Chapter 06 Dividend Income

100 Dividends are included in gross income unless specifically excluded under Miss. Code Ann. Section 27-7-15(4)(i).

101 The term **"dividend"** for the purpose of the Mississippi Income Tax Law means any distribution of property in the ordinary course of business, even though extraordinary in amount, made by a domestic or foreign corporation to its shareholders out of earnings and profit.

102 The earnings and profits of the taxable year shall be computed as of the close of such year, without reduction by reason of any distributions made during the taxable year. Liquidating dividends do not have the status of dividends for Mississippi income tax purposes. Such distributions constitute a return of investment and the gain or loss realized or sustained is one of capital.

103 Dividends received from a state or national bank or mutual building and loan association are taxable and should be included in the gross income of the taxpayer.

104 Dividends received by a holding company from state or national banks, or other corporations or associations, are taxable to the holding company and should be included in gross income.

105 Dividends issued by the holding company to its shareholders must be included in gross income of the shareholder if such dividends have not already borne a tax in Mississippi or another state prior to the receipt of same by such shareholders.

106 In order for dividend interest from a domestic mutual building and loan association to be excluded from gross income, it must be clearly shown to the satisfaction of the Commissioner that such dividend received has been used to reduce the total interest paid.

107 Dividends are taxable to the taxpayer who has the right to receive them. If a dividend is paid after stock is sold, whether the purchaser or seller includes the dividend in gross income depends on when the sale took place. When stock is sold, and a dividend is both declared and paid after the sale, such dividend is not gross income to the seller. When stock is sold after the declaration of a dividend and after the date the seller becomes entitled to the dividend, the dividend is income to the seller. When the sale of stock occurs between the time of declaration and the payment of the dividend, the purchaser becomes entitled to the dividend and the dividend is income to the purchaser. In some cases the purchaser may be considered the recipient of the dividend even though they had not received the legal title to the stock and they did not receive the dividend. For example, when the seller retains the legal title to the stock as trustee solely for the purpose of securing the payment of the stock's purchase price, with the understanding that the seller will apply the dividends as payment to the stock's purchase price. In this case, the dividends are considered to be income to the purchaser.

108 If the purchaser includes the amount of an anticipated dividend in the stock purchase price, this will not exempt the purchaser from income tax on the dividend. The added amount is merely part of the purchase price of the stock.

109 Stock dividends are distributions of a company's earnings to shareholders in the form of additional shares of the same company according to the proportion of shares owned. Stock dividends are not included in the shareholder's gross income unless the distribution falls under one of the exceptions. Stock dividends do not change the total value of the stockholder's stock, instead the basis of each share changes.

110 Exceptions to the general tax-free treatment of stock dividends occur when a stock dividend results in a change in the proportionate ownership or increases a shareholder's interest in the assets or earnings and profits of the corporation. When an exception applies, the stock dividend must be recognized as income at the fair market value of the distributed stock as of the date of distribution. Stock dividends are generally gross income to shareholders in the following situations:

a. A distribution in which any shareholder has the option to receive cash or other property instead of stock in the distributing corporation;
b. Disproportionate distribution of stock;
c. Any distribution of stock which results in some common shareholders receiving preferred stock and the other common shareholders receiving common stock;
d. Distribution on preferred stock; and
e. Distribution of convertible preferred stock.

111 Dividends paid in securities or other property (other than its own stock) in which the earnings of a corporation have been invested are income to the recipients at the fair market value of such property when distributed by the corporation to the shareholder. Scrip dividends are payments to the company's shareholders in the form of new shares rather than money. Scrip dividends are subject to tax in the year in which the certificate is issued.

112 If a corporation cancels or redeems its stock at such a time and in such manner as to make the distribution in whole or in part essentially equivalent to a taxable dividend, the amount so distributed, to the extent it represents a distribution of earnings and profits, shall be treated as a taxable dividend.

113 The Commissioner will follow federal rules, regulations and revenue procedures relating to dividends to the extent that such procedures are not deemed contrary to the context and intent of Mississippi Law.

114 (Reserved)

35.III.2.06 revised effective November 1, 2019

Chapter 06 Dividend Income

100 ~~Except as otherwise specifically provided, d~~Dividends are included in gross income unless specifically excluded under Miss. Code Ann. Section 27-7-15(4)(i).

101 The term **"dividend"** for the purpose of the Mississippi Income Tax Law means~~comprises~~ any distribution of property in the ordinary course of business, even though extraordinary in amount, made by a domestic or foreign corporation to its shareholders out of earnings and profit.

~~102 Dividend income is taxable in full without any deductions or exclusions.~~

102~~3~~ The earnings and profits of the taxable year shall be computed as of the close of such year, without reduction by reason of any distributions made during the taxable year. Liquidating dividends do not have the status of dividends for Mississippi income tax purposes. Such distributions constitute a return of investment and the gain or loss realized or sustained is one of capital.

