

# SENATE BILL NO. 1365

102ND GENERAL ASSEMBLY

INTRODUCED BY SENATOR FITZWATER.

5287S.01H

KRISTINA MARTIN, Secretary

## AN ACT

To repeal section 143.121, RSMo, and to enact in lieu thereof one new section relating to an income tax deduction for certain research expenses.

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

Section A. Section 143.121, RSMo, is repealed and one new  
2 section enacted in lieu thereof, to be known as section 143.121,  
3 to read as follows:

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

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

6 (1) The amount of any federal income tax refund  
7 received for a prior year which resulted in a Missouri  
8 income tax benefit. The amount added pursuant to this  
9 subdivision shall not include any amount of a federal income  
10 tax refund attributable to a tax credit reducing a  
11 taxpayer's federal tax liability pursuant to Public Law 116-  
12 136 or 116-260, enacted by the 116th United States Congress,  
13 for the tax year beginning on or after January 1, 2020, and  
14 ending on or before December 31, 2020, and deducted from  
15 Missouri adjusted gross income pursuant to section 143.171.  
16 The amount added under this subdivision shall also not  
17 include any amount of a federal income tax refund  
18 attributable to a tax credit reducing a taxpayer's federal

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

19 tax liability under any other federal law that provides  
20 direct economic impact payments to taxpayers to mitigate  
21 financial challenges related to the COVID-19 pandemic, and  
22 deducted from Missouri adjusted gross income under section  
23 143.171;

24 (2) Interest on certain governmental obligations  
25 excluded from federal gross income by 26 U.S.C. Section 103  
26 of the Internal Revenue Code, as amended. The previous  
27 sentence shall not apply to interest on obligations of the  
28 state of Missouri or any of its political subdivisions or  
29 authorities and shall not apply to the interest described in  
30 subdivision (1) of subsection 3 of this section. The amount  
31 added pursuant to this subdivision shall be reduced by the  
32 amounts applicable to such interest that would have been  
33 deductible in computing the taxable income of the taxpayer  
34 except only for the application of 26 U.S.C. Section 265 of  
35 the Internal Revenue Code, as amended. The reduction shall  
36 only be made if it is at least five hundred dollars;

37 (3) The amount of any deduction that is included in  
38 the computation of federal taxable income pursuant to 26  
39 U.S.C. Section 168 of the Internal Revenue Code as amended  
40 by the Job Creation and Worker Assistance Act of 2002 to the  
41 extent the amount deducted relates to property purchased on  
42 or after July 1, 2002, but before July 1, 2003, and to the  
43 extent the amount deducted exceeds the amount that would  
44 have been deductible pursuant to 26 U.S.C. Section 168 of  
45 the Internal Revenue Code of 1986 as in effect on January 1,  
46 2002;

47 (4) The amount of any deduction that is included in  
48 the computation of federal taxable income for net operating  
49 loss allowed by 26 U.S.C. Section 172 of the Internal  
50 Revenue Code of 1986, as amended, other than the deduction

51 allowed by 26 U.S.C. Section 172(b)(1)(G) and 26 U.S.C.  
52 Section 172(i) of the Internal Revenue Code of 1986, as  
53 amended, for a net operating loss the taxpayer claims in the  
54 tax year in which the net operating loss occurred or carries  
55 forward for a period of more than twenty years and carries  
56 backward for more than two years. Any amount of net  
57 operating loss taken against federal taxable income but  
58 disallowed for Missouri income tax purposes pursuant to this  
59 subdivision after June 18, 2002, may be carried forward and  
60 taken against any income on the Missouri income tax return  
61 for a period of not more than twenty years from the year of  
62 the initial loss; and

63 (5) For nonresident individuals in all taxable years  
64 ending on or after December 31, 2006, the amount of any  
65 property taxes paid to another state or a political  
66 subdivision of another state for which a deduction was  
67 allowed on such nonresident's federal return in the taxable  
68 year unless such state, political subdivision of a state, or  
69 the District of Columbia allows a subtraction from income  
70 for property taxes paid to this state for purposes of  
71 calculating income for the income tax for such state,  
72 political subdivision of a state, or the District of  
73 Columbia;

74 (6) For all tax years beginning on or after January 1,  
75 2018, any interest expense paid or accrued in a previous  
76 taxable year, but allowed as a deduction under 26 U.S.C.  
77 Section 163, as amended, in the current taxable year by  
78 reason of the carryforward of disallowed business interest  
79 provisions of 26 U.S.C. Section 163(j), as amended. For the  
80 purposes of this subdivision, an interest expense is  
81 considered paid or accrued only in the first taxable year  
82 the deduction would have been allowable under 26 U.S.C.

