

By: Senator(s) Bryan

To: Finance

SENATE BILL NO. 2742

1 AN ACT TO AMEND SECTION 27-7-17, MISSISSIPPI CODE OF 1972, TO
2 REMOVE THE PROVISION THAT AUTHORIZES INTEREST EXPENSE INCURRED FOR
3 THE PURCHASE OF TREASURY STOCK, TO PAY DIVIDENDS, OR INCURRED AS A
4 RESULT OF AN UNDERCAPITALIZED AFFILIATED CORPORATION TO BE
5 UTILIZED AS AN INCOME TAX BUSINESS DEDUCTION IF AN ORDINARY AND
6 NECESSARY BUSINESS PURPOSE CAN BE ESTABLISHED TO THE SATISFACTION
7 OF THE CHAIRMAN OF THE STATE TAX COMMISSION; AND FOR RELATED
8 PURPOSES. BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF
9 MISSISSIPPI:

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11 SECTION 1. Section 27-7-17, Mississippi Code of 1972, is
12 amended as follows:

13 27-7-17. In computing taxable income, there shall be allowed
14 as deductions:

15 (1) **Business deductions.**

16 (a) Business expenses. All the ordinary and necessary
17 expenses paid or incurred during the taxable year in carrying on
18 any trade or business, including a reasonable allowance for
19 salaries or other compensation for personal services actually
20 rendered; nonreimbursable traveling expenses incident to current
21 employment, including a reasonable amount expended for meals and
22 lodging while away from home in the pursuit of a trade or
23 business; and rentals or other payments required to be made as a
24 condition of the continued use or possession, for purposes of the
25 trade or business of property to which the taxpayer has not taken
26 or is not taking title or in which he had no equity. Expense
27 incurred in connection with earning and distributing nontaxable
28 income is not an allowable deduction. Limitations on
29 entertainment expenses shall conform to the provisions of the
30 Internal Revenue Code of 1986.

31 (b) Interest. All interest paid or accrued during the

taxable year on business indebtedness, except interest upon the indebtedness for the purchase of tax-free bonds, or any stocks, the dividends from which are nontaxable under the provisions of this article; provided, however, in the case of securities dealers, interest payments or accruals on loans, the proceeds of which are used to purchase tax-exempt securities, shall be deductible if income from otherwise tax-free securities is reported as income. Investment interest expense shall be limited to investment income. Interest expense incurred for the purchase of treasury stock, to pay dividends, or incurred as a result of an undercapitalized affiliated corporation may not be deducted * * *.

For the purposes of this paragraph, the phrase "interest upon the indebtedness for the purchase of tax-free bonds" applies only to the indebtedness incurred for the purpose of directly purchasing tax-free bonds and does not apply to any other indebtedness incurred in the regular course of the taxpayer's business. Any corporation, association, organization or other entity taxable under Section 27-7-23(c) shall allocate interest expense as provided in Section 27-7-23(c)(4)(H).

(c) Taxes. Taxes paid or accrued within the taxable year, except state and federal income taxes, excise taxes based on or measured by net income, estate and inheritance taxes, gift taxes, cigar and cigarette taxes, gasoline taxes, and sales and use taxes unless incurred as an item of expense in a trade or business or in the production of taxable income. In the case of an individual, taxes permitted as an itemized deduction under the provisions of subsection (2)(a) of this section are to be claimed thereunder.

(d) Business losses.

(i) Losses sustained during the taxable year not compensated for by insurance or otherwise, if incurred in trade or business, or nonbusiness transactions entered into for profit.

(ii) Limitations on losses from passive activities and rental real estate shall conform to the provisions of the

66 Internal Revenue Code of 1986.

67 (e) Bad debts. Losses from debts ascertained to be
68 worthless and charged off during the taxable year, if sustained in
69 the conduct of the regular trade or business of the taxpayer;
70 provided, that such losses shall be allowed only when the taxpayer
71 has reported as income, on the accrual basis, the amount of such
72 debt or account.

73 (f) Depreciation. A reasonable allowance for
74 exhaustion, wear and tear of property used in the trade or
75 business, or rental property, and depreciation upon buildings
76 based upon their reasonable value as of March 16, 1912, if
77 acquired prior thereto, and upon cost if acquired subsequent to
78 that date.

79 (g) Depletion. In the case of mines, oil and gas
80 wells, other natural deposits and timber, a reasonable allowance
81 for depletion and for depreciation of improvements, based upon
82 cost, including cost of development, not otherwise deducted, or
83 fair market value as of March 16, 1912, if acquired prior to that
84 date, such allowance to be made upon regulations prescribed by the
85 commissioner, with the approval of the Governor.

86 (h) Contributions or gifts. Except as otherwise
87 provided in subsection (2)(a) of this section for individuals,
88 contributions or gifts made by corporations within the taxable
89 year to corporations, organizations, associations or institutions,
90 including Community Chest funds, foundations and trusts created
91 solely and exclusively for religious, charitable, scientific or
92 educational purposes, or for the prevention of cruelty to children
93 or animals, no part of the net earnings of which inure to the
94 benefit of any private stockholder or individual. This deduction
95 shall be allowed in an amount not to exceed twenty percent (20%)
96 of the net income. Such contributions or gifts shall be allowable
97 as deductions only if verified under rules and regulations
98 prescribed by the commissioner, with the approval of the Governor.

99 Contributions made in any form other than cash shall be allowed

as a deduction, subject to the limitations herein provided, in an amount equal to the actual market value of the contributions at the time the contribution is actually made and consummated.

