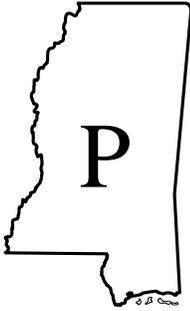


**MISSISSIPPI**  
**STATE TAX COMMISSION**  
**OFFICE OF REVENUE**  
FORM 86-100

**2009**



**2009 Partnership/LLP/LLC Income Tax Forms**

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

- **Please attach your federal return to your state return. Additional schedules and attachments may be stapled to your return.**
- **Web site - Please visit our web site located at [www.mstc.state.ms.us](http://www.mstc.state.ms.us) to find any updates to the instructions and/or worksheets that are contained in this booklet.**
- **You may download forms from our web site. In the Download Tax Forms section, select the appropriate tax year and tax type.**
- **If you are filing a composite return, please use form 86-106 available at our website.**

**LEGISLATIVE CHANGES FOR 2009**

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

**House Bill 14:** This bill reenacts Miss Code Ann. § 27-7-22.7 and § 27-7-22.9 which provide an income tax credit for the use of port facilities at state, county and municipal ports for the export of cargo. This bill also extends the date of repeal to December 31, 2012.

**House Bill 626:** This bill reenacts Miss Code Ann. § 27-7-22.25 which provides an income tax credit for certain taxpayers that use the airport facilities at public airports for the export or import of cargo. This bill also extends the date of repeal to July 1, 2012 and is effective from and after July 1, 2009.

**House Bill 1460:** This bill extends until December 31, 2022, the latest date that approved business enterprises may be exempt from local taxes under the Growth and Prosperity Act.

**Senate Bill 3278:** This bill provides an entity a 5% investment credit to apply against income tax for owning or operating a facility that creates synthetic fuel from Biomass. This bill is effective April 7, 2009.

**GENERAL INSTRUCTIONS**

**HOW TO FILL OUT FORMS**

Use **Black Ink** when preparing these returns.

**Indicating a Loss** - To indicate a loss (negative income), shade the minus (-) box next to the dollar amount.

**WHO MUST FILE**

Every partnership, LLC, or LLP, domestic or foreign, deriving income from property owned within the State of Mississippi, or business, trade, profession or occupation, carried on within the State must file a Mississippi Partnership/Limited Liability Company/Limited Liability Partnership income tax return, Form 86-105 (which must be filed with a copy of the Federal return attached.)

For tax years beginning on or after January 1, 2002, every exempt corporate organization, as described in Miss Code Ann. § 27-7-27 or § 27-7-29 and not otherwise exempt from the income tax levy, is required to make a corporate tax filing if they have Mississippi unrelated business taxable income.

**DEFINITIONS**

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

A domestic or foreign limited liability company (LLC) is classified as an entity for purposes of Mississippi income tax laws in the same manner as the entity is classified for federal income tax purposes. If an LLC is treated as a partnership for federal income tax purposes, it will file as a partnership for Mississippi purposes. If an LLC is treated as a corporation for federal income tax purposes, it will file as a corporation for Mississippi income and franchise tax purposes. In these instructions, all three entities (partnership, LLC, and LLP) may, at times, be referred to as "partnerships", and partner/members referred to as "partners".

**TIME AND PLACE FOR FILING**

Calendar year partnerships, LLCs and LLPs must file no later than April 15th annually. Fiscal year partnerships, LLCs and LLPs must file no later than the 15th day of the 4th month following the end of the fiscal year. An extension of time to file a partnership/LLC/LLP return can be requested. Generally, an extension of time to file a Federal partnership return is recognized as an extension of time to file the state return. Original, amended, or final partnership/LLC/LLP returns should be mailed to:

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

**PERIOD TO BE COVERED BY THE RETURN**

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

**PAYMENT OF TAX**

A partnership, LLC or LLP does not pay tax on its income but "passes through" any profits (losses) to its partners. Partners must include partnership items on their income tax returns. Individual partners are subject to tax upon their distributive share of partnership net income, whether it is distributed to them or not. A non-resident individual, who is a member of a partnership owning property or doing business in the State of Mississippi, is subject to tax on his share of the partnership net income, whether distributed or not. If the partnership does business both within and without the state, it will be necessary to compute the income (loss) of the partnership from sources within the state in order to determine the amount of income taxable to, or the amount of the loss deductible by, the non-resident partners. The non-resident partner is subject to

tax only on such share of his income, whether or not distributed, as is assignable to Mississippi.

In the event the individual partners fail to report and pay the taxes imposed according to Miss Code Ann. § 27-7-25, as amended, then the partnership and the general partners shall be jointly and severally liable for said tax liability and shall be assessed accordingly. However, the partnership and/or general partners shall not be liable if the partnership withholds five percent (5%) of the net gain or profit of the partnership for the tax year and remits the same to the Commissioner. Partnerships electing to report tax on partnership net income in this manner should request Form 86-387, Withholding of Partnership Income. A separate voucher must be remitted for each partner in order that payments can be properly credited. Partners with tax remitted to the State Tax Commission through partnership withholding should claim the amount as estimated tax on his or her individual income tax return. Form 86-387 should be provided to the partner by the partnership showing the correct amount withheld.

A partnership that has income from sources within and without Mississippi should withhold from Mississippi source income only. The Commissioner may allow composite return filing by a partnership. Instructions for filing a composite return are shown on page 5 and 7.

#### WHO MUST SIGN

Form 86-105 is not considered to be a return unless it is signed. One general partner or limited liability company member must sign the return. If a receiver, trustee in bankruptcy, or assignee controls the organization's property or business, that person must sign the return.

#### INTEREST AND PENALTY PROVISIONS

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

**Late or Non-Filers - Penalties** are imposed for failure to file a return or pay the tax when due. The penalty imposed for failure to file a return is 5% per month not to exceed 25% in the aggregate. The penalty imposed for failure to file is based on the additional amount of tax due. Such failure to file a return penalty shall not be less than \$100.

