

By: Representative Owen

To: Ways and Means

HOUSE BILL NO. 1710

1 AN ACT TO AMEND SECTION 27-7-15, MISSISSIPPI CODE OF 1972, TO
2 REVISE THE DEFINITION OF THE TERM "GROSS INCOME" UNDER THE STATE
3 INCOME TAX LAW TO EXCLUDE TIPS; AND FOR RELATED PURPOSES.

4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MISSISSIPPI:

5 **SECTION 1.** Section 27-7-15, Mississippi Code of 1972, is
6 amended as follows:

7 27-7-15. (1) For the purposes of this article, except as
8 otherwise provided, the term "gross income" means and includes the
9 income of a taxpayer derived from salaries, wages, fees or
10 compensation for service, of whatever kind and in whatever form
11 paid, including income from governmental agencies and subdivisions
12 thereof; or from professions, vocations, trades, businesses,
13 commerce or sales, or renting or dealing in property, or
14 reacquired property; also from annuities, interest, rents,
15 dividends, securities, insurance premiums, reinsurance premiums,
16 considerations for supplemental insurance contracts, or the
17 transaction of any business carried on for gain or profit, or
18 gains, or profits, and income derived from any source whatever and



19 in whatever form paid. The amount of all such items of income
20 shall be included in the gross income for the taxable year in
21 which received by the taxpayer. The amount by which an eligible
22 employee's salary is reduced pursuant to a salary reduction
23 agreement authorized under Section 25-17-5 shall be excluded from
24 the term "gross income" within the meaning of this article.

25 (2) In determining gross income for the purpose of this
26 section, the following, under regulations prescribed by the
27 commissioner, shall be applicable:

28 (a) **Dealers in property.** Federal rules, regulations
29 and revenue procedures shall be followed with respect to
30 installment sales unless a transaction results in the shifting of
31 income from inside the state to outside the state.

32 (b) **Casual sales of property.**

33 (i) Prior to January 1, 2001, federal rules,
34 regulations and revenue procedures shall be followed with respect
35 to installment sales except they shall be applied and administered
36 as if H.R. 3594, the Installment Tax Correction Act of 2000 of the
37 106th Congress, had not been enacted. This provision will
38 generally affect taxpayers, reporting on the accrual method of
39 accounting, entering into installment note agreements on or after
40 December 17, 1999. Any gain or profit resulting from the casual
41 sale of property will be recognized in the year of sale.

42 (ii) From and after January 1, 2001, federal
43 rules, regulations and revenue procedures shall be followed with



44 respect to installment sales except as provided in this
45 subparagraph (ii). Gain or profit from the casual sale of
46 property shall be recognized in the year of sale. When a taxpayer
47 recognizes gain on the casual sale of property in which the gain
48 is deferred for federal income tax purposes, a taxpayer may elect
49 to defer the payment of tax resulting from the gain as allowed and
50 to the extent provided under regulations prescribed by the
51 commissioner. If the payment of the tax is made on a deferred
52 basis, the tax shall be computed based on the applicable rate for
53 the income reported in the year the payment is made. Except as
54 otherwise provided in subparagraph (iii) of this paragraph (b),
55 deferring the payment of the tax shall not affect the liability
56 for the tax. If at any time the installment note is sold,
57 contributed, transferred or disposed of in any manner and for any
58 purpose by the original note holder, or the original note holder
59 is merged, liquidated, dissolved or withdrawn from this state,
60 then all deferred tax payments under this section shall
61 immediately become due and payable.

62 (iii) If the selling price of the property is
63 reduced by any alteration in the terms of an installment note,
64 including default by the purchaser, the gain to be recognized is
65 recomputed based on the adjusted selling price in the same manner
66 as for federal income tax purposes. The tax on this amount, less
67 the previously paid tax on the recognized gain, is payable over
68 the period of the remaining installments. If the tax on the



69 previously recognized gain has been paid in full to this state,
70 the return on which the payment was made may be amended for this
71 purpose only. The statute of limitations in Section 27-7-49 shall
72 not bar an amended return for this purpose.

73 (c) **Reserves of insurance companies.** In the case of
74 insurance companies, any amounts in excess of the legally required
75 reserves shall be included as gross income.

