Mississippi Department of Revenue. For incentives where no measurable jobs were created, the dollar amount of the incentive awarded was inserted in the model as a reduction in the firm's cost of production to determine the impact on jobs, income, and State general fund revenue.

To avoid issues of confidentiality, the costs and benefits of all jobs created and all reductions in costs of production for each incentive awarded were aggregated across all recipients of each incentive.

For those incentives that were not disqualified due to one of the reasons listed above, the State's costs and benefits (additions to State general fund revenue) were estimated using three scenarios:

1) First, we estimated the costs and benefits to the State as if all of the firms that were awarded the incentive located within the State or created new jobs in the State solely because of the incentive. Phrased another way, "But For" the incentive, the firms would not have located in Mississippi or created new jobs in Mississippi.[1]
2) Second, we estimated the costs and benefits as though only fifty percent of the firms awarded the incentive located in Mississippi or created new jobs in Mississippi because they received the incentive. The other fifty percent of firms receiving the incentive would have located in Mississippi or created new jobs in Mississippi absent the incentive. Receiving the incentive did not change their location or job creation behavior.[2]
3) Third, some firms would have located in Mississippi even if they hadn't been awarded the incentive. The incentive did not change their behavior. We estimated the percentage of incentivized firms not changing their behavior necessary to make the cost/benefit negative.

The economic development incentives selected for this report are listed in Table 1. After additional reading of the authorizing statutes, thorough review of the available data, and careful consideration of confidentiality concerns, it was determined that several of the selected incentives could not be analyzed.

One additional complication in evaluating the costs and benefits of several of the economic development incentives bears mentioning. Some firms/projects were awarded more than one incentive; some may have been awarded numerous incentives. When a firm receives two or more incentives it is not possible to accurately estimate the impacts of a single incentive.

Table 1. Economic Development Incentives Selected for Analysis

Incentive	Page	Did not meet definition of an economic development incentive in the statute	No firms or projects were awarded this incentive in 2014	Fewer than five firms or projects were awarded this incentive in 2014. Confidentiality issues.	Insufficient data was available to analyze this incentive	The results of the costs/benefit analysis of this incentive
The Advantage Jobs Incentive Program	53					Positive
The Mississippi ACE Fund	54					Positive
The Existing Industry Productivity Loan Program	55			X		Negative
The Mississippi Job Protection Grant Program	55					Could not be determined
The National Headquarters Credit	56		X			NA
The Research and Development Job Skills Credit	56			X		Positive
The Job Training or Retraining Credit	57		X			NA
The Financial Institution Credit	57		X			NA
The Motion Picture Rebate Program	58					Negative
The Mississippi Industry Incentive Financing Revolving Fund	59					Positive
Strengthening Mississippi Academic Research Through Business (SMART) Act	60	X				NA
The Development Infrastructure Program	60				X	Could not be determined
Ad Valorem Inventory Tax Credit	61	X				NA
Mississippi Business Finance Corporation Revenue Bond Service Credit – (Rural Economic Development (RED) Program)	61				X	NA
Export Charges Credit	62		X			NA
Import Port Charges Credit	62		X			NA
Jobs Tax Credit	63					Positive[3]
New Markets Credit	64	X				NA
Manufacturing Investment Tax Credit	64	X				Could not be determined
Broadband Technology Credit	64	X				NA
Job Tax Credit for Certain Producers of Alternative Energy	65		X			NA
The Existing Industry Withholding Rebate Program	66				X	NA
Mississippi Economic Impact Authority Withholding Rebate Program	66				X	NA
Mississippi Major Economic Impact Authority Withholding Rebate Program	66				X	NA
The Rural Impact Fund Grant Program	67					Positive
Job Training Grant Fund	68				X	NA
Workforce Training Fund	68				X	NA

Incentive	Page	Did not meet definition of an economic development incentive in the statute	No firms or projects were awarded this incentive in 2014	Fewer than five firms or projects were awarded this incentive in 2014. Confidentiality issues.	Insufficient data was available to analyze this incentive	The results of the costs/benefit analysis of this incentive
The Mississippi Tourism Rebate Program	69	In 2014 five firms qualified for this incentive, however, no incentive payments have been made to date				
The Economic Development Highway Grant Program	69				X	NA
Mississippi Major Economic Impact Act	70		X			Positive
The Redevelopment Project Incentive Fund	70				X	NA

Research Results

The Advantage Jobs Incentive Program – Mississippi Code of 1972, § 57-62-1

Purpose: To support the establishment of quality business and industry that hold the promise of significant development of the economy of the State of Mississippi through the creation of quality jobs.

The Advantage Jobs Incentive Program is a rebate program designed to encourage businesses that create 25 or more new jobs in the state. Jobs must meet or exceed the average annual wage of the state or the county in which the company locates, whichever is lower. The Advantage Jobs Incentive Program provides for a rebate of 90% of Mississippi Payroll taxes withheld to qualified employers for a period of up to 10 years.

Nine firms/projects were awarded Advantage Jobs tax rebates in 2014. The firms/projects receiving this incentive located in eight counties:

Harrison	Madison	Scott	Tunica
Hinds	Prentiss	Tishomingo	Warren

The firms/projects receiving the Advantage Jobs tax rebate incentive fell into the following North American Industry Classification System[4] (NAICS) categories:

- **324191** – Petroleum Lubricating Oil and Grease Manufacturing
- **331110** – Iron and Steel Mills and Ferroalloy Manufacturing
- **336310** – Motor Vehicle Gasoline Engine and Engine Parts Manufacturing
- **336390** – Other Motor Vehicle Parts Manufacturing
- **339999** – All Other Miscellaneous Manufacturing
- **485991** – Special Needs Transportation
- **541611** – Administrative Management and General Management Consulting Services
- **541711** – Research and Development in the Physical, Engineering, and Life Sciences
- **611512** – Flight Training

Analytical Results

In 2014, the Advantage Jobs Incentive Program created 574 direct jobs and 1,145 secondary (indirect and induced) jobs for a total of 1,719 jobs. The firms/projects awarded this incentive in 2014 received an estimated $918,000 in rebates. The net return to the State in 2014 from this incentive program is estimated to be $1,911,000.

If 50% of the firms receiving this incentive would have located in Mississippi absent the incentive, the net return to the State would have been an estimated $496,000. If 68% or more of the firms receiving this incentive would have located in Mississippi absent the incentive the return to the State would have been negative.

THE MISSISSIPPI ACE FUND – Mississippi Code of 1972, § 57-1-16

Purpose: The goal of this incentive, as stated in the authorizing statute, is to assist a new or expanding business or industry in the creation of substantial employment, particularly in areas of high unemployment.

The Mississippi ACE Fund is designed to make grants to economic development entities ("local sponsors") to assist in funding extraordinary economic development opportunities that promote economic growth in the state of Mississippi. This program is typically used as a "deal-closing fund" and is often used when there is significant competition with other states for projects. These funds can be used to relocate equipment, for specialized training, and for leasehold or building improvements. Local sponsors are encouraged to use these grants in connection with other state and federal programs.

