

HOUSE BILL NO. 940

93RD GENERAL ASSEMBLY

INTRODUCED BY REPRESENTATIVE ROBB.

Read 1st time March 31, 2005 and copies ordered printed.

STEPHEN S. DAVIS, Chief Clerk

1831L.011

AN ACT

To amend chapter 143, RSMo, by adding thereto four new sections relating to a flat income tax.

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

Section A. Chapter 143, RSMo, is amended by adding thereto four new sections, to be known as sections 143.012, 143.013, 143.016, and 143.018, to read as follows:

143.012. 1. Sections 143.012 to 143.018 shall be known and may be cited as the "Missouri Individual Income Flat Tax Act".

2. For all taxable years before January 1, 2006, the tax shall be determined by applying the tax table or the rate provided in section 143.021, which is based upon the following rates:

If the Missouri taxable income is:	The tax is:
Not over \$1,000.00	1 1/2% of the Missouri taxable income
Over \$1,000 but not over \$2,000	\$15 plus 2% of excess over \$1,000
Over \$2,000 but not over \$3,000	\$35 plus 2 1/2% of excess over \$2,000
Over \$3,000 but not over \$4,000	\$60 plus 3% of excess over \$3,000
Over \$4,000 but not over \$5,000	\$90 plus 3 1/2% of excess over \$4,000
Over \$5,000 but not over \$6,000	\$125 plus 4% of excess over \$5,000
Over \$6,000 but not over \$7,000	\$165 plus 4 1/2% of excess over \$6,000
Over \$7,000 but not over \$8,000	\$210 plus 5% of excess over \$7,000
Over \$8,000 but not over \$9,000	\$260 plus 5 1/2% of excess over \$8,000
Over \$9,000	\$315 plus 6% of excess over \$9,000

3. Notwithstanding any provisions of law to the contrary, for all taxable years

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.

18 beginning on or after January 1, 2006, there shall be imposed a tax on the Missouri taxable
19 income of every resident and nonresident in an amount equal to four percent.

20 4. For the purposes of sections 143.012 to 143.018, the terms "resident" and
21 "nonresident" shall mean only those residents and nonresidents that are natural persons.

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

6 2. A resident shall be allowed a deduction of ten thousand dollars for the resident
7 and ten thousand dollars for such resident's spouse; except that, a resident filing as head
8 of household shall be allowed a deduction of fifteen thousand dollars for the resident, and
9 a resident filing as a surviving spouse shall, in the taxable year in which the death of the
10 resident's spouse occurred, be allowed a deduction of twenty thousand dollars. A resident
11 shall also be allowed a deduction of five thousand dollars for each dependent for whom
12 such resident is entitled to a dependancy deduction for federal income tax purposes.

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

15 (1) There shall be added to federal adjusted gross income interest on certain
16 governmental obligations excluded from federal gross income by Section 103 of the
17 Internal Revenue Code of 1986, as amended. This provision shall not apply to interest on
18 obligations of the state of Missouri or any of its political subdivisions or authorities and
19 shall not apply to the interest described in subdivision (2) of this subsection. The amount
20 added under this subdivision shall be reduced by the amounts applicable to such interest
21 that would have been deductible in computing the taxable income of the taxpayer except
22 only for the application of Section 256 of the Internal Revenue Code of 1986, as amended.
23 The reduction shall only be made if it is at least five hundred dollars;

24 (2) There shall be subtracted from federal adjusted gross income the amounts, to
25 the extent included in federal adjusted gross income, for interest or dividends on
26 obligations of the United States and its territories and possessions or of any authority,
27 commission or instrumentality of the United States to the extent exempt from Missouri
28 income taxes under the laws of the United States. The amount subtracted under this
29 subdivision shall be reduced by any interest on indebtedness incurred to carry the
30 described obligations or securities and by any expenses incurred in the production of
31 interest or dividend income described this subdivision. Such reduction shall only apply to
32 the extent that such expenses including amortizable bond premiums are deducted in

33 determining its federal adjusted gross income. The reduction shall only be made if the
34 expenses total at least five hundred dollars.

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

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

8 (a) The nonresident's distributive share of partnership income and deductions
9 determined under section 143.018;

10 (b) The nonresident's share of estate or trust income and deductions determined
11 under section 143.391; and

12 (c) The nonresident's pro rata share of S corporation income and deductions under
13 subsection 3 of section 143.471; and

14 (2) Adjustments for tax free bonds and railroad retirement benefits as provided in
15 subsection 3 of section 143.013.

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

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

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

26 5. If a business, trade, profession, or occupation is carried on partly within and
27 partly without this state, the items of income and deduction derived from or connected with
28 sources within this state shall be determined by apportionment and allocation under
29 regulations to be prescribed by the director.

30 6. Compensation paid by the United States for service in the Armed Forces of the
31 United States performed by a nonresident shall not constitute income derived from sources
32 within this state.

143.018. 1. In determining the taxable income of a nonresident partner of any
2 partnership, there shall be included only that part derived from or connected with sources

3 in this state of the partners distributive share of items of partnership income, gain, loss,
4 and deduction entering into the partners federal adjusted gross income, as such part is
5 determined under regulations prescribed by the director of revenue in accordance with the
6 general rules in section 143.181.

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

9 **(1) Characterizes payments to the partner as being for services or for the use of**
10 **capital, or allocated to the partner, as income or gain from sources outside this state, a**
11 **greater proportion of the partner's distributive share of partnership income or gain than**
12 **the ratio of partnership income or gain from sources outside this state to partnership**
13 **income or gain from all sources, except as authorized in subsection 4 of this section; or**

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

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

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

25 **5. A nonresident partner's distributive share of items of income, gain, loss, or**
26 **deduction shall be determined under subsection 1 of section 143.411. The character of**
27 **partnership items for a nonresident partner shall be determined under subsection 2 of**
28 **section 143.411. The effect of a special provision in a partnership agreement, other than**
29 **a provision referred to in subsection 2 of this section, having as a principal purpose the**
30 **avoidance of tax under sections 143.011 to 143.996, shall be determined under subsection**
31 **3 of section 143.411.**