103~~4~~ Dividends received from a state or national bank or~~and~~ mutual building and loan association~~s organized under the laws of this state~~ are taxable and should be included in the gross income of the taxpayer. ~~Dividends of this nature received from banks and mutual building and loan associations domiciled in other states are likewise taxable.~~

104~~5~~ Dividends received by a holding company from state or national banks, or other corporations or associations, are taxable to the holding company and should be included in gross income. ~~The redistribution of such dividends by the holding company to its shareholders may be excluded from gross income of the shareholder provided such dividends as have already borne a Mississippi tax may be specifically identified in the possession of the shareholder or recipient.~~

105~~6~~ Dividends issued ~~If, however, for taxable years ending after December 31, 1978, the subsidiary corporation files a combinedconsolidated corporate income tax return, as authorized and permitted under Miss. Code Ann. Section 27-7-37, with its parent holding company and inter-company dividends are eliminated from the parent holding company's tax base, the redistribution of dividends~~ by the holding company to its shareholders must be included in gross income of the shareholder ~~since~~ if such dividends have not already borne a tax in Mississippi or another state ~~tax~~ prior to the receipt of same by such shareholders.

106~~7~~ In order for dividend interest from a domestic mutual building and loan association to be excluded from gross income, it must be clearly shown to the satisfaction of the Commissioner that such dividend received has been used to reduce the total interest paid.

107~~8~~ Dividends are taxable to the taxpayer who has the right to receive them. If a dividend is paid after stock is sold, whether the purchaser or seller includes the dividend in gross income depends on when the sale took place. When stock is sold, and a dividend is both declared and paid after the sale, such dividend is not gross income to the seller. When stock is sold after the declaration of a dividend and after the date ~~as of which~~ the seller becomes entitled to the dividend, the dividend ~~ordinarily~~ is income to the seller. When the sale of stock ~~is sold~~occurs between the time of declaration and the ~~time of~~ payment of the dividend, ~~and the sale takes place at such time that~~ the purchaser becomes entitled to the dividend~~,~~ and the dividend is ~~ordinarily is~~ income to ~~him~~the purchaser. ~~The fact that the purchaser may have included the amount of the dividend in his purchase price in contemplation of receiving the dividend does not exempt him from tax, nor can the purchaser deduct the added amount he advanced to the seller in anticipation of the dividend. That added amount is merely part of the purchase price of the stock.~~ In some cases~~, however,~~ the purchaser may be considered ~~to be~~ the recipient of the dividend even though ~~he~~they had ~~has~~ not received the legal title to the stock ~~itself~~ and they did not~~does not himself~~ receive the dividend. For example, when~~if~~ the seller retains the legal title to the stock as trustee solely for the purpose of securing the payment of the stock's purchase price, with the understanding that ~~he is~~ the seller will~~to~~ apply the dividends as payment ~~received from time to time in reduction of~~ to the stock's purchase price.~~,~~ In this case, the dividends are considered to be income to the purchaser.

108 If the purchaser includes the amount of an anticipated dividend in the stock purchase price, this will not exempt the purchaser from income tax on the dividend. The~~That~~ added amount is merely part of the purchase price of the stock.

109 Stock dividends are distributions of a company's earnings to shareholders in the form of additional shares of the same company according to the proportion of shares owned. Stock dividends are not included in the shareholder's gross income unless the distribution falls under one of the exceptions. Stock dividends do not change the total value of the stockholder's stock, instead the basis of each share changes.~~For the purposes of the act, amounts received as stock dividends do not constitute a dividend. Such amounts will only reduce the pro rata cost of the number of shares held before the receipt of the stock dividend provided, however, that the dividends are of a like class of stock as the stock on which the dividends are declared. As an example, common stock dividends on common stock, or preferred stock dividends on preferred stock, are exempt under the provisions of this regulation; but, a preferred stock dividend on common stock ownership or a common stock dividend on preferred stock ownership, is without the meaning of the regulation and, therefore, subject to taxation. If a shareholder has the option, and does elect, to take a stock dividend in lieu of a dividend paid in cash or other property, then said dividend shall be included in gross income in an amount equal to its fair market value. A stock dividend issued in compliance with a federal court order does not constitute income or the purpose of this regulation, instead the cost of the original stock should be prorated to also include the stock received.~~

110 Exceptions to the general tax-free treatment of stock dividends occur when a stock dividend results in a change in the proportionate ownership or increases a shareholder's interest in the assets or earnings and profits of the corporation. When an exception applies, the stock dividend must be recognized as income at the fair market value of the distributed stock as of the date of distribution. Stock dividends are generally gross income to shareholders in the following situations:

a. A distribution in which any shareholder has the option to receive cash or other property instead of stock in the distributing corporation;
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c. Any distribution of stock which results in some common shareholders receiving preferred stock and the other common shareholders receiving common stock;
d. Distribution on preferred stock; and
e. Distribution of convertible preferred stock.

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114~~3~~ (Reserved)

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