**Incomplete Returns** - A partnership that does not file a complete return or does not file a return within the prescribed time may be subject to a penalty of \$25 per required attachment or schedule up to a maximum of \$500 per return. To be a complete return, a return should contain all the requisite general information, as well as all summary tax information and the basic back up schedules.

Examples of the required general information are complete name, current address, ID number, description of product or services, and other information relating to the filing entity as requested on page 2 of Form 86-105.

Examples of the summary tax information are the front page of the return, the computation of net income, the computation of the apportionment factor (if income is apportioned), the direct accounting income statement (if applicable), and Schedule K reflecting information pertaining to partners' distributive shares of income and deductions. Examples of the basic backup schedules are details of other additions or other deductions as requested on the computation of net income schedule, details of other additions or other deductions as requested on other statements made a part of the return, and details of nonbusiness income (loss) directly allocable to Mississippi and other business income (loss) as requested on the front page of the return.

#### TREATMENT OF A QSSS AND/OR SMLLC AND ITS OWNER - INCOME AND FRANCHISE TAXES

A federal election to be treated as a Qualified Subchapter S Subsidiary (QSSS) is considered an election for state purposes and as such the QSSS will be treated the same for state income and franchise tax purposes. Thus the QSSS's activity is treated as a division of its parent S Corporation for federal income tax purposes and will be treated in the same manner for state income and franchise tax purposes. A parent S corporation that is required to file and report for Federal income tax purposes on the activity conducted in Mississippi by its QSSS is considered doing business in Mississippi for both income and franchise tax purposes and shall include the activity of the QSSS when making income and franchise tax return filings to this state. The QSSS will not make separate return filings.

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

A Single Member Limited Liability Company (SMLLC) that is disregarded for federal reporting purposes will, likewise, be disregarded for state reporting purposes. The SMLLC's activity in this state will be reported by the owner of the SMLLC when making its return filings. A corporate owner of an SMLLC will make income and franchise tax return filings based on its activities and the activities of any disregarded entities. If the owner of the SMLLC is itself an SMLLC or other type of disregarded entity, then such amounts will be reported by the ultimate owners which are not disregarded entities.

#### INSTRUCTIONS FOR COMPUTING TAXABLE INCOME

Generally, all domestic and foreign Partnerships having income from sources within Mississippi must complete Form 86-122, Computation of Net Taxable Income Schedule, which makes adjustments for additions to and deductions from Federal ordinary income due to differences in Federal and Mississippi laws, in arriving at the net income (loss) for State purposes.

**Total Assignment of Income.** If the business activity in respect to any trade or business of the Partnership occurs within this state, and if by reason of such business activity the Partnership is not taxable in another state, the total net income (loss) of the Partnership is assigned to Mississippi.

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

**Apportionment of Business Income.** If the business activity in respect to any trade or business of a taxpayer occurs both within and without this state, and if by reason of such business activity the taxpayer is taxable in another state, the portion of the net income (loss) arising from such trade or business which is derived from sources within this state, shall be determined by apportionment in accordance with the formulas prescribed by Title 35, Part III, Subpart 08, Chapter 06 of the Miss Admin Code unless prescribed otherwise. In such case, the taxpayer must complete Form 83-125, Mississippi Business Income Apportionment Schedule. Multistate contractors use Form 83-124.

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

**Installment Sales.** Mississippi does not follow federal rules concerning installment sales. Gain from the sale of casual property will be recognized in the year of sale. However, tax on the gain may be deferred. Deferred taxes are generally paid as the proceeds from the sale are received. However, the following will result in acceleration of payments.

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

Taxpayer's who elect the installment method for federal income tax purposes should include as a part of their return filing both a Federal Form 6252 and a schedule of any differences between the federal and Mississippi amounts. For an example, see our web site at [www.mstc.state.ms.us](http://www.mstc.state.ms.us).

**Deductibility of Certain Intangible Expenses and Related Interest Expenses Incurred with Related Members.** A taxpayer will be required to add back to its computation of net income:

1. Intangible expenses and costs and interest expenses and costs in relation to or in connection with the direct or indirect maintenance or management, ownership, sale, exchange, or other disposition of intangible property,
2. Royalty, patent, technical, and copyright fees, licensing fees, and other similar expenses,
3. Expenses and costs associated directly or indirectly with factoring transactions or discounting transactions.

Intangible property includes patents, patent applications, trade names, trademarks, service marks and similar types of intangible assets.

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

## ARMS-LENGTH TRANSACTIONS

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

**Long Term Capital Gains from Sales of Stock/Interest in Domestic (Mississippi) Corporations, Limited Partnerships or Limited Liability Companies.** Gains from the Sale of certain stocks in domestic entities are not recognized as a part of income. However, if there is a step-up on the assets basis associated with the stocks sale, a gain must be recognized. For more details and limitations, please refer to Miss Code Ann. § 27-7-9(f)(10).

**Extraterritorial Income.** Mississippi has not adopted federal provisions related to Extraterritorial Income Exclusion. The amount related to this exclusion of income on the federal return must be added back in the Mississippi income tax return prior to the apportionment of income. The proper placement for this Mississippi adjustment to federal income on Form 83-122, 85-122 and 86-122 is the line titled "Other Additions Required by Law". A copy of Federal Form 8873 should be attached to the Mississippi return when this adjustment is being made for federal purposes.

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

## BUSINESS INCOME OF PRODUCERS OF MINERAL OR NATURAL RESOURCE PRODUCTS.

Taxpayers engaged in the trade or business of producing oil, gas, other liquid hydrocarbons, sulfur, coal, sand, gravel and other mineral or natural resource products, except timber, shall determine Mississippi net business income from such activity on a direct or separate accounting basis. The Mississippi gross business income from the production of mineral or natural resources shall include: (a) Sales of natural or mineral resources produced in Mississippi and sold in this state; (b) the market value, at the time of transfer, of all natural or mineral resources produced in this state and transferred by the taxpayer to another state for sale, refining, processing or manufacturing, provided that if the natural or mineral resources are sold by means of an "arms-length" transaction prior to refining, processing or manufacturing, the market value prescribed herein shall not exceed the selling price; and (c) the market value at the time of transfer, of all natural or mineral resources produced by the taxpayer in Mississippi and transferred to a refinery, processing plant, or manufacturing facility of the taxpayer in Mississippi.