Twenty-four firms/projects were awarded Mississippi ACE Funds in 2014. The firms/projects receiving this incentive located in sixteen counties:

Adams	Hancock	Lee	Prentiss
Alcorn	Hinds	Leflore	Rankin
DeSoto	Lafayette	Madison	Tippah
Forrest	Lauderdale	Monroe	Yalobusha

The firms/projects receiving the Mississippi ACE Funds incentive fell into the following NAICS categories:

- **212325** – Clay and Ceramic and Refractory Minerals Mining
- **311412** – Frozen Specialty Food Manufacturing
- **315210** – Cut and Sew Apparel Contractors
- **322291** – Sanitary Paper Product Manufacturing
- **326211** – Tire Manufacturing (except retreading)
- **335311** – Power, Distribution and Specialty Transformer Manufacturing
- **336320** – Motor Vehicle Electrical and Electronic Equipment Manufacturing
- **336419** – Other Guided Missile and Space Vehicle Parts and Auxiliary Equipment Manufacturing
- **336612** – Boat Building
- **337121** – Upholstered Household Furniture Manufacturing
- **339999** – All Other Miscellaneous Manufacturing
- **423330** – Roofing, Siding, and Insulation Material Merchant Wholesalers
- **481111** – Scheduled Passenger Air Transportation
- **511120** – Periodical Publishers
- **512110** – Motion Picture and Video Production
- **512199** – Other Motion Picture and Video Industries
- **524292** – Third Party Administration of Insurance and Pension Funds
- **541519** – Other Computer Related Services
- **541618** – Other Management Consulting Services
- **621420** – Outpatient Mental Health and Substance Abuse Centers

Analytical Results

In 2014, the Mississippi ACE Fund created 3,200 direct jobs and 2,317 secondary (indirect and induced) jobs for a total of 5,517 jobs. The firms/projects awarded this incentive in 2014 received an estimated $14,192,000 in State funds. The net return to the State in 2014 from this incentive program is estimated to be $18,295,000.

If 50% of the firms receiving this incentive would have located in Mississippi absent the incentive, the State would have realized a net loss of approximately $4,103,000. If 77% or more of the firms receiving this incentive would have located in Mississippi absent the incentive the return to the State would have been negative.

The Existing Industry Productivity Loan Program – Mississippi Code of 1972, § 57-93-1

Purpose: To provide qualifying firms loans to improve productivity and competitiveness.

This incentive is awarded to firms to assist them in improving their productivity and competitiveness through new technology. This incentive does not require firms to create any new jobs and, in fact, allows them to reduce their workforce up to 20 percent. However, it appears that the underlying goal of this incentive is to retain jobs.

The Mississippi Existing Industry Productivity Loan Program provides loans to existing industries that have been operating in the state for at least two years and meet minimum criteria established by MDA. Loan funds may be used to finance long-term fixed assets, such as land improvements, equipment purchases or building construction or improvements, or to refinance loans that were used to finance fixed assets.

Fewer than five firms were awarded this incentive in 2014. Due to confidentiality concerns, we cannot report detailed information concerning this incentive. This incentive delivered a negative return on the State's investment in 2014.

The Mississippi Job Protection Grant Program – Mississippi Code § 57-95-1

Purpose: The purpose of this incentive is to provide grants and loans to at-risk industries to be used for job retention and to improve productivity and competitiveness.

The Mississippi Job Protection Grant Program is designed for making grants and loans to at-risk industries to be used for job retention and to improve productivity and competitiveness. A company must qualify as an at-risk industry, defined as a company that has been operating in the state for not less than three consecutive years that is at risk due to foreign competition, to receive assistance under the Job Protection Program. Job Protection grant recipients must use grant funds to retain jobs and improve their productivity and competitiveness, and funds may only be used for projects related to fixed assets, such as building or land improvements and depreciable fixed assets. A business cannot reduce its employment by more than 20% if it receives a Job Protection grant. In FY 2015 Mississippi Incentives Report, MDA states, "This is the only program that exists to help existing companies that are struggling in today's global economy which requires no job creation commitment."

Five firms/projects were awarded Mississippi Job Protection Grants funds in 2014. The firms/projects receiving this incentive located in five counties:

Calhoun	Jackson	Lowndes	Madison	Warren

The firms/projects receiving the Mississippi Job Protection Grant Program funds fell into the following NAICS categories:

- **321991 –** Manufactured Home (Mobile Home) Manufacturing
- **322121 –** Paper (except newsprint) Mills
- **336370 –** Motor Vehicle Metal Stamping
- **336411 –** Aircraft Manufacturing
- **423990 –** Other Miscellaneous Durable Goods Merchant Wholesalers

The total incentive amount awarded in 2014 was estimated to be $996,178. No firm received more than $200,000. According to MDA, total jobs created or retained in 2014 associated with these incentive awards was 2,622; ranging from 120 to 1,500. The firm's capital investment associated with incentive ranged from $196,178 to $40,000,000 and totaled $57,196,178 for all qualifying firms.

The "But For" assumption stipulates that, but for the incentive, the firm would not have changed its behavior (pursued the capital investment or the creation or retention of jobs). It is unlikely that a $200,000 incentive influenced a firm to commit to $40,000,000 in capital improvements or to retain 1,500 employees. The data provided strains credibility and was not analyzed further.

THE NATIONAL HEADQUARTERS CREDIT – Mississippi Code of 1972, § 57-73-21

Purpose: Job creation.

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 20 jobs at the headquarters. The minimum increase of 20 jobs must occur within one year. An additional credit, the Headquarters Relocation Credit, is authorized for any company that transfers or relocates its national or regional headquarters to the State of Mississippi from outside the State of Mississippi in an amount equal to the actual relocation costs paid by the company. A minimum of 20 jobs must be created in order to qualify for the additional credit. The tax credit shall be applied for the taxable year in which the relocation costs are paid. The total of the Jobs Tax Credit, the Headquarters Credit, and the R&D Skills Credit cannot exceed 50% of the total income tax due. The credit is limited to 50% of the income tax liability in each year and any credit claimed but not used in any taxable year may be carried forward 5 years from the close of the tax year in which the relocation costs were paid. A company may not receive a credit for the relocation of an employee more than one time in a twelve-month period for that employee. The maximum cumulative amount of tax credit that may be claimed by all taxpayers in any one fiscal year shall not exceed $1,000,000.

No firms received this incentive in 2014.

THE RESEARCH AND DEVELOPMENT JOBS SKILLS CREDIT – Mississippi Code of 1972, § 57-73-21

Purpose: Job creation.

A credit of $1,000 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 year college or university, employment in the area of expertise and compensation at a professional level. The total of the Jobs Tax Credit, the Headquarters Credit, and the R&D Skills Credit cannot exceed 50% of the total income tax due. The credit can be carried forward for up to five years.