76 (d) **Affiliated companies or persons.** As regards sales,
77 exchanges or payments for services from one to another of
78 affiliated companies or persons or under other circumstances where
79 the relation between the buyer and seller is such that gross
80 proceeds from the sale or the value of the exchange or the payment
81 for services are not indicative of the true value of the subject
82 matter of the sale, exchange or payment for services, the
83 commissioner shall prescribe uniform and equitable rules for
84 determining the true value of the gross income, gross sales,
85 exchanges or payment for services, or require consolidated returns
86 of affiliates.

87 (e) **Alimony and separate maintenance payments.** The
88 federal rules, regulations and revenue procedures in determining
89 the deductibility and taxability of alimony payments shall be
90 followed in this state.

91 (f) **Reimbursement for expenses of moving.** There shall
92 be included in gross income (as compensation for services) any
93 amount received or accrued, directly or indirectly, by an



individual as a payment for or reimbursement of expenses of moving from one (1) residence to another residence which is attributable to employment or self-employment.

(3) In the case of taxpayers other than residents, gross income includes gross income from sources within this state.

(4) The words "gross income" do not include the following items of income which shall be exempt from taxation under this article:

(a) The proceeds of life insurance policies and contracts paid upon the death of the insured. However, the income from the proceeds of such policies or contracts shall be included in the gross income.

(b) The amount received by the insured as a return of premium or premiums paid by him under life insurance policies, endowment, or annuity contracts, either during the term or at maturity or upon surrender of the contract.

(c) The value of property acquired by gift, bequest, devise or descent, but the income from such property shall be included in the gross income.

(d) Interest upon the obligations of the United States or its possessions, or securities issued under the provisions of the Federal Farm Loan Act of 1916, or bonds issued by the War Finance Corporation, or obligations of the State of Mississippi or political subdivisions thereof.



118 (e) The amounts received through accident or health
119 insurance as compensation for personal injuries or sickness, plus
120 the amount of any damages received for such injuries or such
121 sickness or injuries, or through the War Risk Insurance Act, or
122 any law for the benefit or relief of injured or disabled members
123 of the military or naval forces of the United States.

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

131 (g) Income received by a domestic corporation which is
132 "taxable in another state" as this term is defined in this
133 article, derived from business activity conducted outside this
134 state. Domestic corporations taxable both within and without the
135 state shall determine Mississippi income on the same basis as
136 provided for foreign corporations under the provisions of this
137 article.

138 (h) In case of insurance companies, there shall be
139 excluded from gross income such portion of actual premiums
140 received from an individual policyholder as is paid back or
141 credited to or treated as an abatement of premiums of such
142 policyholder within the taxable year.



143 (i) Income from dividends that has already borne a tax
144 as dividend income under the provisions of this article, when such
145 dividends may be specifically identified in the possession of the
146 recipient.

147 (j) Amounts paid by the United States to a person as
148 added compensation for hazardous duty pay as a member of the Armed
149 Forces of the United States in a combat zone designated by
150 Executive Order of the President of the United States.

151 (k) Amounts received as retirement allowances,
152 pensions, annuities or optional retirement allowances paid under
153 the federal Social Security Act, the Railroad Retirement Act, the
154 Federal Civil Service Retirement Act, or any other retirement
155 system of the United States government, retirement allowances paid
156 under the Mississippi Public Employees' Retirement System,
157 Mississippi Highway Safety Patrol Retirement System or any other
158 retirement system of the State of Mississippi or any political
159 subdivision thereof. The exemption allowed under this paragraph
160 (k) shall be available to the spouse or other beneficiary at the
161 death of the primary retiree.

162 (l) Amounts received as retirement allowances,
163 pensions, annuities or optional retirement allowances paid by any
164 public or governmental retirement system not designated in
165 paragraph (k) or any private retirement system or plan of which
166 the recipient was a member at any time during the period of his
167 employment. Amounts received as a distribution under a Roth



Individual Retirement Account shall be treated in the same manner as provided under the Internal Revenue Code of 1986, as amended. The exemption allowed under this paragraph (l) shall be available to the spouse or other beneficiary at the death of the primary retiree.

(m) National Guard or Reserve Forces of the United States compensation not to exceed the aggregate sum of Five Thousand Dollars (\$5,000.00) for any taxable year through the 2005 taxable year, and not to exceed the aggregate sum of Fifteen Thousand Dollars (\$15,000.00) for any taxable year thereafter.