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

## UNRELATED BUSINESS TAXABLE INCOME OF OTHERWISE EXEMPT ORGANIZATIONS

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

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

Corporate organizations file Form 83-105 and any necessary supplemental schedules. Trust organizations file Form 81-110 and any necessary supplemental schedules. In computing taxable income, enter on line 1 of Form 83-122 (line 1, page 2 of Form 81-110 for trust organizations) the amount of unrelated business taxable income before any net operating loss and specific deduction as reported on Federal Form 990-T. A complete and signed copy of Federal Form 990-T must be attached to the back of the Mississippi schedules as a part of the return filing.

Make any necessary adjustments for income/expenses otherwise included/excluded under the income tax laws of this state such as income from sources without this state, add-back of nondeductible income taxes, etc.

Corporate organizations must make all required tax payments by the 15<sup>th</sup> day of the fourth month following the close of the tax year. While the filing deadline is also the 15<sup>th</sup> day of the fourth month following the close of the tax year, an automatic six-month filing extension is granted. If a taxpayer files an extension for federal tax purposes, the Mississippi filing deadline will be extended through the date of the federal extension as well.

Corporate organizations with unrelated business taxable income are subject to the same estimated payment requirements as other corporate taxpayers.

Trust organizations, including employee and retirement trusts having unrelated business taxable income must file Form 81-110. Employee Stock Ownership Plans that receive Mississippi income as a shareholder in an "S" corporation must include such income as a part of Mississippi taxable income. The source of the income is determined by the "S" corporation's activities and is reported on Form 85-132 to the ESOP shareholder.

Trust organizations must make all required tax payments by the 15<sup>th</sup> day of the fourth month following the close of the tax year. Generally, if a filing extension is granted for federal tax purposes, it will be granted for state purposes as well.

A copy of the federally approved extension must be attached with the return filing.

## INCENTIVE CREDITS

Incentive credits arising at the partnership, LLC or LLP level are passed through to the partners/interest owners based on their percentage of ownership in the entity earning the credit. **As a general rule, the credit passed through to the partner/interest owner can be applied only to the income tax attributable to the partner's/interest owner's income derived from the entity earning the credit.**

In the case of a Mississippi resident who is a partner in a multistate partnership, credits passed through from the partnership may be used to offset only the amount of income tax attributable to the partner's share of partnership income assigned to Mississippi. For any of these credits to be allowed, schedules must be attached showing the computations. Form 83-401, Income Tax Credit Summary, should be completed and attached as a part of the return. For an information package containing additional information, please write the Mississippi State Tax Commission, Corporate Tax Division, P. O. Box 1033, Jackson, MS 39215-1033.

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

**Jobs Tax Credit.** A credit is allowed for increasing employment levels in certain types of business. 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 amount of the credit is based on the number of new jobs created and the county where the jobs are created. The credit is good for a period of five (5) years. This credit may be used in combination with any of the other credits. However, the total of the Jobs Tax Credit is limited to 50% of the income tax liability attributable to the income derived from operations in this state for that year. Any credit claimed but not used in a taxable year may be carried forward for 5 years. Effective January 1, 2005, the calculation of the credit was changed to a percentage of payroll for new full-time jobs created instead of dollar credit per job. For taxpayers who earned the credit in tax years prior to the effective date of the change, the amount of the credit is based on a stated dollar amount per job. For Tier 1 counties, the amount was \$500 per new job; for Tier 2 counties, the amount was \$1,000 per new job; and for Tier 3 counties, the amount was \$2,000 per new job. If, after qualifying for one five (5) year period prior to the effective date of the change, the business increases the number of jobs substantially enough to qualify again for another five (5) year period for a tax year ending after January 1, 2005, the taxpayer may apply for a second (5) year period which would then be accrued under the new percentage rates instead of the stated dollar amount per job. However, if the initial qualification for the credit occurred prior to the effective date of the law change, the amount of the credit will continue to be based on a stated dollar amount per job within the five (5) year period even for jobs created after the January 1, 2005 change.

### County Ranking    Avg. Minimum Increase in No. of Jobs Created in a Given Year    Percentage of Payroll

Tier One (Developed)	20 or More	2.5%
Tier Two (Moderately Developed)	15 or More	5%
Tier Three (Less Developed)	10 or More	10%

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

**National and Regional Headquarters Credit.** A credit of \$500, \$1,000, or \$2,000 (dependent upon average annual wage) for each net new full-time employee is allowed for any company establishing or transferring its national or regional headquarters from within or outside the State of Mississippi and creating a minimum of 35 jobs at the headquarters.

The headquarters credit is available to any company regardless of the business in which it engages except for businesses engaged in the transportation, handling, storage, processing or disposal of hazardous waste. The minimum increase of 35 jobs must occur within 1 year.

**Research and Development Jobs Skills Credit.** A \$1,000 income tax credit is authorized for each full-time employee in any new job requiring research and development skills. Specific examples of jobs requiring research and development skills are chemists and engineers. Qualification of other jobs for this credit would require as a minimum a bachelor's degree in a scientific or technical field of study from an accredited four (4) year college or university, employment in the area of expertise and compensation at a professional level. The research and development job credit is available to any company regardless of the business in which it engages.

A business interested in qualifying for the research and development jobs tax credit should request approval in writing and provide the following information for each individual research and development position: (1) Title, (2) Purpose, (3) Education requirements, (4) Experience requirements, (5) Hours worked per week, (6) Salary or compensation and (7) Expected hire date. The applicant will be notified on approval of the application for credit.