Fewer than five firms were awarded this incentive in 2014. Due to confidentiality concerns, we cannot report detailed information concerning this incentive. This incentive delivered a positive return on the State's investment in 2014.

THE JOB TRAINING OR RETRAINING CREDIT – Mississippi Code of 1972, § 57-73-25

Purpose: The purpose of this incentive is to encourage firms to provide basic skills training or retraining programs to their employees.

A training credit is allowed for all employer-sponsored training programs provided through any community or junior college in the district within which the employer is located or training approved by such community or junior college. The training offered must enhance skills related to the job that the employee is performing, improve job performance, or relate to a career path that is anticipated for the employee. If the employer provides pre-employment training, only the portion of the pre-employment training that involves skills training will be eligible for the credit. The credit is applied to qualified training expenses, which are expenses related to instructors, instructional materials and equipment, and the construction and maintenance of facilities by such employer designated for training purposes. The credit shall not to exceed $2,500 per employee per year. The credit is limited to 50% of the income tax liability and may be carried forward for up to five years. The repeal date is July 1, 2016.

No firms received this incentive in 2014.

THE FINANCIAL INSTITUTION CREDIT – Mississippi Code of 1972, § 27-7-22.13

Purpose: Job creation.

A tax credit is allowed to a Mississippi employer which is a financial institution against the income taxes based upon the net gain, if any, in the number of employees of the financial institution where there is a merger, consolidation or purchase of all or substantially all of the assets of another entity that qualifies as a financial institution as defined in Miss. Code Ann. § 27-7-24.1.1. The credit is earned when the transactions are between in-state and out-of-state financial institutions and is based on the net gain in the number of employees by comparing the employment level in the month the transaction was completed to the employment level for the same month one year following completion of the transaction. The base amount of the credit is $1,500 per employee and may be claimed against the income tax over five years in an amount equal to 100% of the base amount in the tax year the determination was made, 80% in the next year, 60% in the third year, 40% in the fourth year and 20% in the fifth year. The credit allowed shall not exceed the amount of taxes due and shall not be refunded or carried forward to any other taxable year.

No firms received this incentive in 2014.

THE MOTION PICTURE REBATE PROGRAM – Mississippi Code of 1972, § 57-89-7

Purpose: The purpose of this incentive is to encourage the development of a new industry in Mississippi and the creation of jobs.

The Mississippi Motion Picture Incentive Program provides a cash rebate on eligible expenditures and payroll and provides sales and use tax reductions on eligible rentals/purchases. This program is available for nationally distributed motion pictures, television programs, DVDs, documentaries, short films, commercials or computer or video games, including animation and production utilizing new technology. To be considered a nationally distributed film, a project must be intended for theatrical, broadcast, festival screening, streaming video or internet delivery. There is a $50,000 minimum Mississippi investment per project, as well as a $10,000,000 per project rebate cap. There is a $20,000,000 annual rebate cap, as well. There is no minimum requirement for production days or percentage of production spending. A production is eligible for a 25% rebate of its base investment (local spending) in Mississippi. The base investment is determined by production expenditures in Mississippi. A production is eligible for a 30% cash rebate on payroll that is paid to resident cast and crew members whose wages are subject to Mississippi income tax withholding and for that portion of their salary for the project up to and including $5 million.

A production is eligible for a 25% cash rebate on payroll paid to non-resident cast and crew members whose wages are subject to Mississippi income tax withholding and for that portion of their salary for the project up to and including $5 million. A production company receives an additional rebate of 5% of the payroll paid for any employee who is an honorably discharged veteran of the United States Armed Forces. For purposes of this program, payroll means salary, wages, or other compensation including related benefits paid to employees upon which Mississippi income tax is due and has been withheld.

Seven firms received this incentive in 2014. The counties in which these firms filmed were unavailable.

The firms/projects receiving the Mississippi Motion Picture Rebate Program incentive fell into the following NAICS category:

- **512110** – Motion Picture and Video Production

The motion picture production companies receiving these incentives created an estimated 1,079 jobs, most lasting a few weeks to a few months.

ANALYTICAL RESULTS

An estimated $891,812 in Motion Picture rebates was awarded to seven recipients in 2014. Due to the short-term nature of the direct jobs created, no measurable secondary jobs were generated.

The net new economic activity associated with these productions generated approximately $413,272 in additional State general fund revenue resulting in a net loss to the State of about $478,540.

No further analysis was conducted on this incentive because the net return to the State was negative under the assumption that none of the 2014 projects would have occurred in Mississippi absent the incentive.

THE MISSISSIPPI INDUSTRY INCENTIVE FINANCING REVOLVING FUND – Mississippi Code of 1972, § 57-1-221

Purpose: To encourage firms to locate or expand their facilities in the State and create jobs. This incentive provides special provisions for underperforming areas of the State.

The Industry Incentive Financing Revolving Fund provides a fund that MDA can use to incentivize projects that create significant economic opportunities within the State. This incentive allows grants or loans to be awarded to companies or local government to meet the specific needs of the project. This incentive requires significant job creation and capital investment by the firm and targets underperforming areas of the State.

Ten firms/projects were awarded Mississippi Industry Incentive Financing Revolving Funds in 2014. The counties in which these firms/projects were located are unknown.

The firms/projects receiving the Mississippi Industry Incentive Financing Revolving Funds fell into the following NAICS categories:

- **311999** – All Other Miscellaneous Food Manufacturing
- **321211** – Hardwood Veneer and Plywood Manufacturing
- **336310** – Motor Vehicle Gasoline Engine and Engine Parts Manufacturing
- **336320** – Motor Vehicle Electrical and Electronic Equipment Manufacturing
- **336330** – Motor Vehicle Steering and Suspension Components Manufacturing
- **336350** – Motor Vehicle Transmission and Power Train Parts Manufacturing
- **336370** – Motor Vehicle Metal Stamping
- **441310** – Automotive Parts and Accessories Stores
- **442299** – All Other Home Furnishings Stores
- **541711** – Research and Development in the Physical, Engineering, and Life Sciences

ANALYTICAL RESULTS

In 2014 the Mississippi Industry Incentive Financing Revolving Fund awarded $9,035,000 in loans and $53,200,000 in grants. An estimated $45,840,889 of these amounts was spent in 2014. The firms/projects receiving this incentive committed to $521,070,000 in capital investment and 2,928 new direct jobs. Both the capital investment and the new jobs will accrue in the future. Secondary impacts (indirect and induced) could not be estimated.

Relative to the State's investment, both the capital investment and job creation suggest that this incentive is generating a positive return on investment. Based solely on the fiscal impacts of future construction/equipment installation, the net return to the State is estimated to be $6,688,000.

Funding for this incentive comes from a number of sources, State general obligation bonds being one of them. General obligation bonds require annual debt service payments in 2014 estimated to be $3,743,000. The Mississippi Industry Incentive Financing Revolving Funds issued as loans ($9,035,000), may have created an annual interest debt of $184,000. These combined additional costs ($3,927,000) reduce the known returns to the State to $2,761,000.

