

FIRST REGULAR SESSION

# HOUSE BILL NO. 838

## 93RD GENERAL ASSEMBLY

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INTRODUCED BY REPRESENTATIVES FLOOK (Sponsor) AND NOLTE (Co-sponsor).

Read 1<sup>st</sup> time March 22, 2005 and copies ordered printed.

STEPHEN S. DAVIS, Chief Clerk

2059L.011

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### AN ACT

To repeal sections 143.121 and 143.124, RSMo, and to enact in lieu thereof two new sections relating to income taxation.

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

Section A. Sections 143.121 and 143.124, RSMo, are repealed and two new sections  
2 enacted in lieu thereof, to be known as sections 143.121 and 143.124, to read as follows:

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

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

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

6 (b) Interest on certain governmental obligations excluded from federal gross income by  
7 Section 103 of the Internal Revenue Code. The previous sentence shall not apply to interest on  
8 obligations of the state of Missouri or any of its political subdivisions or authorities and shall not  
9 apply to the interest described in subdivision (a) of subsection 3 of this section. The amount  
10 added pursuant to this paragraph shall be reduced by the amounts applicable to such interest that  
11 would have been deductible in computing the taxable income of the taxpayer except only for the  
12 application of Section 265 of the Internal Revenue Code. The reduction shall only be made if  
13 it is at least five hundred dollars;

14 (c) The amount of any deduction that is included in the computation of federal taxable  
15 income pursuant to Section 168 of the Internal Revenue Code as amended by the Job Creation  
16 and Worker Assistance Act of 2002 to the extent the amount deducted relates to property

EXPLANATION — Matter enclosed in bold-faced brackets [thus] in the above bill is not enacted and is intended to be omitted from the law. Matter in **bold-face** type in the above bill is proposed language.

17 purchased on or after July 1, 2002, but before July 1, 2003, and to the extent the amount  
18 deducted exceeds the amount that would have been deductible pursuant to Section 168 of the  
19 Internal Revenue Code of 1986 as in effect on January 1, 2002; and

20 (d) The amount of any deduction that is included in the computation of federal taxable  
21 income for net operating loss allowed by Section 172 of the Internal Revenue Code of 1986, as  
22 amended, other than the deduction allowed by Section 172(b)(1)(G) and Section 172(i) of the  
23 Internal Revenue Code of 1986, as amended, for a net operating loss the taxpayer claims in the  
24 tax year in which the net operating loss occurred or carries forward for a period of more than  
25 twenty years and carries backward for more than two years. Any amount of net operating loss  
26 taken against federal income taxes but disallowed against Missouri income taxes pursuant to this  
27 paragraph since July 1, 2002, may be carried forward and taken against any loss on the Missouri  
28 income tax return for a period of not more than twenty years from the year of the initial loss.

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

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

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

46 (c) The amount necessary to prevent the taxation pursuant to this chapter of any annuity  
47 or other amount of income or gain which was properly included in income or gain and was taxed  
48 pursuant to the laws of Missouri for a taxable year prior to January 1, 1973, to the taxpayer, or  
49 to a decedent by reason of whose death the taxpayer acquired the right to receive the income or  
50 gain, or to a trust or estate from which the taxpayer received the income or gain;

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

53 (e) The amount of any state income tax refund for a prior year which was included in the  
54 federal adjusted gross income;

55 (f) The portion of capital gain specified in section 135.357, RSMo, that would otherwise  
56 be included in federal adjusted gross income; and

57 (g) The amount that would have been deducted in the computation of federal taxable  
58 income pursuant to Section 168 of the Internal Revenue Code as in effect on January 1, 2002,  
59 to the extent that amount relates to property purchased on or after July 1, 2002, but before July  
60 1, 2003, and to the extent that amount exceeds the amount actually deducted pursuant to Section  
61 168 of the Internal Revenue Code as amended by the Job Creation and Worker Assistance Act  
62 of 2002.

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

65 5. There shall be added to or subtracted from the taxpayer's federal adjusted gross  
66 income the modifications provided in [section] **sections 143.124 and 143.411.**

143.124. 1. Other provisions of law to the contrary notwithstanding, **for tax years**  
2 **beginning before January 1, 2006**, the total amount of all annuities, pensions, or retirement  
3 allowances above the amount of six thousand dollars annually provided by any law of this state,  
4 the United States, or any other state to any person except as provided in subsection 4 of this  
5 section, shall be subject to tax pursuant to the provisions of this chapter, in the same manner, to  
6 the same extent and under the same conditions as any other taxable income received by the  
7 person receiving it. For purposes of this section, annuity, pension, or retirement allowance shall  
8 be defined as an annuity, pension or retirement allowance provided by the United States, this  
9 state, any other state or any political subdivision or agency or institution of this or any other state.  
10 For all tax years beginning on or after January 1, 1998, for purposes of this section, annuity,  
11 pension or retirement allowance shall be defined to include 401(k) plans, deferred compensation  
12 plans, self-employed retirement plans, also known as Keogh plans, annuities from a defined  
13 pension plan and individual retirement arrangements, also known as IRAs, as described in the  
14 Internal Revenue Code, but not including Roth IRAs, as well as an annuity, pension or retirement  
15 allowance provided by the United States, this state, any other state or any political subdivision  
16 or agency or institution of this or any other state. **For all tax years beginning on or after**  
17 **January 1, 2006, any annuity, pension, or retirement allowance, whether public or private,**  
18 **subtracted from federal adjusted gross income pursuant to section 143.121 shall not be**  
19 **subject to tax pursuant to the provisions of this chapter.** An individual taxpayer shall only  
20 be allowed a maximum deduction of six thousand dollars pursuant to this section. Taxpayers  
21 filing combined returns shall only be allowed a maximum deduction of six thousand dollars for  
22 each taxpayer on the combined return.