Businesses that employ a person in an approved research and development job for less than their full tax year will be allowed that portion of the yearly credit in the ratio that the number of qualified full months that the employee worked in the state divided by 12.

**Child/Dependent Care Credit** - An income tax credit is allowed to any employer providing dependent care for its employees during the employee's working hours. The credit allowed is 50% of qualified expenses. This credit can offset 100% of income tax. Any excess credit will not be refunded, but can be carried forward for up to five years. An expense cannot be used both as a deduction and as the basis for a credit. Any expense used in computing the allowable credit cannot be taken as a deduction.

Employers must have their child care program certified by the Department of Health for programs serving children twelve (12) years of age or younger and for programs serving elderly adults and by the State Tax Commission for programs serving other dependents older than twelve (12) years of age. A copy of the certification must be furnished by the taxpayer to the State Tax Commission when the certification is granted. Information can be obtained at the following office: Mississippi State Department of Health, Division of Child Care and Special Licensure, P. O. Box 1700, Jackson, MS 39215-1700.

**Skills Training Credit.** A credit is allowed for certain employer-sponsored basic skill training and retraining programs. The credit allowed is 50% of qualified expenses not to exceed 50% of the income tax liability. Any excess credit will not be refunded, but can be carried forward for up to five (5) years. In addition, the credit shall not exceed \$2,500 in the aggregate, per employee, over a three-year period. The job training and retraining tax credit shall be in addition to all other tax credits heretofore granted by the laws of this state.

For tax years beginning after July 1, 2004, the maximum amount of credit is increased to an amount not to exceed \$2,500 per employee per year. The repeal date on this provision is extended to July 1, 2012.

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

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

The tax credit for each location on which ad valorem taxes have been paid, shall not exceed the lesser of \$5,000 or the amount of income taxes attributable to such location.

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

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

**Export Port Charges Credit.** An income tax credit is authorized for taxpayers that utilize the port facilities at state, county, or municipal ports. The income tax credit is equal to the total export cargo charges paid by the taxpayer for: (a) receiving in the port; (b) handling to a vessel; and (c) wharfage. The credit provided shall not exceed 50% of the amount of tax imposed upon the taxpayer for the taxable year reduced by the sum of all other credits. Any unused portion of the credit may be carried forward for the succeeding 5 years. The maximum cumulative credit that may be claimed by a taxpayer pursuant to this act beginning January 1, 1994 and ending December 31, 2012 is limited to \$1,200,000.

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

**Mississippi Motion Picture Incentive Income Tax Credit.** Beginning July 1, 2004 an income tax credit is authorized for motion picture production companies in an amount equal to ten percent (10%) of the total aggregate payroll of residents employed in connection with a state certified production during the taxable year. The credit is not refundable, but any unused portion may be carried over for up to ten years. This credit was repealed March 13, 2007.

**Mississippi Motion Picture Incentive Rebate.** A rebate is authorized for motion picture production companies that expend at least Twenty Thousand Dollars (\$20,000) in base investment or payroll, or both, in the state. The amount of the rebate is equal to twenty percent (20%) of the base investment made by the motion picture production company.

Additional rebates may be authorized equal to twenty percent (20%) of payroll paid for any employee who is **not** a resident and has taxable wages or twenty-five percent (25%) of payroll paid for any employee who **is** a resident and has taxable wages. Both rebates are limited to the first One Million Dollars (\$1,000,000) of payroll.

The total amount of rebates for a motion picture project will not exceed Eight Million Dollars (\$8,000,000) in the aggregate and the total amount of rebates in any fiscal year will not exceed Twenty Million Dollars (\$20,000,000) in the aggregate.

"Motion picture" means a nationally distributed feature-length film, video, DVD, television program or series, or commercial made in Mississippi, in whole or in part, for theatrical or DVD release or television viewing or as a television pilot. The term "motion picture" shall not include the production of television coverage of news and athletic events, or a film, video, DVD, television program, series, or commercial that contains any material or performance defined in Miss Code Ann. § 97-29-103.

"Motion picture production company" means a company engaged in the business of producing nationally distributed motion pictures, videos, DVDs, television programs or series, or commercials intended for a theatrical release or for television viewing. The term "motion picture production company" shall not mean or include any company owned, affiliated, or controlled, in whole or in part, by any company or person which is in default on a loan made by the state or a loan guaranteed by the state, or any company or person who has ever declared bankruptcy under which an obligation of the company or person to pay or repay public funds or monies was discharged as a part of such bankruptcy.

"State-certified production" means a motion picture approved by the Mississippi Development Authority produced by a motion picture production company in the state.

"Payroll" means salary, wages or other compensation including related benefits paid to employees upon which Mississippi income tax is due and has been withheld.

**Reforestation Tax Credit.** This credit, based on the costs incurred for certain approved reforestation practices, is an amount equal to the lesser of fifty percent (50%) of the actual cost of approved practices or fifty percent (50%) of the average cost of approved practices as established by the Mississippi Forestry Commission. The lifetime maximum reforestation tax credit that an eligible owner may earn and/or utilize \$10,000 in the aggregate. For a partnership, these limitations apply to the partnership and to each partner. In any taxable year, the maximum amount of RTC

shall not exceed the lesser 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. Effective January 1, 2007, the lifetime maximum RTC that an eligible owner may utilize is \$75,000.00. Any unused portion of the credit may be carried forward to succeeding years. Generally, reforested acreage on which the eligible owner receives any state or federal cost share assistance funds to defray the cost of an approved reforestation practice is not eligible for the credit.