Ongoing operational benefits generated by the firms awarded this incentive could not be estimated due to insufficient data. These operational benefits are significant and reinforce the assessment that this incentive generates a positive return on the State's investment.

STRENGTHENING MISSISSIPPI ACADEMIC RESEARCH THROUGH BUSINESS (SMART) ACT – Mississippi Code of 1972, § 37-148-5

Purpose: To encourage private businesses to invest in Mississippi universities by entering into research agreements with universities.

The SMART Business Act is intended to encourage private businesses to invest in Mississippi universities. Under the Act, an investor entering into a research agreement with a university can qualify to receive a rebate equal to 25% of the investor's contracted research costs. To receive a rebate, the investor submits an application to the Board of Trustees of State Institutions of Higher Learning in Mississippi ("IHL") containing a description of the qualified research to be conducted, a proposed budget, and the estimated date of completion. IHL will issue or refuse to issue a SMART Business certificate. If IHL issues the certificate, the investor can claim the rebate by submitting to the Department of Revenue ("DOR") the certificate and proof of payment to the university. DOR allocates rebates to investors in the order the certificates are issued by IHL and will issue rebates from current income tax collections. The legislation authorizes IHL and DOR to promulgate rules, regulations, and any necessary forms. An investor incurring research costs may not claim a rebate greater than $1 million in any fiscal year. The total amount of rebates issued under the Act in any fiscal year may not exceed $5 million.

There was no indication in the authorizing legislation that the intent of this incentive was either to recruit/retain businesses or create/retain jobs.

THE DEVELOPMENT INFRASTRUCTURE PROGRAM – Mississippi Code of 1972, § 57-61-36

Purpose: This incentive provides funding for infrastructure projects that are related to new or expanding industries.

The Development Infrastructure Program (DIP) provides grants to finance infrastructure projects that promote economic growth throughout the state. Funding from this program can be used by municipalities and counties to assist with the location or expansion of businesses. DIP funds may be used only to construct, renovate or expand publicly owned buildings and publicly owned infrastructure, such as drainage systems, water supply or sewage systems, roads, bridges, rail lines, pipelines, or energy facilities related to power generation and distribution. The goal of the program is job creation. Typical industries eligible under this program include: manufacturers, warehouses and distribution centers, research and development facilities, telecommunications and data processing facilities, and national or regional headquarters.

The total incentive amount awarded in 2014 was estimated to be $9,428,581. The largest award was $1,275,000 and the smallest was $30,000. According to MDA, total jobs created or retained in 2014 associated with these incentive awards was 1,099; ranging from 0 to 150. The firm's capital investment associated with incentive ranged from $6,000 to $80,000,000 and totaled $167,887,087 for all qualifying firms.

The "But For" assumption stipulates that, but for the incentive, the firm would not have changed its behavior (pursued the capital investment or the creation or retention of jobs). Once again, as in the Mississippi Job Protection Program, the data provided by MDA implies that a firm only agreed to commit to an $80 million investment because the State awarded them an incentive worth approximately $440,000. It is unlikely that an incentive representing less than 1% of the project costs would influence the firm to change its behavior. The data provided strains credibility and was not analyzed further.

Ad Valorem Inventory Tax Credit – Mississippi Code of 1972, § 27-7-22.5

Purpose: Section 27-7-22.5 does not state the purpose of this incentive.

The Ad Valorem Inventory Tax Credit offers qualifying businesses an income tax credit equal to the amount of ad valorem (property) tax they pay on commodities, raw materials, works-in-progress, goods, products, wares or merchandise held for resale, including any ad valorem tax paid to county, city, town or school district in the state.

Through the 2013 taxable year, the credit was limited to either the amount of ad valorem tax actually paid on the business's inventory at its Mississippi location, $5,000, or 100% of the income tax liability attributable to the income derived from that location, whichever is less. For the 2014 taxable year, the maximum tax credit for a qualifying business's inventory at its Mississippi location was $10,000 or the amount of state income tax liability attributable to the income derived from that location, whichever was less. For the 2015 taxable year, the maximum tax credit for a qualifying business's inventory was $15,000 or the amount of state income tax liability attributable to the income derived from that location, whichever was less. For the 2016 taxable year and each subsequent taxable year, the maximum tax credit allowed is the amount of ad valorem tax actually paid on the business's inventory at its Mississippi location or the amount of income tax liability attributable to the income derived from that location, whichever is less.

In 2014, the state awarded $7,206,943 in Ad Valorem Inventory Tax Credits to 696 firms/locations. The maximum award was $10,000 per location. The average award per firm (some firms had multiple locations) was $10,355. The maximum allowable award does reduce a firm's cost of production, but is not great enough to encourage a firm to locate in Mississippi that otherwise would not, nor is this amount sufficient to spur a firm to create additional jobs.

There was no indication in the authorizing legislation that the intent of this incentive was either to recruit/retain businesses or create/retain jobs.

The Mississippi Department of Revenue estimated that the total annual cost of the Ad Valorem Inventory Tax Credit in 2015 was $7,200,000 and will grow to $15,000,000 in 2016. This tax credit could represent a significant burden to State general fund in the future.

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

Purpose: To induce the location or expansion of manufacturing facilities within the State.

An income tax credit is available equal to the total debt service paid on industrial revenue bonds issued by the Mississippi Business Finance Corporation to finance economic development projects to induce the location of manufacturing, telecommunications, data processing, distribution or warehouse facilities within this state. The credit is limited to the lesser of 80% of the total income tax liability or the income tax liability attributable to the income generated by the economic development project as determined by the Mississippi Business Finance Corporation. Any excess credit shall not be refunded and may be carried forward three years.

For any economic development project bonds that were issued prior to July 1, 1997, a job development assessment fee may be levied upon employees whose job was created as a result of the economic project. The assessment fee shall not exceed the following percentages of gross wages of the employee: (a) 2%, if the gross wages are equivalent to $5.00 or more but less than $7.00 per hour; (b) 4%, if the gross wages are equivalent $7.00 or more but less than $9.00 per hour; and (c) 6% if the gross wages are equivalent to $9.00 or more per hour. An income tax credit is allowed for each employee required to pay the assessment fee in an amount equal to the amount of job assessment fee imposed. Any excess credit shall not be refundable or carried forward to any other taxable year. The repeal date is October 1, 2015.

There was insufficient data available to evaluate the costs/benefits of this incentive.

EXPORT CHARGES CREDIT – Mississippi Code of 1972, § 27-7-22.7

Purpose: The purpose of the tax credit provided in this section is to promote the increased use of ports and related facilities in this state, particularly by those taxpayers which would not otherwise use such ports and related facilities without the benefit of such tax credit, and increase the number of port related jobs and other economic development benefits associated with the increased use of such ports and related facilities.

