

FIRST REGULAR SESSION

SENATE BILL NO. 437

90TH GENERAL ASSEMBLY

INTRODUCED BY SENATOR MUELLER.

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S1939.011

TERRY L. SPIELER, Secretary.

AN ACT

Relating to a flat tax on individual incomes, with an effective date.

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

Section 1. Sections 1 to 6 of this act shall be known and may be cited as the "Missouri Individual Income Flat Tax Act".

Section 2. Notwithstanding section 143.011, RSMo, and any other provision of law to the contrary, there shall be imposed a tax on the Missouri taxable income of every resident and nonresident in an amount equal to four percent.

Section 3. 1. The Missouri taxable income of a resident shall be the resident's federal adjusted gross income less the Missouri deduction for personal exemptions, the Missouri deduction for dependency exemptions plus adjustments for tax-free bonds and railroad retirement benefits as provided in subsection 4 of this section. No other deductions and no tax credits shall apply to reduce the tax liability imposed against any resident or nonresident pursuant to this section.

2. A resident shall be allowed a deduction of ten thousand dollars for the resident and ten thousand dollars for such resident's spouse; except that, a resident filing as a head of household shall be allowed a deduction of fifteen thousand dollars for the resident, and a resident filing as a surviving spouse shall, in the taxable year in which the death of the resident's spouse occurred, be allowed a deduction of twenty thousand dollars.

3. A resident may deduct two thousand dollars for each dependent for whom the resident is entitled to a dependency exemption for federal income tax purposes.

4. The following adjustments shall be made to a resident's federal adjusted gross income:

(1) There shall be added to federal adjusted gross income interest on certain

governmental obligations excluded from federal gross income by section 103 of the Internal Revenue Code. The previous sentence shall not apply to interest on obligations of the state of Missouri or any of its political subdivisions or authorities and shall not apply to the interest described in paragraph (a) of subdivision (2) of this subsection. The amount added pursuant to this paragraph shall be reduced by the amounts applicable to such interest that would have been deductible in computing the taxable income of the taxpayer except only for the application of section 265 of the Internal Revenue Code. The reduction shall only be made if it is at least five hundred dollars; and

(2) There shall be subtracted from federal adjusted gross income the following amounts to the extent included in federal adjusted gross income:

(a) 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 paragraph 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 paragraph. The reduction in the previous sentence shall only apply to the extent that such expenses including amortizable bond premiums are deducted in determining its federal adjusted gross income. The reduction shall only be made if the expenses total at least five hundred dollars; and

(b) The amount of any benefits received pursuant to the Railroad Retirement Act.

Section 4. 1. In the case of a nonresident, the tax shall only be imposed on income of the nonresident which is derived from sources in this state. The Missouri taxable income shall be that part of the nonresident individual's federal taxable income derived from sources within Missouri. It shall be the sum of:

(1) The net amount of items of income, gain, loss and deduction entering into the nonresident's federal taxable income which are derived from or connected with sources in this state including the following:

(a) The nonresident's distributive share of partnership income and deductions determined pursuant to section 6 of this act;

(b) The nonresident's share of estate or trust income and deductions determined pursuant to section 143.391, RSMo; and

(c) The nonresident's pro rata share of S corporation income and deductions pursuant to subsection 3 of section 143.471, RSMo;

(2) Adjustments for tax-free bonds and railroad retirement benefits as provided in subsection 4 of section 3 of this act.

2. Items of income, gain, loss and deduction derived from or connected with sources within this state are those items attributable to the ownership or disposition of any interest in real or tangible personal property in this state, and a business, trade, profession or occupation carried on in this state.

3. Income from intangible personal property, including annuities, dividends, interest and gains from the disposition of intangible personal property, shall constitute income derived from sources within this state only to the extent that such income is from property employed in a business, trade, profession or occupation carried on in this state.

4. There shall be no deductions from federal taxable income for capital losses, net long-term capital gains and net operation losses.

5. If a business, trade, profession or occupation is carried on partly within this state, the items of income and deduction derived from or connected with sources within this state shall be determined by apportionment and allocation pursuant to regulations to be prescribed by the director. Compensation paid by the United States for service in the armed forces of the United States performed by a nonresident shall not constitute income derived from sources within this state.

Section 5. An individual who is a resident for only part of the individual's taxable year shall be treated as a nonresident for purposes of sections 1 to 6 of this act. The individual's Missouri nonresident taxable income from sources within this state shall consist of the following:

(1) All items that would have determined the individual's Missouri taxable income if such individual had a taxable period as a resident consisting solely of the time the individual was a resident; and

(2) All items that would have determined the individual's Missouri nonresident taxable income if such individual had a taxable period as a nonresident consisting solely of the time the individual was not a resident.

Section 6. 1. In determining the taxable income of a nonresident partner of any partnership, there shall be included only that part derived from or connected with sources in this state of the partner's distributive share of items of partnership income, gain, loss, and deduction entering into the partner's federal adjusted gross income, as such part is determined pursuant to regulations prescribed by the director of revenue in accordance with the general rules in section 143.181, RSMo.

2. In determining the source of a nonresident partner's taxable income, no effect shall be given to a provision in the partnership agreement which:

(1) Characterizes payments to the partner as being for services or for the use of capital, or allocated to the partner, as income or gain from sources outside this state, a greater proportion of the partner's distributive share of partnership income or gain

than the ratio of partnership income or gain from sources outside this state to partnership income or gain from all sources, except as authorized in subsection 4 of this section; or

(2) Allocates to the partner a greater proportion of a partnership item of loss or deduction connected with sources in this state than the partner's proportionate share, for federal income tax purposes, of partnership loss or deduction generally, except as authorized in subsection 5 of this section.

3. An item of partnership income, gain, loss, or deduction shall be made in accordance with the partner's distributive share for federal income tax purposes, but limited to the portion of such item derived from or connected with sources in this state.

4. The director of revenue may, on application, authorize the use of such other methods of determining a nonresident partner's portion of partnership items derived from or connected with sources in this state, and the modifications related thereto, as may be appropriate and equitable, on such terms and conditions as the director may require.

5. A nonresident partner's distributive share of items of income, gain, loss, or deduction shall be determined pursuant to subsection 1 of section 143.411, RSMo. The character of partnership items for a nonresident partner shall be determined pursuant to subsection 2 of section 143.411, RSMo. The effect of a special provision in a partnership agreement, other than a provision referred to in subsection 2 of this section, having as a principal purpose the avoidance of tax pursuant to sections 143.011 to 143.996, RSMo, shall be determined pursuant to subsection 3 of section 143.411, RSMo.

Section B. The provisions of this act shall be effective on January 1, 2000, and shall apply to all taxable years beginning after December 31, 1999.

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