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

**Manufacturing Investment Tax Credit.** A manufacturing enterprise who falls within the definition of the term "manufacturer" in Miss Code Ann § 27-65-11 and has operated in the state for at least two (2) years is allowed a manufacturing investment tax credit for income tax equal to five percent (5%) of the eligible investments made by the manufacturing enterprise. "Eligible investment" means an investment of at least One Million Dollars (\$1,000,000.00) in buildings and/or equipment for the manufacturing enterprise. The maximum credit that may be claimed by a taxpayer on any project shall be limited to One Million Dollars (\$1,000,000.00). The Manufacturing Investment Tax Credit shall not exceed fifty percent (50%) of the taxpayer's state income tax liability in any one tax year. Any Manufacturing Investment Tax Credit claimed but not used may be carried forward for five (5) years from the close of the tax year in which the eligible investment was made. For more details on eligibility, computation of the credit, qualifying expenditures, limitations, carryovers, as well as any necessary forms or work sheets, please contact the Corporate Tax Division at 601-923-7099

**General Restrictions on the Incentive Credit.**

**The only credits whose usage are dependent on another credit are the Export Port Charges Credit, Import Port Charges Credit, and the Reforestation Tax Credit. The Reforestation Tax Credit should be used last.** The total of the Jobs Tax Credit, the Headquarters Credit and the R & D Skills Credit, cannot exceed 50% of the total income tax due. The other credits are not limited in such a manner and their usage will be independent of one another. When one credit is limited to 50% of the income tax due and another one is also limited to 50% then combined they may offset 100% of the income tax due. It will be up to the taxpayer to list which credits are to be used on the tax return. Please keep in mind that a number of the credits do not have carry forward provisions.

When a deduction on the Mississippi tax return also gives rise to a tax credit, the amount of that credit which is being used in the current return must be added back to Mississippi income (loss) after any apportionment of income. The adding back of the credit to taxable income will increase the tax liability, which may increase the amount of credit that may be taken. When this is the case, continue to increase the amount of credit being used and the add back to income until there is a difference of \$1,000.00 or less between the two. Therefore, the credit added back may be, at most, \$1,000.00 less than the credit being used. This is a departure from prior years instructions. It has been changed due to the fact that a credit may be earned in the current year but may expire prior to being used by the taxpayer, thereby denying the taxpayer a deduction. Also, some credits are based on a percentage of an expense, and in this case only the credit used should be added back. Those credits which are affected are: Finance Company Privilege, Child/Dependent Care, Skills Training, Gaming, Rural Economic Development (RED), Export Port Charges, Import Port Charges, Reforestation, and Ad Valorem tax credits.

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

**Growth and Prosperity (GAP) Areas Tax Exemption.**

The Growth and Prosperity (GAP) Areas Tax Exemption was created to encourage businesses to locate facilities and hire individuals in areas that have a certain percentage of the population below the federal poverty level or have an unemployment rate that is 200% of the state's average unemployment rate. The income and franchise tax exemption is available for a period of ten (10) years for certain businesses locating in a designated GAP area. The eligible businesses include ones that manufacture, process, assemble, store, warehouse, service, distribute, sell any products or goods including products of agriculture, research and development, and others as determined by MDA which will create at least ten (10) jobs. Businesses that cannot claim the

exemption are retail establishments, gaming businesses or casinos and electrical generation facilities.

An eligible business that constructs a new facility or expands an existing facility located in one of the designated GAP areas can apply to MDA to be exempted from state and local taxes for a period of ten (10) years or until December 31, 2022, whichever occurs first. A business that relocates from a county in Mississippi to a GAP Area is not eligible for the exemption. When filing the state income and franchise tax return claiming the exemption, attach a schedule showing the calculation of how the exemption was calculated, a copy of the certification from the MDA and the completed application, and the Income and Franchise Tax Credit Summary (Form 80-401) showing all credits taken. The GAP Area Exemption is authorized under Miss Code Ann. § 27-7-21, § 27-13-5 and § 57-80-1 through § 57-80-11. For more information on the GAP Areas, please contact Mississippi Development Authority, Financial Resources Division – GAP Program at P.O. Box 849, Jackson, MS 39205.

**COMPLETING THE RETURN**

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

**LINE ITEM INSTRUCTIONS FOR FORM 86-105 PAGE 1**

**Taxpayer Information**

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

**County Codes**

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

Holmes	26	Panola	54	Yazoo	82
Humphreys	27	Pearl River	55	<b>Out-of-State</b>	83
Issaquena	28	Perry	56		

**LINE ITEM INSTRUCTIONS FOR FORM 86-105 PAGE 1**

- Line 1.** Check all that apply.
- Line 2.** Check the type of entity.
- Line 3.** If the taxpayer is not taxable in another state mark "100% Mississippi". If the taxpayer is a multistate organization and direct accounting is required, check "Multistate Direct Accounting". If the taxpayer is a multistate organization and has apportionable income check "Multistate Apportioning". If the taxpayer is a multistate organization whose only activity in connection with Mississippi is the ownership in another flow-through entity, do not check any of the choices.
- Line 4a.** Enter the number of partners/members of your organization as of the close of the accounting period.
- Line 4b.** Enter the date on which the taxpayer either commenced business in Mississippi or obtained an interest in a flow-through entity doing business in this state.
- Line 4c.** Enter the number of Mississippi K-1's received.
- Line 5.** A partnership is not subject to the income tax imposed by Miss Code Ann. § 27-7-5 as amended. Enter the amount of Mississippi income from Form 86-122.
- Lines 12 - Lines 15.** If the taxpayer is a multistate organization apportioning income to Mississippi, enter the amounts indicated from Form 83-125. If a factor is not used or the taxpayer does not apportion, enter zero.
- Lines 16 and 17.** Enter the Names and FEINs of the two largest owners. If another owner has a greater profit sharing percentage, list it instead.