This is an incentive 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 beginning January 1, 1994 and ending December 31, 2005 is limited to $1,200,000. To obtain the credit a taxpayer must provide to the Department of Revenue 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 Department of Revenue. The repeal date is July 1, 2016.

No firms were awarded this incentive in 2014.

IMPORT CHARGES CREDIT – Mississippi Code of 1972, § 27-7-22.23

Purpose: No purpose was explicitly identified in § 27-7-22.23. However, § 27-7-22.7 may apply to this incentive. The purpose of the tax credit provided for in this section is to promote the increased use of ports and related facilities in this state, particularly by those taxpayers which would not otherwise use such ports and related facilities without the benefit of such tax credit, and increase the number of port related jobs and other economic development benefits associated with the increased use of such ports and related facilities.

An income tax credit is allowed for certain taxpayers that utilize the port facilities at state, county and municipal ports equal to certain charges paid by the taxpayer on the import of cargo. In order to be eligible, a taxpayer must locate its United States headquarters in Mississippi on or after July 1, 2004, employ at least 5 permanent full-time employees who actually work at such headquarters, and have a minimum capital investment of $2,000,000 in Mississippi. The amount of the credit allowed shall be the total of the following charges on import of cargo paid by the corporation [however, it does not apply to the import of forest products]: (1) receiving into the port; (2) handling from a vessel; and (3) wharfage. The amount of the credit 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 allowable to such taxpayers, except credit for tax payments made by or on behalf of the taxpayer. Any unused portion of the credit may be carried forward for the succeeding 5 years. To obtain the credit, a taxpayer must provide to the Department of Revenue 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 Department of Revenue.

No firms were awarded this incentive in 2014.

JOBS TAX CREDIT – Mississippi Code of 1972, § 57-73-21, 27-7-22.17 and § 27-7-22.19

Purpose: Purpose: Job creation.

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.

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:

County Classification	Minimum Number of New Jobs Created	Credit Per Job
Tier Three (Less Developed)	10 or more	10% of payroll
Tier Two (Moderately Developed)	15 or more	5% of payroll
Tier One (Developed)	20 or more	2.5% of payroll

The Jobs 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 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 $5,000 annually for each net new full-time employee for a period of 20 years. This credit can offset 100% of the income tax due from the earnings of the project. Integrated suppliers are allowed a credit equal to $1,000 annually for each new net full-time employee for 5 years and cannot exceed 50% of the total income tax due. This credit is in lieu of those provided for in § 57-73-21.

In 2014, the Mississippi Development Authority reported $2,432,398 in Jobs Tax Credits were awarded to 24 firms; an average of $101,350 per award. No estimate of the actual number of jobs created was available. However, if all of the awards were made in Tier One counties and every firm met the minimum required job creation threshold, the minimum job creation would have been 480 direct jobs and 867 total jobs. This level of job creation would have generated an estimated $2,701,000 in additional State general fund revenue; $268,602 greater than the revenue foregone due to the tax credits issued. If 50% of the firms awarded this incentive were located in Tier One counties and 50% were in Tier Two counties, the minimum job creation would have been 420 direct jobs and 759 total jobs. This level of job creation would have generated an estimated $2,495,000 in State general fund revenue; $62,602 greater than the revenue foregone due to the tax credits issued.

Under the "But For" conditions, if 10% or more of firms receiving this incentive would have located in Mississippi absent the incentive, the net return to the State would have been negative.

The implied purpose of this incentive is to produce jobs in underperforming areas of the State. If this incentive is successful in recruiting/retaining businesses and creating/retaining jobs in Tier Two and Tier Three Counties, the Jobs Tax Credit may be an incentive that does not necessarily need to produce a positive return on the State's investment so long as it is not prohibitively expensive.

NEW MARKETS CREDIT – Mississippi Code of 1972, § 57-105-1

Purpose: No explicit purpose was found in § 57-105-1.

An income tax credit and insurance premium tax credit is allowed for taxpayers making investments that qualify for Federal income new markets tax credit as defined in § 45D of the Internal Revenue Service Code. The amount of the credit shall be equal to the applicable percentage of the adjusted purchase price paid to the qualified community development entity for the qualified equity investment. The amount of the credit that may be utilized in any one year shall be limited to the total tax liability of the taxpayer for the applicable (income, insurance premium or premium retaliatory) tax. The credit shall not be refundable or transferable. Any unused portion of the credit may be carried forward for 7 years beyond the credit allowance date on which the credit was earned. The total amount of credit for all taxpayers is capped at $15,000,000 per year.

There was no indication in the authorizing legislation that the intent of this incentive was either to recruit/retain businesses or create/retain jobs.

MANUFACTURING INVESTMENT TAX CREDIT – Mississippi Code of 1972, § 27-7-22.30

Purpose: No explicit purpose was found in § 27-7-22.30

An income tax credit is available for a manufacturing enterprise that has operated in Mississippi for 2 or more years and is equal to 5% of the enterprise's investment in buildings or equipment used in the manufacturing operation. The eligible investment must be at least $1,000,000. The credit can offset up to 50% of the income tax liability in each year reduced by the sum of all other income tax credits. Any excess credit may be carried forward for 5 years. The maximum credit allowed on any project is $1,000,000.

There was no indication in the authorizing legislation that the intent of this incentive was either to recruit/retain businesses or create/retain jobs.

BROADBAND TECHNOLOGY CREDIT – Mississippi Code of 1972, § 57-87-5

Purpose: To ensure that all citizens have access to telephone and internet services.

An income tax and franchise tax credit is available for telecommunications enterprises for investments made after June 30, 2003 and before July 1, 2020. The credit is based on a percentage of the cost of equipment used in the deployment of broadband technology. The credit percentage amount is determined on where the equipment is being deployed or placed in service. The percentage amount for each county is 5%, 10% and 15% for Tier 1, Tier2 and Tier 3 counties respectively. The annual credit is available beginning in the year the equipment is placed into service and may be taken for that equipment each year for the following 9 years. The total amount of credit taken in any one year is only allowed against 50% of the aggregate income and franchise tax liability for that year. The credit is not refundable and any excess credit amount can be carried forward for up to ten consecutive years from the close of the original year in which the excess credit could not be used. The total amount of credits taken over the ten consecutive year period cannot exceed 100% of the original investment in the equipment.

There was no indication in the authorizing legislation that the intent of this incentive was either to recruit/retain businesses or create/retain jobs.

JOB TAX CREDIT FOR CERTAIN PRODUCERS OF ALTERNATIVE ENERGY – Mississippi Code of 1972, § 27-7-22.29

Purpose: The purpose of this incentive is not explicitly stated in § 27-7-22.29. However, this is a tax credit requiring job creation.