23           2. For the period beginning July 1, 1989, and ending December 31, 1989, there shall be  
24 subtracted from Missouri adjusted gross income for that period, determined pursuant to section  
25 143.121, the first three thousand dollars of retirement benefits received by each taxpayer:

26           (1) If the taxpayer's filing status is single, head of household or qualifying widow(er) and  
27 the taxpayer's Missouri adjusted gross income is less than twelve thousand five hundred dollars;  
28 or

29           (2) If the taxpayer's filing status is married filing combined and their combined Missouri  
30 adjusted gross income is less than sixteen thousand dollars; or

31           (3) If the taxpayer's filing status is married filing separately and the taxpayer's Missouri  
32 adjusted gross income is less than eight thousand dollars.

33           3. For [the] tax years beginning on or after January 1, 1990, there shall be subtracted  
34 from Missouri adjusted gross income, determined pursuant to section 143.121, a maximum of  
35 the first six thousand dollars of retirement benefits received by each taxpayer from sources other  
36 than privately funded sources, and for tax years beginning on or after January 1, 1998, there shall  
37 be subtracted from Missouri adjusted gross income, determined pursuant to section 143.121, a  
38 maximum of the first one thousand dollars of any retirement allowance received from any  
39 privately funded source for tax years beginning on or after January 1, 1998, but before January  
40 1, 1999, and a maximum of the first three thousand dollars of any retirement allowance received  
41 from any privately funded source for tax years beginning on or after January 1, 1999, but before  
42 January 1, 2000, and a maximum of the first four thousand dollars of any retirement allowance  
43 received from any privately funded source for tax years beginning on or after January 1, 2000,  
44 but before January 1, 2001[, and a maximum of the first five thousand dollars of any retirement  
45 allowance received from any privately funded source for tax years beginning on or after January  
46 1, 2001, but before January 1, 2002, and a maximum of the first six thousand dollars of any  
47 retirement allowance received from any privately funded sources for tax years beginning on or  
48 after January 1, 2002]. A taxpayer shall be entitled to the maximum exemption provided by this  
49 subsection:

50           (1) If the taxpayer's filing status is single, head of household or qualifying widow(er) and  
51 the taxpayer's Missouri adjusted gross income is less than twenty-five thousand dollars; or

52           (2) If the taxpayer's filing status is married filing combined and their combined Missouri  
53 adjusted gross income is less than thirty-two thousand dollars; or

54           (3) If the taxpayer's filing status is married filing separately and the taxpayer's Missouri  
55 adjusted gross income is less than sixteen thousand dollars; **or**

56           **(4) If the taxpayer is age sixty-five or over.**

57           4. If a taxpayer's adjusted gross income exceeds the adjusted gross income ceiling for  
58 such taxpayer's filing status, as provided in subdivisions (1), (2) and (3) of subsection 3 of this

59 section, such taxpayer shall be entitled to an exemption equal to the greater of zero or the  
60 maximum exemption provided in subsection 3 of this section reduced by one dollar for every  
61 dollar such taxpayer's income exceeds the ceiling for his or her filing status.

62 5. For purposes of this section, any Social Security benefits otherwise included in  
63 Missouri adjusted gross income shall be subtracted; but Social Security benefits shall not be  
64 subtracted for purposes of other computations pursuant to this chapter, and are not to be  
65 considered as retirement benefits for purposes of this section.

66 6. The provisions of subdivisions (1) and (2) of subsection 3 of this section shall apply  
67 during all tax years in which the federal Internal Revenue Code provides exemption levels for  
68 calculation of the taxability of Social Security benefits that are the same as the levels in  
69 subdivisions (1) and (2) of subsection 3 of this section. If the exemption levels for the  
70 calculation of the taxability of Social Security benefits are adjusted by applicable federal law or  
71 regulation, the exemption levels in subdivisions (1) and (2) of subsection 3 of this section shall  
72 be accordingly adjusted to the same exemption levels.

73 7. The portion of a taxpayer's lump sum distribution from an annuity or other retirement  
74 plan not otherwise included in Missouri adjusted gross income as calculated pursuant to this  
75 chapter but subject to taxation under Internal Revenue Code Section 402 shall be taxed in an  
76 amount equal to ten percent of the taxpayer's federal liability on such distribution for the same  
77 tax year.

78 8. For purposes of this section, retirement benefits received shall not include any  
79 withdrawals from qualified retirement plans which are subsequently rolled over into another  
80 retirement plan.

81 9. The exemptions provided for in this section shall not affect the calculation of the  
82 income to be used to determine the property tax credit provided in sections 135.010 to 135.035,  
83 RSMo.

84 10. The exemptions provided for in this section shall apply to any annuity, pension, or  
85 retirement allowance as defined in subsection 1 of this section to the extent that such amounts  
86 are included in the taxpayer's federal adjusted gross income and not otherwise deducted from the  
87 taxpayer's federal adjusted gross income in the calculation of Missouri taxable income. This  
88 subsection shall not apply to any individual who qualifies under federal guidelines to be one  
89 hundred percent disabled.