

FIRST REGULAR SESSION
[P E R F E C T E D]
SENATE COMMITTEE SUBSTITUTE FOR
SENATE BILL NO. 174
100TH GENERAL ASSEMBLY

Reported from the Committee on Ways and Means, February 28, 2019, with recommendation that the Senate Committee Substitute do pass.

Senate Committee Substitute for Senate Bill No. 174, adopted March 27, 2019.

Taken up for Perfection March 27, 2019. Bill declared Perfected and Ordered Printed.

ADRIANE D. CROUSE, Secretary.

0971S.03P

AN ACT

To repeal sections 143.121 and 148.064, RSMo, and to enact in lieu thereof two new sections relating to the reduction of taxes owed on certain income.

Be it enacted by the General Assembly of the State of Missouri, as follows:

Section A. Sections 143.121 and 148.064, RSMo, are repealed and two new
2 sections enacted in lieu thereof, to be known as sections 143.121 and 148.064, to
3 read as follows:

143.121. 1. The Missouri adjusted gross income of a resident individual
2 shall be the taxpayer's federal adjusted gross income subject to the modifications
3 in this section.

4 2. There shall be added to the taxpayer's federal adjusted gross income:

5 (1) The amount of any federal income tax refund received for a prior year
6 which resulted in a Missouri income tax benefit;

7 (2) Interest on certain governmental obligations excluded from federal
8 gross income by **26 U.S.C. Section 103 of the Internal Revenue Code, as**
9 **amended**. The previous sentence shall not apply to interest on obligations of the
10 state of Missouri or any of its political subdivisions or authorities and shall not
11 apply to the interest described in subdivision (1) of subsection 3 of this
12 section. The amount added pursuant to this subdivision shall be reduced by the
13 amounts applicable to such interest that would have been deductible in
14 computing the taxable income of the taxpayer except only for the application of
15 **26 U.S.C. Section 265 of the Internal Revenue Code, as amended**. The

EXPLANATION—Matter enclosed in bold-faced brackets [thus] in this bill is not enacted and is intended to be omitted in the law.

16 reduction shall only be made if it is at least five hundred dollars;

17 (3) The amount of any deduction that is included in the computation of
18 federal taxable income pursuant to **26 U.S.C.** Section 168 of the Internal Revenue
19 Code as amended by the Job Creation and Worker Assistance Act of 2002 to the
20 extent the amount deducted relates to property purchased on or after July 1,
21 2002, but before July 1, 2003, and to the extent the amount deducted exceeds the
22 amount that would have been deductible pursuant to **26 U.S.C.** Section 168 of the
23 Internal Revenue Code of 1986 as in effect on January 1, 2002;

24 (4) The amount of any deduction that is included in the computation of
25 federal taxable income for net operating loss allowed by **26 U.S.C.** Section 172 of
26 the Internal Revenue Code of 1986, as amended, other than the deduction allowed
27 by **26 U.S.C.** Section 172(b)(1)(G) and **26 U.S.C.** Section 172(i) of the Internal
28 Revenue Code of 1986, as amended, for a net operating loss the taxpayer claims
29 in the tax year in which the net operating loss occurred or carries forward for a
30 period of more than twenty years and carries backward for more than two
31 years. Any amount of net operating loss taken against federal taxable income but
32 disallowed for Missouri income tax purposes pursuant to this subdivision after
33 June 18, 2002, may be carried forward and taken against any income on the
34 Missouri income tax return for a period of not more than twenty years from the
35 year of the initial loss; and

36 (5) For nonresident individuals in all taxable years ending on or after
37 December 31, 2006, the amount of any property taxes paid to another state or a
38 political subdivision of another state for which a deduction was allowed on such
39 nonresident's federal return in the taxable year unless such state, political
40 subdivision of a state, or the District of Columbia allows a subtraction from
41 income for property taxes paid to this state for purposes of calculating income for
42 the income tax for such state, political subdivision of a state, or the District of
43 Columbia.