(n) Compensation received for active service as a member below the grade of commissioned officer and so much of the compensation as does not exceed the maximum enlisted amount received for active service as a commissioned officer in the Armed Forces of the United States for any month during any part of which such members of the Armed Forces (i) served in a combat zone as designated by Executive Order of the President of the United States or a qualified hazardous duty area as defined by federal law, or both; or (ii) was hospitalized as a result of wounds, disease or injury incurred while serving in such combat zone. For the purposes of this paragraph (n), the term "maximum enlisted amount" means and has the same definition as that term has in 26 USCS 112.

(o) The proceeds received from federal and state forestry incentive programs.



193 (p) The amount representing the difference between the
194 increase of gross income derived from sales for export outside the
195 United States as compared to the preceding tax year wherein gross
196 income from export sales was highest, and the net increase in
197 expenses attributable to such increased exports. In the absence
198 of direct accounting, the ratio of net profits to total sales may
199 be applied to the increase in export sales. This paragraph (p)
200 shall only apply to businesses located in this state engaging in
201 the international export of Mississippi goods and services. Such
202 goods or services shall have at least fifty percent (50%) of value
203 added at a location in Mississippi.

204 (q) Amounts paid by the federal government for the
205 construction of soil conservation systems as required by a
206 conservation plan adopted pursuant to 16 USCS 3801 et seq.

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

214 (s) Amounts paid by the Mississippi Soil and Water
215 Conservation Commission from the Mississippi Soil and Water
216 Cost-Share Program for the installation of water quality best
217 management practices.



218 (t) Dividends received by a holding corporation, as
219 defined in Section 27-13-1, from a subsidiary corporation, as
220 defined in Section 27-13-1.

221 (u) Interest, dividends, gains or income of any kind on
222 any account in the Mississippi Affordable College Savings Trust
223 Fund, as established in Sections 37-155-101 through 37-155-125, to
224 the extent that such amounts remain on deposit in the MACS Trust
225 Fund or are withdrawn pursuant to a qualified withdrawal, as
226 defined in Section 37-155-105.

227 (v) Interest, dividends or gains accruing on the
228 payments made pursuant to a prepaid tuition contract, as provided
229 for in Section 37-155-17.

230 (w) Income resulting from transactions with a related
231 member where the related member subject to tax under this chapter
232 was required to, and did in fact, add back the expense of such
233 transactions as required by Section 27-7-17(2). Under no
234 circumstances may the exclusion from income exceed the deduction
235 add-back of the related member, nor shall the exclusion apply to
236 any income otherwise excluded under this chapter.

237 (x) Amounts that are subject to the tax levied pursuant
238 to Section 27-7-901, and are paid to patrons by gaming
239 establishments licensed under the Mississippi Gaming Control Act.

240 (y) Amounts that are subject to the tax levied pursuant
241 to Section 27-7-903, and are paid to patrons by gaming



establishments not licensed under the Mississippi Gaming Control Act.

(z) Interest, dividends, gains or income of any kind on any account in a qualified tuition program and amounts received as distributions under a qualified tuition program shall be treated in the same manner as provided under the United States Internal Revenue Code, as amended. For the purposes of this paragraph (z), the term "qualified tuition program" means and has the same definition as that term has in 26 USCS 529.

(aa) The amount deposited in a health savings account, and any interest accrued thereon, that is a part of a health savings account program as specified in the Health Savings Accounts Act created in Sections 83-62-1 through 83-62-9; however, any amount withdrawn from such account for purposes other than paying qualified medical expenses or to procure health coverage shall be included in gross income, except as otherwise provided by Sections 83-62-7 and 83-62-9.

(bb) Amounts received as qualified disaster relief payments shall be treated in the same manner as provided under the United States Internal Revenue Code, as amended.

(cc) Amounts received as a "qualified Hurricane Katrina distribution" as defined in the United States Internal Revenue Code, as amended.



(dd) Amounts received by an individual which may be excluded from income as foreign earned income for federal income tax purposes.

(ee) Amounts received by a qualified individual, directly or indirectly, from an employer or nonprofit housing organization that are qualified housing expenses associated with an employer-assisted housing program. For purposes of this paragraph (ee):

(i) "Qualified individual" means any individual whose household income does not exceed one hundred twenty percent (120%) of the area median gross income (as defined by the United States Department of Housing and Urban Development), adjusted for household size, for the area in which the housing is located.