Producers are allowed a job tax credit for taxes imposed by § 27-7-5 equal to $1,000 annually for each net new full-time employee job for a period of 20 years from the date the credit begins; however, if the producer is located in an area that has been declared by the Governor to be a disaster area and as a direct result of the disaster the producer is unable to maintain the required number of employees, the commissioner may extend this time period for not more than 2 years. The credit shall begin on the date selected by the producer; however, the beginning date shall not be more than 5 years from the date the producer begins manufacturing or producing alternative energy. For the year in which the beginning date occurs, the number of new full-time jobs shall be determined by using the monthly average number of full-time employees subject to Mississippi income tax withholding. Thereafter, the number of new full-time jobs shall be determined by comparing the monthly average number of full-time employees subject to Mississippi income tax withholding for the taxable year with the corresponding period of the prior taxable year. Once a producer creates 25 or more new full-time jobs, the producer shall be eligible for the credit; however, if the producer is located in an area that has been declared by the Governor to be a disaster area and as a direct result of the disaster the producer is unable to maintain the required number of employees, the commissioner may waive the employment requirement for a period of time not to exceed 2 years. The credit is not allowed for any year of the 20 year period in which the overall monthly average number of full-time employees subject to the Mississippi income tax withholding falls below 25. The Department of Revenue shall adjust the credit allowed each year for the net new employment fluctuations above 25.

Any tax credit claimed under this section but not used in any taxable year may be carried forward for 5 consecutive years from the close of the tax year in which the credits were earned; however, if the producer is located in an area that has been declared by the Governor to be a disaster area and as a direct result of the disaster the producer is unable to use the existing carryforward, the commissioner may extend the period that the credit may be carried forward for a period of time not to exceed 2 years. The credit that may be utilized each year shall be limited to an amount not greater than the total state income tax liability of the producer that is generated by, or arises out of, the alternative energy project.

The tax credits provided for in this section shall be in lieu of the tax credits provided for in § 57-73-21 and any producer utilizing the tax credit authorized in this section shall not utilize the tax credit authorized in § 57-73-21.

No firms received this incentive in 2014.

THE EXISTING INDUSTRY WITHHOLDING REBATE PROGRAM – Mississippi Code of 1972, § 57-100-3

Purpose: Job creation.

The Existing Industry Withholding Rebate Program allows qualified existing employers to receive incentive payments from the State equal to the lesser of 3.5% of the taxable wages or the actual withholding paid by qualifying new employees. The incentive payments will be paid out of the employee withholdings that are diverted into a special fund instead of being paid to the general fund. The incentive payment may be made for a period of up to 2 years. The diversion of an employee's withholding taxes into such fund will have no effect on an employee's filing of income tax returns.

There was insufficient data available to evaluate the costs/benefits of this incentive.

MISSISSIPPI ECONOMIC IMPACT AUTHORITY WITHHOLDING REBATE PROGRAM – Mississippi Code of 1972, § 57-99-23

Purpose: Job creation.

The Mississippi Economic Impact Authority Withholding Rebate Program allows qualified existing employers to receive incentive payments from the state equal to the lesser of 1% of taxable wages or the actual withholding paid to qualified employees. The incentive payments will be paid out of the employee's withholdings that are diverted into a special fund instead of being paid to the general fund. The diversion of an employee's withholding taxes into such fund will have no effect on an employee's filing of income tax returns. The incentive payments may be made for a period of up to ten years, but cannot exceed $6,000,000 in total rebates. An employer had to apply MDA by July, 2010 to be eligible for this rebate program.

In 2015 this incentive resulted in an estimated $800,000 in foregone tax revenue. In 2016, tax revenue foregone is estimated to be $880,000.

There was insufficient data available to evaluate the costs/benefits of this incentive.

MISSISSIPPI MAJOR ECONOMIC IMPACT AUTHORITY WITHHOLDING REBATE PROGRAM – Mississippi Code of 1972, § 57-99-3

Purpose: Job creation.

The Mississippi Major Economic Impact Authority Withholding Rebate Program allows qualified companies and their affiliates to receive quarterly incentive payments from the state in an amount equal to the lesser of 3.5% of the wages and taxable benefits or the actual amount of tax withheld by the employer for the qualified jobs. The incentive payments will be paid out of the employee withholdings that are diverted into a special fund instead of being paid to the general fund. The diversion of an employee's withholding taxes into such fund will have no effect on an employee's filing of income tax returns. The incentive payments may be made for a period of up to 25 years.

In 2015 this incentive resulted in an estimated $2,500,000 in foregone tax revenue. In 2016, tax revenue foregone is estimated to be $3,300,000.

There was insufficient data available to evaluate the costs/benefits of this incentive.

THE RURAL IMPACT FUND GRANT PROGRAM – Mississippi Code of 1972, § 57-85-1

Purpose: Job creation in rural areas of Mississippi.

The Rural Impact Fund Grant Program (RIF) provides funding for publicly owned infrastructure needs to assist with the location or expansion of businesses. To be eligible for RIF Grant assistance, municipalities must have a population of 10,000 or less and counties must have a population of 30,000 or less according to the most recent federal decennial census. Eligible projects include public building construction, rehabilitation or repair, sewer system improvements, improvements to transportation systems directly affecting the site of the proposed business, site preparation, and the acquisition or development of real property or improvements to real property. Eligible projects must have a direct connection to a business location expansion. Typical industries that can benefit from RIF-funded public infrastructure improvements include: manufacturers, warehouses and distribution centers, research and development facilities, telecommunications and data processing facilities, and national or regional headquarters.

Six firms/projects were awarded RIF Grant funds in 2014. The firms/projects receiving this incentive located in six counties:

Greene	Itawamba	Marion	Pearl River	Tallahatchie	Yalobusha

The firms/projects receiving the RIF Grant funds fell into the following NAICS categories:

- **238210** – Electrical Contractors
- **311412** – Frozen Specialty Food Manufacturing
- **314999** – All Other Miscellaneous Textile Product Mills
- **337121** – Upholstered Household Furniture Manufacturing
- **447190** – Other Gasoline Stations
- **622110** – General Medical and Surgical Hospitals

ANALYTICAL RESULTS

In 2014, the Rural Impact Fund Grant Program created 126 direct jobs and 110 secondary (indirect and induced) jobs for a total of 236 jobs. An estimated 99 of the secondary jobs are construction jobs and disappear at the end of the construction period. Total job creation after the construction period is estimated to be 137. The firms/projects awarded this incentive in 2014 received an estimated $1,359,967 in State funds. The net return to the State in 2014 from this incentive program is estimated to be $779,000. The State realized a net loss of about $580,967. However, six firms were awarded this incentive and will add 126 direct jobs and 11 secondary jobs. Once operations commence at these firms, an estimated $450,000 per year will accrue to the general fund in the out-years. On average these projects are estimated to breakeven in approximately three years.

If 50% of the firms receiving this incentive would have located or expanded their operation in Mississippi absent the incentive, the State would have realized a net loss of approximately $970,200. An estimated $450,000 per year will accrue to the general fund in the out-years. Under this 50% scenario, these projects are estimated to breakeven in approximately five years.