44 3. There shall be subtracted from the taxpayer's federal adjusted gross
45 income the following amounts to the extent included in federal adjusted gross
46 income:

47 (1) Interest **received on deposits held at a federal reserve bank** or
48 **interest or** dividends on obligations of the United States and its territories and
49 possessions or of any authority, commission or instrumentality of the United
50 States to the extent exempt from Missouri income taxes pursuant to the laws of
51 the United States. The amount subtracted pursuant to this subdivision shall be

52 reduced by any interest on indebtedness incurred to carry the described
53 obligations or securities and by any expenses incurred in the production of
54 interest or dividend income described in this subdivision. The reduction in the
55 previous sentence shall only apply to the extent that such expenses including
56 amortizable bond premiums are deducted in determining the taxpayer's federal
57 adjusted gross income or included in the taxpayer's Missouri itemized
58 deduction. The reduction shall only be made if the expenses total at least five
59 hundred dollars;

60 (2) The portion of any gain, from the sale or other disposition of property
61 having a higher adjusted basis to the taxpayer for Missouri income tax purposes
62 than for federal income tax purposes on December 31, 1972, that does not exceed
63 such difference in basis. If a gain is considered a long-term capital gain for
64 federal income tax purposes, the modification shall be limited to one-half of such
65 portion of the gain;

66 (3) The amount necessary to prevent the taxation pursuant to this chapter
67 of any annuity or other amount of income or gain which was properly included in
68 income or gain and was taxed pursuant to the laws of Missouri for a taxable year
69 prior to January 1, 1973, to the taxpayer, or to a decedent by reason of whose
70 death the taxpayer acquired the right to receive the income or gain, or to a trust
71 or estate from which the taxpayer received the income or gain;

72 (4) Accumulation distributions received by a taxpayer as a beneficiary of
73 a trust to the extent that the same are included in federal adjusted gross income;

74 (5) The amount of any state income tax refund for a prior year which was
75 included in the federal adjusted gross income;

76 (6) The portion of capital gain specified in section 135.357 that would
77 otherwise be included in federal adjusted gross income;

78 (7) The amount that would have been deducted in the computation of
79 federal taxable income pursuant to **26 U.S.C.** Section 168 of the Internal Revenue
80 Code as in effect on January 1, 2002, to the extent that amount relates to
81 property purchased on or after July 1, 2002, but before July 1, 2003, and to the
82 extent that amount exceeds the amount actually deducted pursuant to **26 U.S.C.**
83 Section 168 of the Internal Revenue Code as amended by the Job Creation and
84 Worker Assistance Act of 2002;

85 (8) For all tax years beginning on or after January 1, 2005, the amount
86 of any income received for military service while the taxpayer serves in a combat
87 zone which is included in federal adjusted gross income and not otherwise

88 excluded therefrom. As used in this section, "combat zone" means any area which
89 the President of the United States by Executive Order designates as an area in
90 which Armed Forces of the United States are or have engaged in combat. Service
91 is performed in a combat zone only if performed on or after the date designated
92 by the President by Executive Order as the date of the commencing of combat
93 activities in such zone, and on or before the date designated by the President by
94 Executive Order as the date of the termination of combatant activities in such
95 zone;

96 (9) For all tax years ending on or after July 1, 2002, with respect to
97 qualified property that is sold or otherwise disposed of during a taxable year by
98 a taxpayer and for which an additional modification was made under subdivision
99 (3) of subsection 2 of this section, the amount by which additional modification
100 made under subdivision (3) of subsection 2 of this section on qualified property
101 has not been recovered through the additional subtractions provided in
102 subdivision (7) of this subsection; and

103 (10) For all tax years beginning on or after January 1, 2014, the amount
104 of any income received as payment from any program which provides
105 compensation to agricultural producers who have suffered a loss as the result of
106 a disaster or emergency, including the:

- 107 (a) Livestock Forage Disaster Program;
108 (b) Livestock Indemnity Program;
109 (c) Emergency Assistance for Livestock, Honeybees, and Farm-Raised
110 Fish;
111 (d) Emergency Conservation Program;
112 (e) Noninsured Crop Disaster Assistance Program;
113 (f) Pasture, Rangeland, Forage Pilot Insurance Program;
114 (g) Annual Forage Pilot Program;
115 (h) Livestock Risk Protection Insurance Plan; and
116 (i) Livestock Gross Margin [insurance plan] **Insurance Plan.**

117 4. There shall be added to or subtracted from the taxpayer's federal
118 adjusted gross income the taxpayer's share of the Missouri fiduciary adjustment
119 provided in section 143.351.