83 Section 163, as amended, if the limitation under 26 U.S.C.  
84 Section 163(j), as amended, did not exist;

85 **(7) For all tax years beginning on or after January 1,**  
86 **2022, the amount deducted by the taxpayer under 26 U.S.C.**  
87 **Section 174(a)(2)(B), as amended, for the tax year.**

88 3. There shall be subtracted from the taxpayer's  
89 federal adjusted gross income the following amounts to the  
90 extent included in federal adjusted gross income:

91 (1) Interest received on deposits held at a federal  
92 reserve bank or interest or dividends on obligations of the  
93 United States and its territories and possessions or of any  
94 authority, commission or instrumentality of the United  
95 States to the extent exempt from Missouri income taxes  
96 pursuant to the laws of the United States. The amount  
97 subtracted pursuant to this subdivision shall be reduced by  
98 any interest on indebtedness incurred to carry the described  
99 obligations or securities and by any expenses incurred in  
100 the production of interest or dividend income described in  
101 this subdivision. The reduction in the previous sentence  
102 shall only apply to the extent that such expenses including  
103 amortizable bond premiums are deducted in determining the  
104 taxpayer's federal adjusted gross income or included in the  
105 taxpayer's Missouri itemized deduction. The reduction shall  
106 only be made if the expenses total at least five hundred  
107 dollars;

108 (2) The portion of any gain, from the sale or other  
109 disposition of property having a higher adjusted basis to  
110 the taxpayer for Missouri income tax purposes than for  
111 federal income tax purposes on December 31, 1972, that does  
112 not exceed such difference in basis. If a gain is  
113 considered a long-term capital gain for federal income tax

114 purposes, the modification shall be limited to one-half of  
115 such portion of the gain;

116 (3) The amount necessary to prevent the taxation  
117 pursuant to this chapter of any annuity or other amount of  
118 income or gain which was properly included in income or gain  
119 and was taxed pursuant to the laws of Missouri for a taxable  
120 year prior to January 1, 1973, to the taxpayer, or to a  
121 decedent by reason of whose death the taxpayer acquired the  
122 right to receive the income or gain, or to a trust or estate  
123 from which the taxpayer received the income or gain;

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

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

130 (6) The portion of capital gain specified in section  
131 135.357 that would otherwise be included in federal adjusted  
132 gross income;

133 (7) The amount that would have been deducted in the  
134 computation of federal taxable income pursuant to 26 U.S.C.  
135 Section 168 of the Internal Revenue Code as in effect on  
136 January 1, 2002, to the extent that amount relates to  
137 property purchased on or after July 1, 2002, but before July  
138 1, 2003, and to the extent that amount exceeds the amount  
139 actually deducted pursuant to 26 U.S.C. Section 168 of the  
140 Internal Revenue Code as amended by the Job Creation and  
141 Worker Assistance Act of 2002;

142 (8) For all tax years beginning on or after January 1,  
143 2005, the amount of any income received for military service  
144 while the taxpayer serves in a combat zone which is included  
145 in federal adjusted gross income and not otherwise excluded

146 therefrom. As used in this section, "combat zone" means any  
147 area which the President of the United States by Executive  
148 Order designates as an area in which Armed Forces of the  
149 United States are or have engaged in combat. Service is  
150 performed in a combat zone only if performed on or after the  
151 date designated by the President by Executive Order as the  
152 date of the commencing of combat activities in such zone,  
153 and on or before the date designated by the President by  
154 Executive Order as the date of the termination of combatant  
155 activities in such zone;

156 (9) For all tax years ending on or after July 1, 2002,  
157 with respect to qualified property that is sold or otherwise  
158 disposed of during a taxable year by a taxpayer and for  
159 which an additional modification was made under subdivision  
160 (3) of subsection 2 of this section, the amount by which  
161 additional modification made under subdivision (3) of  
162 subsection 2 of this section on qualified property has not  
163 been recovered through the additional subtractions provided  
164 in subdivision (7) of this subsection;

165 (10) For all tax years beginning on or after January  
166 1, 2014, the amount of any income received as payment from  
167 any program which provides compensation to agricultural  
168 producers who have suffered a loss as the result of a  
169 disaster or emergency, including the:

- 170 (a) Livestock Forage Disaster Program;
- 171 (b) Livestock Indemnity Program;
- 172 (c) Emergency Assistance for Livestock, Honeybees, and  
173 Farm-Raised Fish;
- 174 (d) Emergency Conservation Program;
- 175 (e) Noninsured Crop Disaster Assistance Program;
- 176 (f) Pasture, Rangeland, Forage Pilot Insurance Program;
- 177 (g) Annual Forage Pilot Program;