(ii) "Nonprofit housing organization" means an organization that is organized as a not-for-profit organization under the laws of this state or another state and has as one of its purposes:

1. Homeownership education or counseling;
2. The development of affordable housing; or
3. The development or administration of employer-assisted housing programs.

(iii) "Employer-assisted housing program" means a separate written plan of any employer (including, without limitation, tax-exempt organizations and public employers) for the exclusive benefit of the employer's employees to pay qualified



housing expenses to assist the employer's employees in securing affordable housing.

(iv) "Qualified housing expenses" means:

1. With respect to rental assistance, an amount not to exceed Two Thousand Dollars (\$2,000.00) paid for the purpose of assisting employees with security deposits and rental subsidies; and

2. With respect to homeownership assistance, an amount not to exceed the lesser of Ten Thousand Dollars (\$10,000.00) or six percent (6%) of the purchase price of the employee's principal residence that is paid for the purpose of assisting employees with down payments, payment of closing costs, reduced interest mortgages, mortgage guarantee programs, mortgage forgiveness programs, equity contribution programs, or contributions to homebuyer education and/or homeownership counseling of eligible employees.

(ff) For the 2010 taxable year and any taxable year thereafter, amounts converted in accordance with the United States Internal Revenue Code, as amended, from a traditional Individual Retirement Account to a Roth Individual Retirement Account. The exemption allowed under this paragraph (ff) shall be available to the spouse or other beneficiary at the death of the primary retiree.

(gg) Amounts received for the performance of disaster or emergency-related work as defined in Section 27-113-5.



315 (hh) The amount deposited in a catastrophe savings
316 account established under Sections 27-7-1001 through 27-7-1007,
317 interest income earned on the catastrophe savings account, and
318 distributions from the catastrophe savings account; however, any
319 amount withdrawn from a catastrophe savings account for purposes
320 other than paying qualified catastrophe expenses shall be included
321 in gross income, except as otherwise provided by Sections
322 27-7-1001 through 27-7-1007.

323 (ii) Interest, dividends, gains or income of any kind
324 on any account in the Mississippi Achieving a Better Life
325 Experience (ABLE) Trust Fund, as established in Chapter 28, Title
326 43, to the extent that such amounts remain on deposit in the ABLE
327 Trust Fund or are withdrawn pursuant to a qualified withdrawal, as
328 defined in Section 43-28-11.

329 (jj) Subject to the limitations provided under Section
330 27-7-1103, amounts deposited into a first-time homebuyer savings
331 account and any interest or other income earned attributable to an
332 account and monies or funds withdrawn or distributed from an
333 account for the payment of eligible costs by or on behalf of a
334 qualified beneficiary; however, any monies or funds withdrawn or
335 distributed from a first-time homebuyer savings account for any
336 purpose other than the payment of eligible costs by or on behalf
337 of a qualified beneficiary shall be included in gross income. For
338 the purpose of this paragraph (jj), the terms "first-time
339 homebuyer savings account," "eligible costs" and "qualified



beneficiary" mean and have the same definitions as such terms have in Section 27-7-1101.

(kk) Amounts paid by an agricultural disaster program as compensation to an agricultural producer, cattle farmer or cattle rancher who has suffered a loss as the result of a disaster or emergency, including, but not limited to, the following United States Department of Agriculture programs:

- (i) Livestock Forage Disaster Program;
- (ii) Livestock Indemnity Program;
- (iii) Emergency Assistance for Livestock, Honey Bees and Farm-raised Fish Program;
- (iv) Emergency Conservation Program;
- (v) Noninsured Crop Disaster Assistance Program;
- (vi) Pasture, Rangeland, Forage Pilot Insurance Program;
- (vii) Annual Forage Pilot Program;
- (viii) Livestock Risk Protection Insurance Program; and
- (ix) Livestock Gross Margin Insurance Plan.

(ll) Amounts received as advances and/or grants under the federal Coronavirus Aid, Relief, and Economic Security Act, the Consolidated Appropriations Act of 2021 and the American Rescue Plan Act.



363 (mm) Any and all cancelled indebtedness provided for
364 under the Coronavirus Aid, Relief, and Economic Security Act and
365 the Consolidated Appropriations Act of 2021.