**COMPOSITE RETURN FILING - FORM 86-106**

**Note: Form 86-106 may be ordered or downloaded from our web site ([www.mstc.state.ms.us](http://www.mstc.state.ms.us)).** A composite filing allows for the payment of tax levied on the income of one or more qualifying non-resident partners. Assuming the composite return is properly filed and all taxes, including applicable interest and penalty, is paid, the individual is relieved of their separate individual filing requirement. For questions about who qualifies see Tax Title 35, Part III, Subpart 09, Chapter 01 of the Miss Admin Code. In general, any non-resident individual may qualify to be included in a composite filing. Once an individual elects to be included in a composite filing, they must continue to file in this manner. Indicate each partner included in the composite filing by writing "composite" after the partners name on Form 85-131 Schedule K.

Return filings are due on the 15<sup>th</sup> day of the fourth month following the close of the accounting period. However, an automatic six-month filing extension is granted for all composite return filings. This is not an extension of time to pay.

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

**LINE ITEM INSTRUCTIONS FOR FORM 86-106 PAGE 1**

- Line 1 - 3.** Same as Form 86-105 instructions.
- Lines 4a - 4c.** Same as Form 86-105 instructions.
- Line 5.** Enter the amount of Mississippi Net Taxable Income included as a part of this composite filing. All partners/members who are not a part of the composite filing are to receive a MS K-1 from the taxpayer and make a separate tax filing.
- Line 6.** Enter the amount of income tax due. The rates of tax are: 3% on the first \$5,000 of composite taxable income; 4% on the next \$5,000 of taxable income; and 5% on composite taxable income in excess of \$10,000.
- Line 7a.** Enter the amount of Ad Valorem Inventory Tax Credit allowed as computed in Schedule A, Form 83-401, and attributable to partners/members included as a part of the composite filing.
- Line 7b.** For each credit claimed, other than ad valorem, enter the credit number and the amount of credit. Place the total claimed in the far right column. For limitations please see the credits section on page 4 and 5.
- Line 8.** Enter the net income tax due (line 6 less lines 7a and 7b). If the total of lines 7a and 7b equals or exceeds the amount shown on line 6, enter a zero.
- Line 9.** If the current Mississippi Income Tax liability (line 8) is \$200 or less, then estimated income tax payments were not required for this year. If the current year Mississippi Income Tax liability exceeded \$200, Form 80-320 should be completed and attached to the return if filing a composite return. Enter on this line the amount shown on Form 80-320, line 12.

**Line 10.** Enter the total amount due for income tax and interest on underestimated income tax payments (add lines 8 and 9).

**Line 11.** Enter the amount of any overpayment from the 2007 return that was elected to be credited to estimated tax.

**Line 12.** Enter the total amount of estimated tax payments and payments with extensions. This should equal the total of quarterly estimated income tax payments and the amount of income tax paid with the request for an automatic six-month extension of time to file.

**Line 13.** Enter the total payments made for the tax year (add lines 11 and 12).

**Line 14.** Enter the balance due. This is the amount of total tax due and underestimate interest less previous payments (line 10 minus line 13).

**Line 15.** Enter the amount of interest and penalty due on late payment of the tax. An extension of time only extends the time for filing a return, not payment of the tax.

If the income tax is not paid by the original due date of the return, then interest is due at the rate of 1% per month.

Penalties are imposed for failure to file a return or pay the tax when due. The penalty imposed for failure to pay the tax when due or on additional tax due is 1/2% per month not to exceed 25% in the aggregate. The penalty is based on additional tax due. Interest and penalty for late payment is not charged on interest and penalty on underestimated income tax payments.

The correct amount to be used in computing the interest and penalty for this line (line 15) is line 8 minus lines 11 and 12. The penalty imposed for failure to file a return is 5% per month not to exceed 25% in the aggregate. The failure to file penalty is based on the additional amount of tax due, not total tax due on the return. Such failure to file penalty shall not be less than \$100.

**Line 16.** Enter the amount that is remitted with this return (line 14 plus line 15). Make check payable to: State Tax Commission for the total amount due.

**Line 17.** If there is an overpayment (line 13 minus line 10), enter the amount of the total overpayment on this line. On lines 18 and 19, designate the disposition of this total overpayment. The total of lines 18 and 19 should equal line 17.

**Line 18.** Enter the portion of line 17 that you wish refunded.

**Line 19.** Enter the portion of line 17 that you wish to carry forward and credit against your next year's tax liability.

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

**INSTRUCTIONS FOR COMPLETING FORM 86-122 - COMPUTATION OF NET TAXABLE INCOME SCHEDULE**

Notes and General Instructions:

- 1) Taxpayers must make certain adjustments to federal taxable income in arriving at Mississippi net income. This schedule highlights some of the differences but is not an all-inclusive list.
- 2) The Mississippi Administrative Code is available at our web site ([www.mstc.state.ms.us](http://www.mstc.state.ms.us)). The Mississippi Code is available at the Secretary of State's web site ([www.sos.state.ms.us](http://www.sos.state.ms.us)).
- 3) Multistate construction contractors and producers of mineral or natural resource products are required to use direct accounting as provided for on Form 83-124. In this situation lines 1 through 13 of this form are not completed unless the taxpayer also has income apportionable to this state from another line of business.
- 4) Lines 10, 11, 12, 14, & 16 of this form do not apply to taxpayers doing business only in Mississippi.

**LINE INSTRUCTIONS:**

- Line 1.** Enter the amount of ordinary income (loss) from trade or business activities from Federal Form 1065, Page 1.
- Line 2.** Enter the combined amount of the pass-through income items shown on Federal Form 1065, Schedule K. Long term and short term capital losses are included only to the extent of current year capital gains.
- Line 3.** Enter the combined amount of pass-through deductions shown on Federal Form 1065, Schedule K.
- Line 4.** Enter the total of lines 1 plus 2 less line 3. This amount represents federal

net income.

**Line 5a.** Enter the amount of state, local and foreign government income taxes claimed as a deduction.

**Line 5b.** Enter the amount of interest income on obligations of states and political subdivisions thereof (other than Mississippi) received by the partnership, net of expenses.

**Line 5c.** Enter the amount of depletion claimed on Form 1065 in excess of the cost basis of the asset on which the depletion is claimed.