JOB TRAINING GRANT FUND – Mississippi Code of 1972, § 57-1-451

Purpose: The goal of this incentive is to assist in providing training for new or existing jobs.

The Job Training Grant program provides training grants to state institutions of higher learning, community and junior colleges, and Workforce Investment Areas to pay a portion of the costs of providing training or retraining for the employees of businesses that are eligible for Jobs Tax Credits. Jobs Tax Credits are corporate income tax credits that can be applied to state income tax to reduce an employer's income tax liability, and businesses that are creating new jobs and are eligible for Jobs Tax Credits may opt to either take the Jobs Tax Credit or monetize that credit in the form of a Job Training Grant to reduce workforce training costs.

There was insufficient data available to evaluate the costs/benefits of this incentive.

WORKFORCE TRAINING FUND – Mississippi Code of 1972, § 57-1-401

Purpose: The goal of this incentive is to assist in providing training for new or existing jobs.

The Workforce Training Fund allows for grants to be made to assist companies to offset training needs that are not met through the community college system and WIN Job Centers. These funds can be used to reimburse travel expenses for employees who need to be trained at other facilities, augment community college funds, or provide on-the-job training dollars for new jobs that do not qualify for the federal On-the-Job Training program, such as those jobs moved to Mississippi from out of state. Grant funds are awarded directly to the community colleges, local workforce areas, or universities providing on behalf of companies that are creating jobs and have training needs.

The goal of this incentive is to assist in providing training for new or existing jobs.

Eight firms/projects were awarded Workforce Training Funds in 2014. The firms/projects receiving this incentive located in six counties:

Bolivar	Clay	Forrest	Lee	Marshall	Tunica

The firms/projects receiving the Mississippi Industry Financing Revolving Funds fell into the following NAICS categories:

- **326211** – Tire Manufacturing (except retreading)
- **327993** – Mineral Wool Manufacturing
- **336330** – Motor Vehicle Steering and Suspension Components Manufacturing
- **336360** – Motor Vehicle Seating and Interior Trim Manufacturing
- **339112** – Surgical and Medical Instrument Manufacturing
- **541330** – Engineering Services

There was insufficient data available to evaluate the costs/benefits of this incentive.

Mississippi Tourism Rebate Program – Mississippi Code of 1972, § 57-26-1

The Mississippi Tourism Rebate Program is designed to provide a rebate to new tourism-oriented projects within the State of Mississippi. The Mississippi Tourism Rebate Program allows a portion of the sales tax paid by visitors to the eligible tourism-oriented enterprise project to paid to the applicant to reimburse eligible costs incurred during the construction of the project. An applicant may receive 80% of the eligible sales tax revenue collections from a project for up to 15 years or until the applicant has recouped 30% of the total project cost, whichever occurs first.

In 2014 five firms qualified for this incentive, however, no incentive payments have been made to these recipients to date.

The total amount of the Tourism Rebates committed to these five firms is $224,297,288. The total of all potential taxes foregone from all active Tourism Rebate incentive participants was estimated to be $333,637,755.

Issuance of certificates of participation for tourism projects that are cultural retail attractions expired July 1, 2014 and expires July 1, 2016 for all other tourism projects.

There was insufficient data available to evaluate the costs/benefits of this incentive.

Our principle concern associated with this incentive is that the perceived costs (the value of the tax rebate) are understated and perceived benefits (additions to State general fund revenue) are overstated. Some of the projects that have qualified for this incentive have not drawn much spending by out-of-state customers. In general, economic development only occurs when dollars that were previously not here flow into the State. Most of the patrons at these attractions are Mississippi residents and most of the purchases are made using dollars that were already here; dollars that were already going to be spent at another attraction or retailer anyway. Thus, the costs to the State must include not only the amount of the tax rebate to the incentive recipient, but also the tax revenue lost from the retailer where the purchaser would have otherwise shopped. And, since most of the purchases made at the incentivized attraction/retailer are being made by Mississippi residents making purchases they were likely already going to make at another in-state retailer, jobs and income created by the purchase don't represent net, new economic activity. Unless the incentivized attraction is drawing patrons and dollars into the Mississippi from outside the State, the State is sacrificing tax revenue.

The Economic Development Highway Grant Program – Mississippi Code of 1972, § 64-4-1

The Economic Development Highway Grant is designed to assist local units of government with highway projects that encourage private companies to engage in projects of "high economic benefit" within their areas.

The program promotes economic development in the State of Mississippi by supporting the construction and/or improvement of highways in areas that demonstrate immediate potential to attract or expand major industries or other significant development. The highway or highway segment to be constructed must be necessary to ensure adequate and appropriate access to a proposed business to encourage its location or expansion within a political subdivision.

There was insufficient data available to evaluate the costs/benefits of this incentive.

MISSISSIPPI MAJOR ECONOMIC IMPACT ACT – Mississippi Code of 1972, § 57-75-1

Purpose: Job creation.

The Mississippi Major Economic Impact Act was created by the Legislature to provide specific incentives for large projects. This special legislation has typically been introduced by the Governor and has been tailored to meet the needs of each project. Since FY2008, there have been six projects for which special legislation was passed providing this incentive. Four of these projects either did not materialize or failed to meet contractual requirements. These firms either spent none of the committed funds or repaid the State the funds they spent.

In 2014, no firms/projects were awarded Mississippi Major Economic Impact Act funding. However, an award was made in 2013 to Yokohama Tire. The total gross bonding authority for this project was $130,000,000 and, as of 2015, $57,793,411 has been spent.

According to MDA, Yokohama Tire Co. spent $0 in 2013, $30,134,000 in 2014, $27,659,400 in 2015, and has an estimated $72,206,600 in bonding authority remaining. However, Mississippi Major Economic Impact Act funds are financed through State general obligation bonds. They are typically 20 year bonds and in recent years have carried a 3.5% interest rate. As of 2015, the State's annual burden for the bond debt which financed the Yokohama Tire Co. incentive is an estimated $4,066,400 and could grow to $9,147,000 if they ultimately take advantage of the full $130,000,000 bonding authority they were granted.

Cooper Tire Co. was awarded Major Economic Impact funding in 2008 with bonding authority totaling $13,000,000. Cooper Tire Co. spent all the Major Economic Impact funds it was awarded. The State's annual debt service payment on the Cooper Tire Co. bonds, which will run until about 2033, is an estimated $956,600.

The State of Mississippi is still paying the debt service on the Major Economic Impact bonds awarded to the Nissan project. Nissan was awarded an estimated $363,000,000 in Major Economic Impact funding to prep their site and for infrastructure improvements. This funding was financed with State general obligation bonds. The annual debt service on this bond is estimated to be between $25,541,000 and $29,128,000. The State still has about five more years of debt service on this bond.

Combined, the Major Economic Impact funding awarded these three projects cost the State between $30,564,000 and $34,151,000 in 2015. Results from Individual analysis of each of these three projects indicated that the overall package of economic development incentives (including the Major Economic Impact Act funding) generated a positive return on the State's investment.