178 (h) Livestock Risk Protection Insurance Plan;  
179 (i) Livestock Gross Margin Insurance Plan;  
180 (11) For all tax years beginning on or after January  
181 1, 2018, any interest expense paid or accrued in the current  
182 taxable year, but not deducted as a result of the limitation  
183 imposed under 26 U.S.C. Section 163(j), as amended. For the  
184 purposes of this subdivision, an interest expense is  
185 considered paid or accrued only in the first taxable year  
186 the deduction would have been allowable under 26 U.S.C.  
187 Section 163, as amended, if the limitation under 26 U.S.C.  
188 Section 163(j), as amended, did not exist;

189 (12) One hundred percent of any retirement benefits  
190 received by any taxpayer as a result of the taxpayer's  
191 service in the Armed Forces of the United States, including  
192 reserve components and the National Guard of this state, as  
193 defined in 32 U.S.C. Sections 101(3) and 109, and any other  
194 military force organized under the laws of this state; [and]

195 (13) One hundred percent of any federal grant moneys  
196 received for the purpose of providing or expanding access to  
197 broadband internet to areas of the state deemed to be  
198 lacking such access; **and**

199 **(14) For all tax years beginning on or after January**  
200 **1, 2022, the amount of specified research or experimental**  
201 **expenditures that are both required to be charged to capital**  
202 **account and actually are charged to capital account as**  
203 **required by 26 U.S.C. Section 174(a)(2)(A), as amended, for**  
204 **the tax year, after any reduction to that amount under 26**  
205 **U.S.C. Section 280C(c), as amended.**

206 4. There shall be added to or subtracted from the  
207 taxpayer's federal adjusted gross income the taxpayer's  
208 share of the Missouri fiduciary adjustment provided in  
209 section 143.351.

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

213           6. In addition to the modifications to a taxpayer's  
214 federal adjusted gross income in this section, to calculate  
215 Missouri adjusted gross income there shall be subtracted  
216 from the taxpayer's federal adjusted gross income any gain  
217 recognized pursuant to 26 U.S.C. Section 1033 of the  
218 Internal Revenue Code of 1986, as amended, arising from  
219 compulsory or involuntary conversion of property as a result  
220 of condemnation or the imminence thereof.

221           7. (1) As used in this subsection, "qualified health  
222 insurance premium" means the amount paid during the tax year  
223 by such taxpayer for any insurance policy primarily  
224 providing health care coverage for the taxpayer, the  
225 taxpayer's spouse, or the taxpayer's dependents.

226           (2) In addition to the subtractions in subsection 3 of  
227 this section, one hundred percent of the amount of qualified  
228 health insurance premiums shall be subtracted from the  
229 taxpayer's federal adjusted gross income to the extent the  
230 amount paid for such premiums is included in federal taxable  
231 income. The taxpayer shall provide the department of  
232 revenue with proof of the amount of qualified health  
233 insurance premiums paid.

234           8. (1) Beginning January 1, 2014, in addition to the  
235 subtractions provided in this section, one hundred percent  
236 of the cost incurred by a taxpayer for a home energy audit  
237 conducted by an entity certified by the department of  
238 natural resources under section 640.153 or the  
239 implementation of any energy efficiency recommendations made  
240 in such an audit shall be subtracted from the taxpayer's  
241 federal adjusted gross income to the extent the amount paid



242 for any such activity is included in federal taxable  
243 income. The taxpayer shall provide the department of  
244 revenue with a summary of any recommendations made in a  
245 qualified home energy audit, the name and certification  
246 number of the qualified home energy auditor who conducted  
247 the audit, and proof of the amount paid for any activities  
248 under this subsection for which a deduction is claimed. The  
249 taxpayer shall also provide a copy of the summary of any  
250 recommendations made in a qualified home energy audit to the  
251 department of natural resources.

252 (2) At no time shall a deduction claimed under this  
253 subsection by an individual taxpayer or taxpayers filing  
254 combined returns exceed one thousand dollars per year for  
255 individual taxpayers or cumulatively exceed two thousand  
256 dollars per year for taxpayers filing combined returns.

257 (3) Any deduction claimed under this subsection shall  
258 be claimed for the tax year in which the qualified home  
259 energy audit was conducted or in which the implementation of  
260 the energy efficiency recommendations occurred. If  
261 implementation of the energy efficiency recommendations  
262 occurred during more than one year, the deduction may be  
263 claimed in more than one year, subject to the limitations  
264 provided under subdivision (2) of this subsection.

