

PUBLICATION

Spotlight on Mississippi: Legislature Approves Bill Eliminating Franchise Tax

Authors: Christopher Tyler Ball

April 22, 2016

The Mississippi Legislature has passed Lt. Governor Tate Reeve's "Taxpayer Pay Raise Act," which, if signed by the Governor, will eliminate the State's corporate franchise tax, lower the effective tax rate on income of Mississippi individual taxpayers and create a new deduction for self-employed taxpayers. SB 2858 received bicameral approval on Wednesday, April 20, and is now on its way to the Governor's office where it is expected to be signed into law.

Generally, Mississippi taxpayers that report income to the federal government as a corporation have been required to pay a franchise tax to the state equal to \$2.50 for every \$1,000 (0.25 percent) of capital used, invested or employed within the state. The minimum franchise tax owed by subject taxpayers is \$25.

In a recent publication, the Mississippi Economic Council stated that "[t]he franchise tax imposed on a business' capital puts jobs and opportunities at risk and places Mississippi at a competitive disadvantage." If signed into law, this Act will completely phase the corporate franchise tax out of existence over a ten-year period beginning in 2018.

The Act also includes a five-year phase out of the three percent income tax bracket for corporations and individuals beginning in 2018. Currently, Mississippi taxpayers generally pay three percent on the first \$5,000 of Mississippi income, four percent on the next \$5,000 and five percent on all Mississippi income in excess of \$10,000. The phase out of the three percent bracket would effectively eliminate income tax on the first \$5,000 of Mississippi income for corporate and individual taxpayers – resulting in a tax break of up to \$150 per taxpayer.

In addition, the Act creates a deduction for self-employed taxpayers that would allow them to deduct one-half of their self-employment taxes paid. This deduction is currently allowed by the federal government for one-half of FICA taxes, i.e., Medicare and Social Security taxes, paid by self-employed individuals and would be phased in over a three-year period beginning in 2017.

If you have any questions concerning how this Act could impact you or your business' Mississippi tax obligations, please contact Tyler Ball or any of the attorneys in the Firm's Tax Group.