366 (nn) Amounts received as payments under Section
367 27-3-85.

368 (oo) Amounts received as grants under the 2020 COVID-19
369 Mississippi Business Assistance Act.

370 (pp) Amounts received as grants under Section 57-1-521.

371 (* * * qq) Amounts received as grants under the
372 Shuttered Venue Operators Grant Program and Restaurant
373 Revitalization Fund authorized by the Economic Aid to Hard-Hit
374 Small Businesses, Nonprofits, and Venues Act, and amended by the
375 American Rescue Plan Act.

376 (* * * rr) Amounts received as grants under the
377 Mississippi Agriculture Stabilization Act.

378 (ss) Amounts received as tips by an employee. For the
379 purposes of this paragraph (ss), the term "tips" includes, but is
380 not limited to, any payment such as cash payment and/or payment
381 through electronic settlement or payment that a customer or other
382 purchaser leaves or provides for an employee over the amount due
383 for the goods sold or services rendered, and amounts received from
384 other employees paid out through tip pools or tip splitting or
385 other formal or informal tip agreement.

386 (5) Prisoners of war, missing in action-taxable status.



387 (a) **Members of the Armed Forces.** Gross income does not
388 include compensation received for active service as a member of
389 the Armed Forces of the United States for any month during any
390 part of which such member is in a missing status, as defined in
391 paragraph (d) of this subsection, during the Vietnam Conflict as a
392 result of such conflict.

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

397 (c) **Period of conflict.** For the purpose of this
398 subsection, the Vietnam Conflict began February 28, 1961, and ends
399 on the date designated by the President by Executive Order as the
400 date of the termination of combatant activities in Vietnam. For
401 the purpose of this subsection, an individual is in a missing
402 status as a result of the Vietnam Conflict if immediately before
403 such status began he was performing service in Vietnam or was
404 performing service in Southeast Asia in direct support of military
405 operations in Vietnam. "Southeast Asia," as used in this
406 paragraph, is defined to include Cambodia, Laos, Thailand and
407 waters adjacent thereto.

408 (d) "Missing status" means the status of an employee or
409 member of the Armed Forces who is in active service and is
410 officially carried or determined to be absent in a status of (i)
411 missing; (ii) missing in action; (iii) interned in a foreign



country; (iv) captured, beleaguered or besieged by a hostile force; or (v) detained in a foreign country against his will; but does not include the status of an employee or member of the Armed Forces for a period during which he is officially determined to be absent from his post of duty without authority.

(e) "Active service" means active federal service by an employee or member of the Armed Forces of the United States in an active duty status.

(f) "Employee" means one who is a citizen or national of the United States or an alien admitted to the United States for permanent residence and is a resident of the State of Mississippi and is employed in or under a federal executive agency or department of the Armed Forces.

(g) "Compensation" means (i) basic pay; (ii) special pay; (iii) incentive pay; (iv) basic allowance for quarters; (v) basic allowance for subsistence; and (vi) station per diem allowances for not more than ninety (90) days.

(h) If refund or credit of any overpayment of tax for any taxable year resulting from the application of this subsection (5) is prevented by the operation of any law or rule of law, such refund or credit of such overpayment of tax may, nevertheless, be made or allowed if claim therefor is filed with the Department of Revenue within three (3) years after the date of the enactment of this subsection.



(i) The provisions of this subsection shall be effective for taxable years ending on or after February 28, 1961.

(6) A shareholder of an S corporation, as defined in Section 27-8-3(1)(g), shall take into account the income, loss, deduction or credit of the S corporation only to the extent provided in Section 27-8-7(2).

SECTION 2. Nothing in this act shall affect or defeat any claim, assessment, appeal, suit, right or cause of action for taxes due or accrued under the income tax laws before the date on which this act becomes effective, whether such claims, assessments, appeals, suits or actions have been begun before the date on which this act becomes effective or are begun thereafter; and the provisions of the income tax laws are expressly continued in full force, effect and operation for the purpose of the assessment, collection and enrollment of liens for any taxes due or accrued and the execution of any warrant under such laws before the date on which this act becomes effective, and for the imposition of any penalties, forfeitures or claims for failure to comply with such laws.

SECTION 3. This act shall take effect and be in force from and after January 1, 2025.

