

# SENATE BILL NO. 1231

103RD GENERAL ASSEMBLY

INTRODUCED BY SENATOR FITZWATER.

4495S.011

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Section A. Section 143.121, RSMo, is repealed and one new  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

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

18 attributable to a tax credit reducing a taxpayer's federal  
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

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

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

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

the deduction would have been allowable under 26 U.S.C. Section 163, as amended, if the limitation under 26 U.S.C. Section 163(j), as amended, did not exist;

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

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

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

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

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

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

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

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

(h) Livestock Risk Protection Insurance Plan;

(i) Livestock Gross Margin Insurance Plan;

(11) For all tax years beginning on or after January 1, 2018, any interest expense paid or accrued in the current taxable year, but not deducted as a result of the limitation imposed under 26 U.S.C. Section 163(j), as amended. For the purposes of this subdivision, an interest expense is considered paid or accrued only in the first taxable year the deduction would have been allowable under 26 U.S.C. Section 163, as amended, if the limitation under 26 U.S.C. Section 163(j), as amended, did not exist;

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

(13) For all tax years beginning on or after January 1, 2022, one hundred percent of any federal, state, or local grant moneys received by the taxpayer if the grant money was disbursed for the express purpose of providing or expanding access to broadband internet to areas of the state deemed to be lacking such access;

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

(15) (a) For all tax years beginning on or after January 1, 2025, one hundred percent of all income reported

as a capital gain for federal income tax purposes by an individual subject to tax pursuant to section 143.011; and

(b) For all tax years beginning on or after January first of the tax year following the tax year in which the top rate of tax imposed pursuant to section 143.011 is equal to or less than four and one-half percent, one hundred percent of all income reported as a capital gain for federal income tax purposes by an entity subject to tax pursuant to section 143.071; and

**[(15)] (16)** For all tax years beginning on or after January 1, 2026, the portion of capital gain on the sale or exchange of specie, as that term is defined in section 408.010, that are otherwise included in the taxpayer's federal adjusted gross income.

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

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

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

7. (1) As used in this subsection, "qualified health insurance premium" means the amount paid during the tax year by such taxpayer for any insurance policy primarily

242 providing health care coverage for the taxpayer, the  
243 taxpayer's spouse, or the taxpayer's dependents.

244 (2) In addition to the subtractions in subsection 3 of  
245 this section, one hundred percent of the amount of qualified  
246 health insurance premiums shall be subtracted from the  
247 taxpayer's federal adjusted gross income to the extent the  
248 amount paid for such premiums is included in federal taxable  
249 income. The taxpayer shall provide the department of  
250 revenue with proof of the amount of qualified health  
251 insurance premiums paid.

252 8. (1) Beginning January 1, 2014, in addition to the  
253 subtractions provided in this section, one hundred percent  
254 of the cost incurred by a taxpayer for a home energy audit  
255 conducted by an entity certified by the department of  
256 natural resources under section 640.153 or the  
257 implementation of any energy efficiency recommendations made  
258 in such an audit shall be subtracted from the taxpayer's  
259 federal adjusted gross income to the extent the amount paid  
260 for any such activity is included in federal taxable  
261 income. The taxpayer shall provide the department of  
262 revenue with a summary of any recommendations made in a  
263 qualified home energy audit, the name and certification  
264 number of the qualified home energy auditor who conducted  
265 the audit, and proof of the amount paid for any activities  
266 under this subsection for which a deduction is claimed. The  
267 taxpayer shall also provide a copy of the summary of any  
268 recommendations made in a qualified home energy audit to the  
269 department of natural resources.

270 (2) At no time shall a deduction claimed under this  
271 subsection by an individual taxpayer or taxpayers filing  
272 combined returns exceed one thousand dollars per year for

individual taxpayers or cumulatively exceed two thousand dollars per year for taxpayers filing combined returns.

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

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

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

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

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

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

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

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

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

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

309           a. A sale to a beginning farmer;

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

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

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

319           (2) (a) In addition to all other subtractions  
320 authorized in this section, a taxpayer who is a farm owner  
321 who sells all or a portion of such farmland to a beginning  
322 farmer may subtract from such taxpayer's Missouri adjusted  
323 gross income an amount to the extent included in federal  
324 adjusted gross income as provided in this subdivision.

325           (b) Subject to the limitations in paragraph (c) of  
326 this subdivision, the amount that may be subtracted shall be  
327 equal to the portion of capital gains received from the sale  
328 of such farmland that such taxpayer receives in the tax year  
329 for which such taxpayer subtracts such capital gain.

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

333           a. For the first two million dollars received, one  
334 hundred percent;

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

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

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

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

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

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

(b) Subject to the limitation in paragraph (c) of this subdivision, the amount that may be subtracted shall be equal to the portion of cash rent income received from the lease or rental of such farmland that such taxpayer receives

366 in the tax year for which such taxpayer subtracts such  
367 income.

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

372 (4) (a) In addition to all other subtractions  
373 authorized in this section, a taxpayer who is a farm owner  
374 who enters a crop-share arrangement on all or a portion of  
375 such farmland with a beginning farmer may subtract from such  
376 taxpayer's Missouri adjusted gross income an amount to the  
377 extent included in federal adjusted gross income as provided  
378 in this subdivision.

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

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

387 (5) The department of agriculture shall, by rule,  
388 establish a process to verify that a taxpayer is a beginning  
389 farmer for purposes of this section and shall provide  
390 verification to the beginning farmer and farm seller of such  
391 farmer's and seller's certification and qualification for  
392 the exemption provided in this subsection.

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