120 5. There shall be added to or subtracted from the taxpayer's federal
121 adjusted gross income the modifications provided in section 143.411.

122 6. In addition to the modifications to a taxpayer's federal adjusted gross
123 income in this section, to calculate Missouri adjusted gross income there shall be

124 subtracted from the taxpayer's federal adjusted gross income any gain recognized
125 pursuant to **26 U.S.C.** Section 1033 of the Internal Revenue Code of 1986, as
126 amended, arising from compulsory or involuntary conversion of property as a
127 result of condemnation or the imminence thereof.

128 7. (1) As used in this subsection, "qualified health insurance premium"
129 means the amount paid during the tax year by such taxpayer for any insurance
130 policy primarily providing health care coverage for the taxpayer, the taxpayer's
131 spouse, or the taxpayer's dependents.

132 (2) In addition to the subtractions in subsection 3 of this section, one
133 hundred percent of the amount of qualified health insurance premiums shall be
134 subtracted from the taxpayer's federal adjusted gross income to the extent the
135 amount paid for such premiums is included in federal taxable income. The
136 taxpayer shall provide the department of revenue with proof of the amount of
137 qualified health insurance premiums paid.

138 8. (1) Beginning January 1, 2014, in addition to the subtractions provided
139 in this section, one hundred percent of the cost incurred by a taxpayer for a home
140 energy audit conducted by an entity certified by the department of natural
141 resources under section 640.153 or the implementation of any energy efficiency
142 recommendations made in such an audit shall be subtracted from the taxpayer's
143 federal adjusted gross income to the extent the amount paid for any such activity
144 is included in federal taxable income. The taxpayer shall provide the department
145 of revenue with a summary of any recommendations made in a qualified home
146 energy audit, the name and certification number of the qualified home energy
147 auditor who conducted the audit, and proof of the amount paid for any activities
148 under this subsection for which a deduction is claimed. The taxpayer shall also
149 provide a copy of the summary of any recommendations made in a qualified home
150 energy audit to the department of natural resources.

151 (2) At no time shall a deduction claimed under this subsection by an
152 individual taxpayer or taxpayers filing combined returns exceed one thousand
153 dollars per year for individual taxpayers or cumulatively exceed two thousand
154 dollars per year for taxpayers filing combined returns.

155 (3) Any deduction claimed under this subsection shall be claimed for the
156 tax year in which the qualified home energy audit was conducted or in which the
157 implementation of the energy efficiency recommendations occurred. If
158 implementation of the energy efficiency recommendations occurred during more
159 than one year, the deduction may be claimed in more than one year, subject to the

160 limitations provided under subdivision (2) of this subsection.

161 (4) A deduction shall not be claimed for any otherwise eligible activity
162 under this subsection if such activity qualified for and received any rebate or
163 other incentive through a state-sponsored energy program or through an electric
164 corporation, gas corporation, electric cooperative, or municipally owned utility.

165 9. The provisions of subsection 8 of this section shall expire on December
166 31, 2020.

148.064. 1. Notwithstanding any law to the contrary, this section shall
2 determine the ordering and limit reductions for certain taxes and tax credits
3 which may be used as credits against various taxes paid or payable by banking
4 institutions. Except as adjusted in subsections 2, 3 and 6 of this section, such
5 credits shall be applied in the following order until used against:

6 (1) The tax on banks determined under subdivision (2) of subsection 2 of
7 section 148.030;

8 (2) The tax on banks determined under subdivision (1) of subsection 2 of
9 section 148.030;

10 (3) The state income tax in section 143.071.