**Line 5d.** Enter the amount of special depreciation allowance claimed for federal tax purposes. Federal Form 4562 must be completed twice and attached immediately after Form 85-122. The first submission reflects the deductions taken for federal income tax purposes.

The second submission will be labeled Mississippi at the top of the form and will compute the apportionable and/or allocable depreciation deduction without taking into account any special depreciation allowance (generally line 14 of Federal Form 4562). Any difference between the two submissions resulting from the special depreciation allowance is reported as an increase on this line. Any additional depreciation expense, for purposes of this state, due to the basis adjustment not being made is reported on line 7e of this form.

**Line 5e.** Enter any other additions required by law. Other additions may include, but are not limited to, 1) unrecognized installment sale gains, and 2) add back of intangible expenses and costs and interest expenses and costs incurred with certain related members. Gains on installment sales must be recognized in full in the year of sale per Miss Code Ann. § 27-7-15(2)b and reported to partners. However, partners generally may elect to defer the payment of tax to the same extent income is deferred for federal purposes. Intangible expenses and costs and interest expenses and costs incurred with certain related members must be added back to income. For details see Miss Code Ann. § 27-7-17(2).

**Line 6.** Total Additions. Add Lines 5a through 5e and enter total here.

**Line 7a.** Interest income received on direct U. S. Government obligations (see Title 35, Part III, Subpart 02, Chapter 04 of the Miss Admin Code on what constitutes a direct obligation) is not taxable to Mississippi. Enter the amount of such interest reported as income on Form 1065, net of expenses.

**Line 7b.** Enter the wage expenses that weren't deducted on the federal return computation because a federal tax credit was taken in lieu of an expense.

**Line 7c.** Enter the income from a partnership, S corporation, trust, or other flow-through entity. Flow-through entity income is allocated based on the source as determined in the hands of the flow-through entity rather than the owner.

**Line 7d.** Multistate construction contractors and producers of mineral or natural resource products must use direct accounting (Form 83-124 - Direct Accounting Income Statement), to report the income from these lines of business. Enter the income (net of expenses) from these lines of business as reported on Federal Form 1065. For further information concerning accounting methods for contractors and mineral producers please see Title 35, Part III, Subpart 08, Chapter 06 of the Miss Admin Code for details. If this is your only line of business in Mississippi, skip lines 1 through 13 and start with line 14.

**Line 7e.** When a special depreciation allowance is taken for federal tax purposes, the depreciable base must be reduced by the amount of the allowance. Enter the additional depreciation expense for purposes of this state due to the basis adjustment not being made for state purposes. Attach supporting computations for any amounts claimed.

**Line 7f.** Other deductions authorized by law. For each adjustment provide an explanation of your basis for exclusion and a schedule showing how the amount is computed. In particular, gain from the sale of an interest in certain types of domestic entities may not be recognized for state purposes. If this is applicable provide a schedule showing the computation of the non-recognized gain. For more details on what qualifies for this exclusion, see Miss Code Ann. § 27-7-9(f)(10) (available at [www.sos.state.ms.us](http://www.sos.state.ms.us)). Gains from the Sale of certain stocks in domestic entities are not recognized as a part of income. However, if there is a step-up on the assets basis associated with the stocks sale, a gain must be recognized. For more details and limitations, please refer to Miss Code Ann. § 27-7-9(f)(10).

**Line 8.** Total Deductions. Add Lines 7a through 7f and enter total here.

**Line 9.** Adjusted Federal Form 1065 income (loss) subject to apportionment (line 4 plus line 6 minus line 8). If this partnership is not doing business in other states (as opposed to multiple states), skip lines 10 through 12 and enter the amount of this line on line 13.

**Line 10.** Enter the amount of nonbusiness income (loss) shown on the Nonbusiness Income Schedule, Form 83-150, Column E total.

**Line 14.** Enter the amount of nonbusiness income allocated to Mississippi shown on the Nonbusiness Income Schedule, Form 83-150, Column F total.

**Line 15.** Enter the amount of Mississippi income received from a partnership, S corporation, trust, or other flow-through entity (Attach MS K-1's).

**Line 16.** Direct business income of contractors and producers of natural and/or mineral resource products. Enter the amount(s) from Form 83-124 line 31, page 1, and line 15 page 2.

**Line 17.** Enter other adjustments required by law.

**Line 18.** Income apportioned and directly allocated to MS (sum lines 13 through 17). Note: Unless you are filing a composite return on behalf of some or all of the non-resident partners, stop here and enter amount on Form 86-105, line 5.

**Line 19.** Composite return filing adjustments (See instructions on page 7).

**Line 20.** Mississippi composite income subject to tax (line 18 less line 19). If positive, report this amount on Form 86-106, Composite Partnership Income Tax Return, line 5. Only income of qualified non-resident partners electing to be in a composite filing is included on this line. All other partners' income is reported on their respective MS K-1's and as a part of their respective MS income tax filings.

Note: A resident partner is required to report his/her full share of income (loss) including any amounts from flow-through entities. However, a non-resident reports only his/her share of the income (loss) apportioned and allocated to this state. In situations where differences exist between corporate and individual income tax law relative to the liability of any taxpayer, the requirements of the levying statute, i.e. individual income tax, will normally prevail over the law requiring informational reporting. Any deductions subject to further limitations such as section 179 expense, charitable contributions, etc. should be deductible, based on percentage ownership, by the partner.

#### COMPOSITE FILING - COMPUTATION OF TAXABLE INCOME

The net income for each electing member included in a composite filing will generally be computed in the same manner as in a separate individual filing except that a deduction of \$5,000.00 or 10% of the composite net income, whichever is less, is authorized in lieu of any individual exemption and deduction. Likewise, the tax liability is computed on the combined income of all electing members, that is, on the composite taxable income. Composite members are allowed tax credits, as well as net operating loss and capital loss deductions, provided they are computed and tracked on an individual basis.