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

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

273 10. (1) As used in this subsection, the following  
274 terms mean:

275 (a) "Beginning farmer", a taxpayer who:

276 a. Has filed at least one but not more than ten  
277 Internal Revenue Service Schedule F (Form 1040) Profit or  
278 Loss From Farming forms since turning eighteen years of age;

279 b. Is approved for a beginning farmer loan through the  
280 USDA Farm Service Agency Beginning Farmer direct or  
281 guaranteed loan program;

282 c. Has a farming operation that is determined by the  
283 department of agriculture to be new production agriculture  
284 but is the principal operator of a farm and has substantial  
285 farming knowledge; or

286 d. Has been determined by the department of  
287 agriculture to be a qualified family member;

288 (b) "Farm owner", an individual who owns farmland and  
289 disposes of or relinquishes use of all or some portion of  
290 such farmland as follows:

291 a. A sale to a beginning farmer;

292 b. A lease or rental agreement not exceeding ten years  
293 with a beginning farmer; or

294 c. A crop-share arrangement not exceeding ten years  
295 with a beginning farmer;

296 (c) "Qualified family member", an individual who is  
297 related to a farm owner within the fourth degree by blood,  
298 marriage, or adoption and who is purchasing or leasing or is  
299 in a crop-share arrangement for land from all or a portion  
300 of such farm owner's farming operation.

301 (2) (a) In addition to all other subtractions  
302 authorized in this section, a taxpayer who is a farm owner  
303 who sells all or a portion of such farmland to a beginning  
304 farmer may subtract from such taxpayer's Missouri adjusted

305 gross income an amount to the extent included in federal  
306 adjusted gross income as provided in this subdivision.

307 (b) Subject to the limitations in paragraph (c) of  
308 this subdivision, the amount that may be subtracted shall be  
309 equal to the portion of capital gains received from the sale  
310 of such farmland that such taxpayer receives in the tax year  
311 for which such taxpayer subtracts such capital gain.

312 (c) A taxpayer may subtract the following amounts and  
313 percentages per tax year in total capital gains received  
314 from the sale of such farmland under this subdivision:

315 a. For the first two million dollars received, one  
316 hundred percent;

317 b. For the next one million dollars received, eighty  
318 percent;

319 c. For the next one million dollars received, sixty  
320 percent;

321 d. For the next one million dollars received, forty  
322 percent; and

323 e. For the next one million dollars received, twenty  
324 percent.

325 (d) The department of revenue shall prepare an annual  
326 report reviewing the costs and benefits and containing  
327 statistical information regarding the subtraction of capital  
328 gains authorized under this subdivision for the previous tax  
329 year including, but not limited to, the total amount of all  
330 capital gains subtracted and the number of taxpayers  
331 subtracting such capital gains. Such report shall be  
332 submitted before February first of each year to the  
333 committee on agriculture policy of the Missouri house of  
334 representatives and the committee on agriculture, food  
335 production and outdoor resources of the Missouri senate, or  
336 the successor committees.

337           (3) (a) In addition to all other subtractions  
338 authorized in this section, a taxpayer who is a farm owner  
339 who enters a lease or rental agreement for all or a portion  
340 of such farmland with a beginning farmer may subtract from  
341 such taxpayer's Missouri adjusted gross income an amount to  
342 the extent included in federal adjusted gross income as  
343 provided in this subdivision.

344           (b) Subject to the limitation in paragraph (c) of this  
345 subdivision, the amount that may be subtracted shall be  
346 equal to the portion of cash rent income received from the  
347 lease or rental of such farmland that such taxpayer receives  
348 in the tax year for which such taxpayer subtracts such  
349 income.

350           (c) No taxpayer shall subtract more than twenty-five  
351 thousand dollars per tax year in total cash rent income  
352 received from the lease or rental of such farmland under  
353 this subdivision.

354           (4) (a) In addition to all other subtractions  
355 authorized in this section, a taxpayer who is a farm owner  
356 who enters a crop-share arrangement on all or a portion of  
357 such farmland with a beginning farmer may subtract from such  
358 taxpayer's Missouri adjusted gross income an amount to the  
359 extent included in federal adjusted gross income as provided  
360 in this subdivision.

361           (b) Subject to the limitation in paragraph (c) of this  
362 subdivision, the amount that may be subtracted shall be  
363 equal to the portion of income received from the crop-share  
364 arrangement on such farmland that such taxpayer receives in  
365 the tax year for which such taxpayer subtracts such income.

366           (c) No taxpayer shall subtract more than twenty-five  
367 thousand dollars per tax year in total income received from  
368 the lease or rental of such farmland under this subdivision.

369           (5) The department of agriculture shall, by rule,  
370 establish a process to verify that a taxpayer is a beginning  
371 farmer for purposes of this section and shall provide  
372 verification to the beginning farmer and farm seller of such  
373 farmer's and seller's certification and qualification for  
374 the exemption provided in this subsection.

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