(i) Reserve funds - insurance companies. In the case of insurance companies the net additions required by law to be made within the taxable year to reserve funds when such reserve funds are maintained for the purpose of liquidating policies at maturity.

(j) Annuity income. The sums, other than dividends, paid within the taxpayer year on policy or annuity contracts when such income has been included in gross income.

(k) Contributions to employee pension plans. Contributions made by an employer to a plan or a trust forming part of a pension plan, stock bonus plan, disability or death-benefit plan, or profit-sharing plan of such employer for the exclusive benefit of some or all of his, their, or its employees, or their beneficiaries, shall be deductible from his, their, or its income only to the extent that, and for the taxable year in which, the contribution is deductible for federal income tax purposes under the Internal Revenue Code of 1986 and any other provisions of similar purport in the Internal Revenue Laws of the United States, and the rules, regulations, rulings and determinations promulgated thereunder, provided that:

(i) The plan or trust be irrevocable.

(ii) 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.

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

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

(1) Net operating loss carrybacks and carryovers.
A net operating loss for any taxable year ending after December 31, 1993, and taxable years thereafter, shall be a net operating loss carryback to each of the three (3) taxable years preceding the taxable year of the loss. If the net operating loss for any taxable year is not exhausted by carrybacks to the three (3) taxable years preceding the taxable year of the loss, then there shall be a net operating loss carryover to each of the fifteen (15) taxable years following the taxable year of the loss beginning with any taxable year after December 31, 1991.

For any taxable year ending after December 31, 1997, the period for net operating loss carrybacks and net operating loss carryovers shall be the same as those established by the Internal Revenue Code and the rules, regulations, rulings and determinations promulgated thereunder.

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:

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

(ii) No personal exemption deduction shall be allowed.

(iii) 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.

Any taxpayer entitled to a carryback period as provided by this paragraph may elect to relinquish the entire carryback period with respect to a net operating loss for any taxable year ending after December 31, 1991. The election shall be made in the manner prescribed by the State Tax Commission and shall be made by the due date, including extensions of time, for filing the taxpayer's return for the taxable year of the net operating loss for which the election is to be in effect. The election, once made for any taxable year, shall be irrevocable for that taxable year.

(m) Amortization of pollution or environmental control facilities.

Allowance of deduction. Every taxpayer, at his election, shall be entitled to a deduction for pollution or environmental control facilities to the same extent as that allowed under the Internal Revenue Code and the rules, regulations, rulings and determinations promulgated thereunder.

(n) Dividend distributions - investment trusts. Dividends distributed by an investment trust defined in Section 79-15-3, if the dividend distributions meet the requirements of Section 857 or are otherwise deductible under Section 858 or 860, federal Internal Revenue Code of 1986, as amended. The deductions allowed in this paragraph shall be effective for the 1985 taxable year of the investment trust and for each taxable year thereafter.

(2) Individual nonbusiness deductions.

(a) The amount allowable for individual nonbusiness itemized deductions for federal income tax purposes, except the deduction for state income taxes paid, where the individual is eligible to elect, for the taxable year, to itemize deductions on his federal return; or

(b) In lieu of the individual nonbusiness itemized deductions authorized in paragraph (a), for all purposes other than ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business, an optional standard deduction of:

(i) Three Thousand Four Hundred Dollars (\$3,400.00) through calendar year 1997, Four Thousand Two Hundred Dollars (\$4,200.00) for the calendar year 1998 and Four Thousand Six Hundred Dollars (\$4,600.00) for each calendar year thereafter in the case of married individuals filing a joint or combined return;

(ii) One Thousand Seven Hundred Dollars (\$1,700.00) through calendar year 1997, Two Thousand One Hundred Dollars (\$2,100.00) for the calendar year 1998 and Two Thousand Three Hundred Dollars (\$2,300.00) for each calendar year thereafter in the case of married individuals filing separate returns;

(iii) Three Thousand Four Hundred Dollars (\$3,400.00) in the case of a head of family; or

(iv) Two Thousand Three Hundred Dollars (\$2,300.00) in the case of an individual who is not married.

In the case of a husband and wife living together, having separate incomes, and filing combined returns, the standard deduction authorized may be divided in any manner they choose. In the case of separate returns by a husband and wife, the standard deduction shall not be allowed to either if the taxable income of one of the spouses is determined without regard to the standard deduction.

(c) A nonresident individual shall be allowed the same individual nonbusiness deductions as are authorized for resident individuals in paragraph (a) or (b) of this subsection; however, the nonresident individual is entitled only to that proportion of the individual nonbusiness deductions as his net income from sources within the State of Mississippi bears to his total or entire net income from all sources.

(3) Nothing in this section shall permit the same item to be deducted more than once, either in fact or in effect.

SECTION 2. Nothing in this act shall affect or defeat any claim, assessment, appeal, suit, right or cause of action for

236 taxes due or accrued under the income tax laws before the date
237 which this act become effective, whether such claims, assessments,
238 appeals, suits or actions have been begun before the date on which
239 this act becomes effective or are begun thereafter; and the
240 provisions of the income tax laws are expressly continued in full
241 force, effect and operation for the purpose of the assessment,
242 collection and enrollment of liens for any taxes due or accrued
243 and the execution of any warrant under such laws before the date
244 on which this act becomes effective, and for the imposition of any
245 penalties, forfeitures or claims for failure to comply with such
246 laws.

247 SECTION 3. This act shall take effect and be in force from
248 and after July 1, 1999.