THE REDEVELOPMENT PROJECT INCENTIVE FUND – Mississippi Code of 1972, § 57-91-9

Purpose: To encourage economic development in areas where environmentally contaminated sites are located.

This is an incentive program to encourage economic development in areas where environmentally contaminated sites are located. Income and franchise taxes paid by enterprises located on approved sites shall be deposited into the Redevelopment Project Incentive Fund. Incentive payments from this fund shall be made by the Mississippi Development Authority to developers in connection with a redevelopment project. The Mississippi Development Authority shall make the calculations necessary to make the payments provided for in this section. Payments will be made to approved participants on a semiannual basis with payments being made in the months of January and

July. These incentive payments differ from a credit because the developer receives these payments from the taxes paid by businesses locating within the approved development site.

There was insufficient data available to evaluate the costs/benefits of this incentive.

Incentives that Result in the Greatest Gross Cost to the State

1. Tourism Rebate Program – In 2014 five firms qualified for this incentive, however, no incentive payments have been made to these recipients to date. This incentive expires July 1, 2016, however the State will continue to accrue costs from it for many years to come. The total potential burden associated with the five firms/projects that were awarded this incentive in 2014 is $224,297,288. If ten percent of this amount is paid in rebates each year, the future annual cost to the State would be $22,429,729. The total potential burden associated with all active awards is $333,637,755. If ten percent of this amount is paid in rebates each year, the future annual cost to the State for at least the next five years would be $33,363,775.

2. The Mississippi Industry Incentive Financing Revolving Fund – Ten firms/projects were awarded this incentive and received a total of $35,727,294 in 2014. Although this represented a cost to the State in 2014, additions to State general fund revenue in future years will be greater than the State's investment.

3. Mississippi Major Economic Impact Act Funding – Although the funds from this incentive are typically spent by awardees to finance the construction of their facilities, the State provides these funds using State general obligation bonds. The annual cost to the State (debt service on the bonds) represents an ongoing cost for the life of the bond (typically 20 years). The annual cost to the State from the bonds issued to finance the award for the Yokohama Tire Co. project are estimated to be $4,066,400 in 2014. The Yokohama Tire Co. project has an estimated $72,206,000 in bonding authority remaining. The State's debt service for this one project could grow to $9,147,000. There are bonds outstanding on two other Major Economic Impact projects: Nissan and Cooper Tire. The total annual debt service burden from all three projects is estimated to be between $30,564,000 and $34,151,000 until about 2020.

4. Gambling License Fee Credit – Although this is not an incentive included in this study, it results in one of the greatest reductions of State general fund revenue of all of the incentives. According to information from the Mississippi Department of Revenue, this incentive cost the State $18,500,000 in 2014, $19,000,000 in 2015, and will cost $19,250,000 in 2016.

5. Ad Valorem Inventory Tax Credit – Although we chose not to analyze this incentive because there was no language in the authorizing statute that suggested it was meant to create/retain jobs or recruit/retain business, it is growing into an expensive incentive. This incentive cost the State approximately $7,207,000 in 2014 and 2015. However, due to increase in the maximum credit allowed in the 2016 Ad Valorem Inventory Tax Credit, DOR projects the Ad Valorem Inventory Tax Credit will increase by over 100 percent in 2016 to $15,000,000.

6. The Mississippi ACE Fund – The State awarded $14,192,000 in ACE fund incentives in 2014. The net returns to the State were estimated to be $18,295,000; accruing as the firms add jobs and additional production due to the incentive.

7. The Development Infrastructure Program – This incentive awarded $9,428,581 to 22 firms/projects in 2014. This was the seventh most costly incentive included in the study. This incentive was not evaluated because the data provided was not deemed credible.

8. Broadband Technology Credits – Although we chose not to analyze this incentive because there was no language in the authorizing statute that suggested it was meant to create/retain jobs or recruit/retain business, it does provide a programmatic benefit to the residents and businesses in the State by improving and enhancing internet connectivity and performance. In 2014, the State awarded an estimated $9,433,300 in Broadband

Technology Credits. The Mississippi Department of Revenue projects that awards for this incentive will fall to $7,900,000 in 2016.

INFORMATION (DATA) PROBLEMS AND RECOMMENDATIONS

DATA ISSUES

1. Incomplete information is being collected on many of the economic development incentives that this study was meant to address. When a firm applies for an incentive (grant, loan, or credit) the State agency responsible for that incentive needs to collect the firm's NAICS code number and the number of jobs the incentive will create, if any.

2. A database containing all of the economic development incentives and the firms that qualify for them needs to be developed. Knowing that a firm was awarded more than one incentive will enhance the accuracy of the analysis.

3. The Mississippi Development Authority and the Mississippi Department of Revenue, the two agencies that collect the majority of the data on the economic development incentives, use different names to identify the same incentive. All state agencies need to use the same name to describe the same incentive; preferably the name specified in the incentive's authorizing legislation.

4. A single, dedicated point of contact at MDA and DOR would make the data collection process more efficient.

5. Rather than conducting the analysis on all of the relevant economic development incentive every four years, a more comprehensive analysis could be conducted on a few incentives each year.

PROGRAMMATIC ISSUES

The goal or purpose of an incentive is important. If you can't determine the purpose of an incentive, you can't determine whether it is accomplishing anything worthwhile, needs to be modified, or has outlived its usefulness. Some of the incentives contain explicit goals in the authorizing legislation. Some could be inferred by the requirement necessary to qualify for the incentive. Some were so vague the goal or purpose could not be determined. It might be worthwhile to revisit the economic development incentives that don't contain an explicit goal or purpose and insert one. It's simply not possible to determine the programmatic success of an incentive if you can't identify what the incentive was meant to accomplish.

END NOTES

[1] One of the more vexing issues associated with the evaluation of economic development incentives is referred to as the "But For" question. That is, did the firm locate in Mississippi solely because they received the incentive or would the firm have located in Mississippi anyway? Phrased another way, is it true that, "But For" the incentive, the firm would not have located in Mississippi. Therefore, the first part of our analysis includes a provision that "But For" the incentive, the firm would not have located in Mississippi or created new jobs in Mississippi.

[2] It is highly likely that some firms would not have located their facilities and created new jobs in Mississippi without receiving any incentives from State government. In the second component of our analysis, we estimated the costs and benefits of the incentive using the assumption that only 50% of the firms located in Mississippi because of the incentive. If the incentive did not influence a firm to locate or create new jobs in the State, the State's investment (the amount of the incentive awarded) generated no net new economic activity and the State incurred costs, but zero return on its investment.

[3] The implied purpose of this incentive is to produce jobs in underperforming areas of the State. If a significant percentage of the awards go to firms in Tier Two and Tier Three counties, the return to the State could become negative.

[4] The North American Industry Classification System (NAICS) is the standard used by Federal statistical agencies in classifying business establishments for the purpose of collecting, analyzing, and publishing statistical data related to the U.S. business economy.