

SENATE BILL NO. 349

103RD GENERAL ASSEMBLY

INTRODUCED BY SENATOR FITZWATER.

0641S.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Section A. Section 143.121, RSMo, is repealed and one new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) For all tax years beginning on or after January
196 1, 2022, one hundred percent of any federal, state, or local
197 grant moneys received by the taxpayer if the grant money was
198 disbursed for the express purpose of providing or expanding
199 access to broadband internet to areas of the state deemed to
200 be lacking such access; **and**

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

208 4. There shall be added to or subtracted from the
209 taxpayer's federal adjusted gross income the taxpayer's

210 share of the Missouri fiduciary adjustment provided in
211 section 143.351.

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

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

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

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

236 8. (1) Beginning January 1, 2014, in addition to the
237 subtractions provided in this section, one hundred percent
238 of the cost incurred by a taxpayer for a home energy audit
239 conducted by an entity certified by the department of
240 natural resources under section 640.153 or the
241 implementation of any energy efficiency recommendations made

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

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

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

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

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

275 10. (1) As used in this subsection, the following
276 terms mean:

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

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

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

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

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

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

293 a. A sale to a beginning farmer;

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

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

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

303 (2) (a) In addition to all other subtractions
304 authorized in this section, a taxpayer who is a farm owner

305 who sells all or a portion of such farmland to a beginning
306 farmer may subtract from such taxpayer's Missouri adjusted
307 gross income an amount to the extent included in federal
308 adjusted gross income as provided in this subdivision.

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

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

317 a. For the first two million dollars received, one
318 hundred percent;

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

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

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

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

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

337 production and outdoor resources of the Missouri senate, or
338 the successor committees.

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

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

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

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

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

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

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

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