#### Example 1:

White Acre is a multi-state foreign partnership doing business in Mississippi. B, C, D, E and F are partners of the partnership each with a 20% ownership/profits interest. B, C, D, and E are residents of Texas, while F is a resident of this state. B, C, and D elect to be included in a combined return. White Acre has the following income computations (see next page):

Ordinary Income per federal Form 1065.	\$150,000.00
Net Income from rental real estate activities (federal schedule K)	\$20,000.00
Interest Income	\$48,000.00
Net 1231 Gain	\$11,500.00
Section 179 Expense	<\$17,500.00>
Total Federal Income	\$212,000.00

State Additions:	
Add back of intangible expenses with related member	\$140,000.00
State Deductions:	
Interest on Obligations of the United States (Net of expenses):	<\$40,000.00>
Total Net Income for State purposes	\$312,000.00

Less: Non-business income allocable within/without this state:	<\$20,000.00>
Net Business Income Subject to Apportionment:	\$292,000.00

Apportionment Factor:	40.00%
Mississippi Net Business Income	\$116,800.00
Non-business allocable to MS	\$2,000.00
Mississippi Net Income:	\$118,800.00

#### (THIS AMOUNT CORRESPONDS TO LINE 18 OF FORM 86-122)

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

#### (THIS AMOUNT CORRESPONDS TO LINE 20 OF FORM 86-122)

(THE DIFFERENCE BETWEEN LINES 18 AND 20 IS \$72,520.00 AND IS ENTERED ON LINE 19 OF FORM 86-122)

Composite Filing Income Tax Liability	\$2,164.00
<u>Schedule K Income:</u>	
Partner B Mississippi Income	\$17,093.00
Partner C Mississippi Income	\$17,093.00
Partner D Mississippi Income	\$17,093.00
Partner E Mississippi Income	\$23,760.00
Partner F Resident Income	\$62,400.00

Schedule K income for each of the partners B, C, and D is determined by multiplying the Composite Filing MS Net Taxable Income and the ratio of the respective partners ownership percentage to the total ownership percentage of composite filers (\$51,280.00 \* 20%/60%). Income attributable to composite filers is reported on schedule K, but will not be reported on a K-1 since the income is part of the composite filing.

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

Schedule K - 1

Partner E:

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

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

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

Schedule K - 1

Partner F:

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

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

Example 2:

Green Acre is a multistate foreign partnership doing business in Mississippi. A, B, and C are non-resident partners of the partnership with a 20%, 30%, and 50% ownership/profits interest respectively (no special allocations exist). For tax year 2006 A, B, and C were included in a composite return filing in which the composite Mississippi net taxable income (after the 10% exemption deduction) is \$30,000.00 with a corresponding tax liability of \$1,350.00. On June 30 of 2007, A sold 1/2 of his interest to D a non-resident partner and 1/4 of his interest to partner B. For the tax year ended 2007 D elected to be included in the composite return filing. A, B, and C were already bound by a prior year election to be included in the composite. For tax year 2007 the composite Mississippi taxable income/loss was <\$40,000.00>. The amount attributable to each partner was determined as follows:

Partner	Ownership %	Holding Period (Number of days/365 days)	Annualized Ownership %	Composite Loss	Attributed Loss
A	20.0000%	181/365	9.9178%	(\$40,000.00)	(\$3,967.12)
A	5.0000%	184/365	2.5205%	(\$40,000.00)	(\$1,008.21)
B	30.0000%	365/365	30.0000%	(\$40,000.00)	(\$12,000.00)
B	5.0000%	184/365	2.5205%	(\$40,000.00)	(\$1,008.21)
C	50.0000%	365/365	50.0000%	(\$40,000.00)	(\$20,000.00)
D	10.0000%	184/365	5.0411%	(\$40,000.00)	(\$2,016.46)
Composite Group			100.00%	(\$40,000.00)	(\$40,000.00)
Partner	Prior Yr. Inc.	Current Year Loss (2007)	Offset Against 2006 Income	Loss Carryforward	
A	\$6,000.00	(\$4,975.33)	(\$4,975.33)	\$0.00	
B	\$9,000.00	(\$13,008.21)	(\$9,000.00)	(\$4,008.21)	
C	\$15,000.00	(\$20,000.00)	(\$15,000.00)	(\$5,000.00)	
D	\$0.00	(\$2,016.46)	\$0.00	(\$2,016.46)	
Composite Group	\$30,000.00	(\$40,000.00)	(\$28,975.33)	(\$11,024.67)	

**District Offices of the State Tax Commission**

**Brookhaven District Service Office**

P.O. Box 3999, Brookhaven, MS 39603-7999  
1385 Johnny Johnson Dr.

Ph: (601) 833-4761  
Fax: (601) 833-3096

**Greenwood District Service Office**

P.O. Drawer D, Greenwood, MS 38935-0420  
117 B Grand Blvd.

Ph: (662) 453-1742  
Fax: (662) 453-7981

**Gulf Coast District Service Office**

1141 Bayview Ave., Ste. 400  
Biloxi, MS 39530-1601

Ph: (228) 436-0554  
Fax: (228) 436-0964

**Hattiesburg District Service Office**

P.O. Box 1709, Hattiesburg, MS 39403-1709  
17 JM Tatum Industrial Dr, Ste. 2

Ph: (601) 545-1261  
Fax: (601) 584-4051

**Jackson District Service Office**

P.O. Box 1033, Jackson, MS 39215-1033  
1577 Springridge Rd., Raymond, MS 39154-9602

Ph: (601) 923-7300  
Fax: (601) 923-7318

**Meridian District Service Office**

P.O. Box 3625, Meridian, MS 39303  
2600 Old N Hills St.

Ph: (601) 483-2273  
Fax: (601) 693-2473

**Senatobia District Service Office**

P.O. Box 127, Senatobia, MS 38668  
2778 HWY 51 South.

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