11 2. The tax credits permitted against taxes payable pursuant to subdivision
12 (2) of subsection 2 of section 148.030 shall be utilized first and include taxes
13 referenced in subdivisions (2) and (3) of subsection 1 of this section, which shall
14 be determined without reduction for any tax credits identified in subsection 5 of
15 this section which are used to reduce such taxes. Where a banking institution
16 subject to this section joins in the filing of a consolidated state income tax return
17 under chapter 143, the credit allowed under this section for state income taxes
18 payable under chapter 143 shall be determined based upon the consolidated state
19 income tax liability of the group and allocated to a banking institution, without
20 reduction for any tax credits identified in subsection 5 of this section which are
21 used to reduce such consolidated taxes as provided in chapter 143.

22 3. The taxes referenced in subdivisions (2) and (3) of subsection 1 of this
23 section may be reduced by the tax credits in subsection 5 of this section without
24 regard to any adjustments in subsection 2 of this section.

25 4. To the extent that certain tax credits which the taxpayer is entitled to
26 claim are transferable, such transferability may include transfers among such
27 taxpayers who are members of a single consolidated income tax return, and this
28 subsection shall not impact other tax credit transferability.

29 5. For the purpose of this section, the tax credits referred to in

30 subsections 2 and 3 shall include tax credits available for economic development,
31 low-income housing and neighborhood assistance which the taxpayer is entitled
32 to claim for the year, including by way of example and not of limitation, tax
33 credits pursuant to the following sections: section 32.115, section 100.286, and
34 sections 135.110, 135.225, 135.352 and 135.403.

35 6. For tax returns filed on or after January 1, 2001, including returns
36 based on income in the year 2000, and after, a banking institution shall be
37 entitled to an annual tax credit equal to one-sixtieth of one percent of its
38 outstanding shares and surplus employed in this state if the outstanding shares
39 and surplus exceed one million dollars, determined in the same manner as in
40 section 147.010. This tax credit shall be taken as a dollar-for-dollar credit
41 against the bank tax provided for in subdivision (2) of subsection 2 of section
42 148.030; if such bank tax was already reduced to zero by other credits, then
43 against the corporate income tax provided for in chapter 143. **For all tax years**
44 **beginning on or after January 1, 2020, no tax credit shall be authorized**
45 **under this subsection.**

46 7. In the event the corporation franchise tax in chapter 147 is repealed by
47 the general assembly, there shall also be a reduction in the taxation of banks as
48 follows: in lieu of the loss of the corporation franchise tax credit reduction in
49 subdivision (1) of subsection 2 of section 148.030, the bank shall receive a tax
50 credit equal to one and one-half percent of net income as determined in this
51 chapter. This subsection shall take effect at the same time the corporation
52 franchise tax in chapter 147 is repealed.

53 8. An S corporation bank or bank holding company that otherwise
54 qualifies to distribute tax credits to its shareholders shall pass through any tax
55 credits referred to in subsection 5 of this section to its shareholders as otherwise
56 provided for in subsection 10 of section 143.471 with no reductions or limitations
57 resulting from the transfer through such S corporation, and on the same terms
58 originally made available to the original taxpayer, subject to any original dollar
59 or percentage limitations on such credits, and when such S corporation is the
60 original taxpayer, treating such S corporation as having not elected Subchapter
61 S status.

62 9. Notwithstanding any law to the contrary, in the event the corporation
63 franchise tax in chapter 147 is repealed by the general assembly, after such
64 repeal all Missouri taxes of any nature and type imposed directly or used as a tax
65 credit against the bank's taxes shall be passed through to the S corporation bank

66 or bank holding company shareholder in the form otherwise permitted by law,
67 except for the following:

68 (1) Credits for taxes on real estate and tangible personal property owned
69 by the bank and held for lease or rental to others;

70 (2) Contributions paid pursuant to the unemployment compensation tax
71 law of Missouri; or

72 (3) State and local sales and use taxes collected by the bank on its sales
73 of tangible personal property and the services enumerated in chapter 144.

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Bill

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